2024/25 Treasury Management Strategy – Warrington Borough Council (April 2024)

1. Introduction

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) published the revised Treasury Management Code and Prudential code on 20 December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

1.2 The revised codes will require the council to implement the following:

- Adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years.
- Amendment to the knowledge and skills register for individual officers and members involved in the treasury management function to be proportionate to the size and complexity of the treasury management conducted by each council.
- Reporting to members is to be done quarterly. Specifically, the Section 151 Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The Section 151 Officer is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council.
- Environmental, Social and Governance (ESG) need to be addressed within the Treasury Management policies and practices (TMP 1)
- An authority must not borrow to invest for the primary purpose of commercial return.
- It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
- An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.
- A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream.
- Create new Investment Management Practices to manage risks associated with non-treasury investments.
- Authorities with existing commercial investments (including property) are not required by this Code to sell these investments. Such authorities may carry out prudent active management and rebalancing of their portfolios.

1.3 **An authority's Capital Strategy or Annual Investment Strategy should include:**

- The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence.

- An assessment of affordability, prudence, and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).

- Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed.

- Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy).

- State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

1.4 As this TMS and AIS deals solely with treasury management investments, the categories of service delivery and commercial investments should be addressed as part of the Capital Strategy report.

1.5 **The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes:**

- **Treasury Management** – arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.
- **Service Delivery** – investments held primarily and directly for the delivery of public services including housing, regeneration, and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose."
- **Commercial Return** – Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

1.6 The primary recommendations of the Treasury Management Code are as follows:

(i) Creation and maintenance of an annual Treasury Management Policy Statement, which sets out the policies and objectives of the council's treasury management activities.

(ii) Creation and maintenance of Treasury Management Practices, which set out the manner in which the council will seek to achieve those policies and objectives:

(iii) Reporting Requirements

- **Capital Strategy** – The CIPFA 2021 Prudential and Treasury Management Codes recommend that all local authorities prepare a capital strategy report which will provide the following: -
  1. A high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
  2. An overview of how the associated risk is managed.
  3. The implications for future financial sustainability.
- The aim of the capital strategy is to ensure that all elected members of the Full Council understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

(iv) Treasury Management Reporting

- Full Council is currently recommended to receive and approve, as a minimum, three main reports each year (strategy, mid-year review and annual report on performance, detailed below) which should incorporate appropriate Policies, together with estimates and actuals of associated activities.

- **Prudential and Treasury Indicators and Treasury Strategy** – the first, and most important report covers:
  1. The capital plans (including prudential indictors),
  2. A Minimum Revenue Provision (MRP) Policy (how residual capital debt liability is charged to revenue over time)
  3. The Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
  4. An Investment Strategy (the parameters on how investments are to be managed).
- **A mid-year treasury management report** – this will update members with the progress of treasury management activity, amending prudential indicators as necessary, and identifying whether any policies require revision. In addition, the council will receive quarterly update reports.

- **An annual treasury report** – this provides details of a selection of actual prudential and treasury indicators and treasury operations compared with the estimates previously included within the strategy.

(v) Delegation arrangements of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions via the Treasury Management Practices Statement.

(vi) Delegation by the council of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. For this council, the delegated body is the Audit and Corporate Governance Committee.

(vii) Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council/Board but do require to be adequately scrutinised. The Audit and Corporate Governance Committee undertake this role. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

1.10 The council's Capital Strategy for 2024/25 is due to be approved by Cabinet on 12 February 2024 and Full Council on 26 February 2024.

1.11 The suggested Strategy for 2024/25 in respect of the following aspects of the Treasury Management function is based upon the views of treasury officers regarding interest rates, supplemented with leading market forecasts provided by the council's treasury advisor (Link Asset Services). The Strategy covers two main areas:

Capital Issues

- The capital investment plans and the associated prudential indicators.
- The Minimum Revenue Provision (MRP) Policy.

Treasury Management issues

- The current treasury position.
- Treasury indicators which limit the treasury risk arising from activities of the council
- Prospects for interest rates
- The borrowing strategy
- Policy on borrowing in advance of need
- Debt rescheduling opportunities
- The investment strategy
- ESG Policy
- Creditworthiness policy
- Policy on use of external service providers
- Future developments

These elements reflect the council having had regard to the requirements and recommendations of the Local Government Act 2003, the CIPFA Prudential Code, the DLUHC MRP Guidance, the CIPFA Treasury Management Code and the DLUHC Investment Guidance.

1.12 Separately, Section 32 of the Local Government Finance Act 1992 requires the Section 151 Officer of the Authority to calculate and report upon its budget requirement for each financial year, and the adequacy of proposed financial reserves, to include the revenue costs which flow from capital financing decisions.

1.13 Section 3 of the Local Government Act 2003 requires that the council must determine and keep under review how much money it can afford to borrow. In order to do this, it must have regard to the Prudential Code in order to determine an Affordable Borrowing Limit.

1.14 In general, the Prudential Code recommendations provide for close scrutiny and monitoring of capital investment plans in order to achieve a balance between investment needs and associated revenue consequences.

1.15 **Training**: the CIPFA Code requires the responsible officer (Section 151 Officer) to ensure that members with responsibility for treasury management receive adequate training. This especially applies to members of the Audit & Corporate Governance Committee (A&CGC) who are responsible for scrutiny of treasury management. Both internal and external training courses are provided to Members. Member training is a key theme from CIPFA and the Department for Levelling Up, Housing, Communities and Local Government (DLUHC). During 2024/25 a comprehensive training programme will be offered to all members and the training needs of treasury management officers are periodically reviewed.

1.16 Furthermore, pages 47 and 48 of the Code state that they expect "all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance, and decision making.

1.17 The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

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

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies.
- have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

1.19 In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management,' which is available from the CIPFA website to download. This will be circulated to members of the Audit & Corporate Governance Committee on an annual basis. A formal record of the training received by officers central to the Treasury function will be maintained by the Treasury Team. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Democratic Services.

2. Treasury Limits for 2024/25

2.1 It is a statutory duty, under Section 3 of LGA 2003 and supporting regulations, for the council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the 'Affordable Borrowing Limit.' The Authorised Limit arising under the Prudential Code is intended to enable the statutory affordability requirement to be complied with.

2.2 The council must have regard to the Prudential Code when setting its Affordable Borrowing Limit (ABL). This essentially requires it to ensure that total capital investment remains within sustainable limits and in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

2.3 Whilst termed an "Affordable Borrowing Limit", its extent represents mainly the council's underlying capital investment "debt" liability, whether or not this is fully financed from external borrowing at any moment in time (e.g. the council may on occasion use its own resources to finance new capital investment liabilities, rather than investing the monies externally). This underlying capital investment liability may also include any "credit arrangements" entered into by the council, such as arise from leases. The ABL is determined at least annually, on a rolling basis, for the forthcoming financial year and two successive financial years.

2.4 Prudential and Treasury Indicators identified at Annexe B are relevant for the purposes of setting an integrated Treasury Management Strategy.

3. Current Portfolio Position

3.1 The council's treasury and non-treasury portfolio position as at 31 December 2023 comprised of:

Current Portfolio Position	Principal £m	Total £m
Fixed Rate Funding		
- Public Works Loans Board	1,465.480	
- Money Market	114.119	
- Temporary Borrowing	47.140	1,626.740
Variable Rate Funding		
- Public Works Loans Board		
- Money Market	150.000	150.000
TOTAL BORROWING		**1,776.740**
Council Treasury Management Investments		
- Long Term Investments		
- Short Term Investments	(126.138)	
- Call Accounts	(0.549)	(211.364)
	(84.677)	
TOTAL INVESTMENTS		**(211.364)**
NET BORROWING		**1,565.376**
Non-Treasury Investments (Service Delivery / Commercial Return)		
- Group Entities	(306.021)	
- Loans to Housing Assoc. & Commercial	(542.075)	**(1,258.951)**
- Investment Properties	(410.854)	
Indicative Net Borrowing (after deduction of non-treasury investments)		**306.425**

Borrowing Requirement

3.2 The capital investment plans provide details of the service and non-treasury management investment activity of the council. The treasury management function ensures that the council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet these activities arising under the council's Capital Strategy. The Strategy covers the relevant treasury/prudential indicators, the current and projected debt positions, and the annual Investment Strategy. The council's capital investment plans are the key driver of treasury management activity.

3.3 The output of the capital investment plans is reflected in prudential indicators, which are designed to assist members' overview of performance.

3.4 The table below sets out the council's future borrowing requirement (current and previous year are shown for comparison) based on current commitments and plans.

2022/23 Actual £m	2023/24 MTFP £m	2023/24 Estimate £m	Capital Investment	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	TOTAL 3 Years £m
231.158	407.662	268.504	Capital Expenditure	258.912	130.150	91.757	**749.323**
			Financed By:				
35.574	55.686	28.486	Capital Grants & Reserves	71.836	26.298	0	**126.620**
1.366	10.211	7.982	Capital Receipts	3.183	0	0	**11.165**
0.291	4.043	2.908	Council Revenue Funding	4.461	2.568	2.022	**11.959**
1.414	0	0.078	External Funding	0	0	0	**0.078**
192.513	**337.722**	**229.050**	**Financing need for year**	**179.432**	**101.284**	**89.735**	**599.501**

4. Prospects for Interest Rates – please note: the forecast interest rates and economic date has been provided as at 07 November 2023 for the report by Link the council's Treasury Management Advisors). The information is provided to members for their general understanding when reviewing the report, but members should also have regard to the continuing changes to economic data.

4.1 The council has appointed Link Asset Services (Link) - as its external treasury management advisor and part of their service is to assist the council to formulate a view on interest rates.

4.2 The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, the treasury advisers.

4.3 The council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

4.4 Links central forecast for interest rates reflects a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least Q2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

4.5 Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

4.6 In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

4.7 On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

Link Asset Services' interest rate forecast:

The following table gives their view:

	PWLB Borrowing Rates			
	5 year	**10 year**	**25 year**	**50 year**
Mar-24	4.50	4.70	5.20	5.00
Jun-24	4.40	4.50	5.10	4.90
Sep-24	4.30	4.40	4.90	4.70
Dec-24	4.20	4.30	4.80	4.60
Mar-25	4.10	4.20	4.60	4.40
Jun-25	4.00	4.10	4.40	4.20
Sep-25	3.80	4.00	4.30	4.10
Dec-25	3.70	3.90	4.20	4.00
Mar-26	3.60	3.80	4.20	4.00
Jun-26	3.60	3.70	4.10	3.90
Sep-26	3.50	3.70	4.10	3.90
Dec-26	3.50	3.70	4.10	3.90
Mar-27	3.50	3.70	4.10	3.90

4.8 PWLB Rates

Gilt yield curve movements have broadened since December 2023. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5- and 50-year parts of the curve.

4.9 The balance of risks to the UK economy

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

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields higher for longer).
- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate**.**
- **UK/EU trade arrangements** if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran, and North Korea, which could lead to increasing safe-haven flows.

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

- Despite the recent tightening to 5.25%, the Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer term US treasury yields rise strongly, if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so.)

- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

4.12 **Borrowing advice:** Links long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

4.13 Our Links suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps and set out below. You will note that investment earnings have been revised somewhat higher for all years from 2025/26 as Bank Rate remains higher for longer.

Average earning in each year	%
2023/24	5.30%
2024/25	4.70%
2025/26	3.20%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

- As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

- Interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, events will be monitored and the forecast will be updated our forecasts as and when appropriate.

5. Economic Background

5.1 The first half of 2023/24 saw interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.

Short, medium, and long dated gilts remain elevated as inflation continually surprised to the upside.

CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.

Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.

A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

5.2 Market - The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

5.3 The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.

5.4 The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

5.5 As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

5.6 The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

5.7 But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July, and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

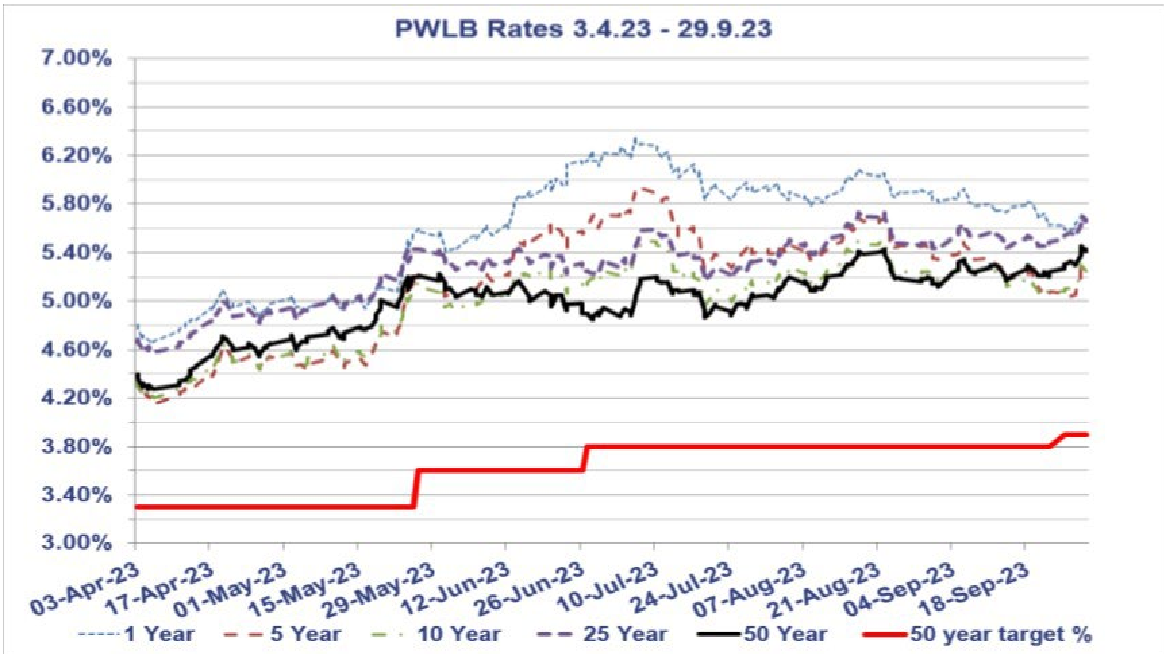
5.8 CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.

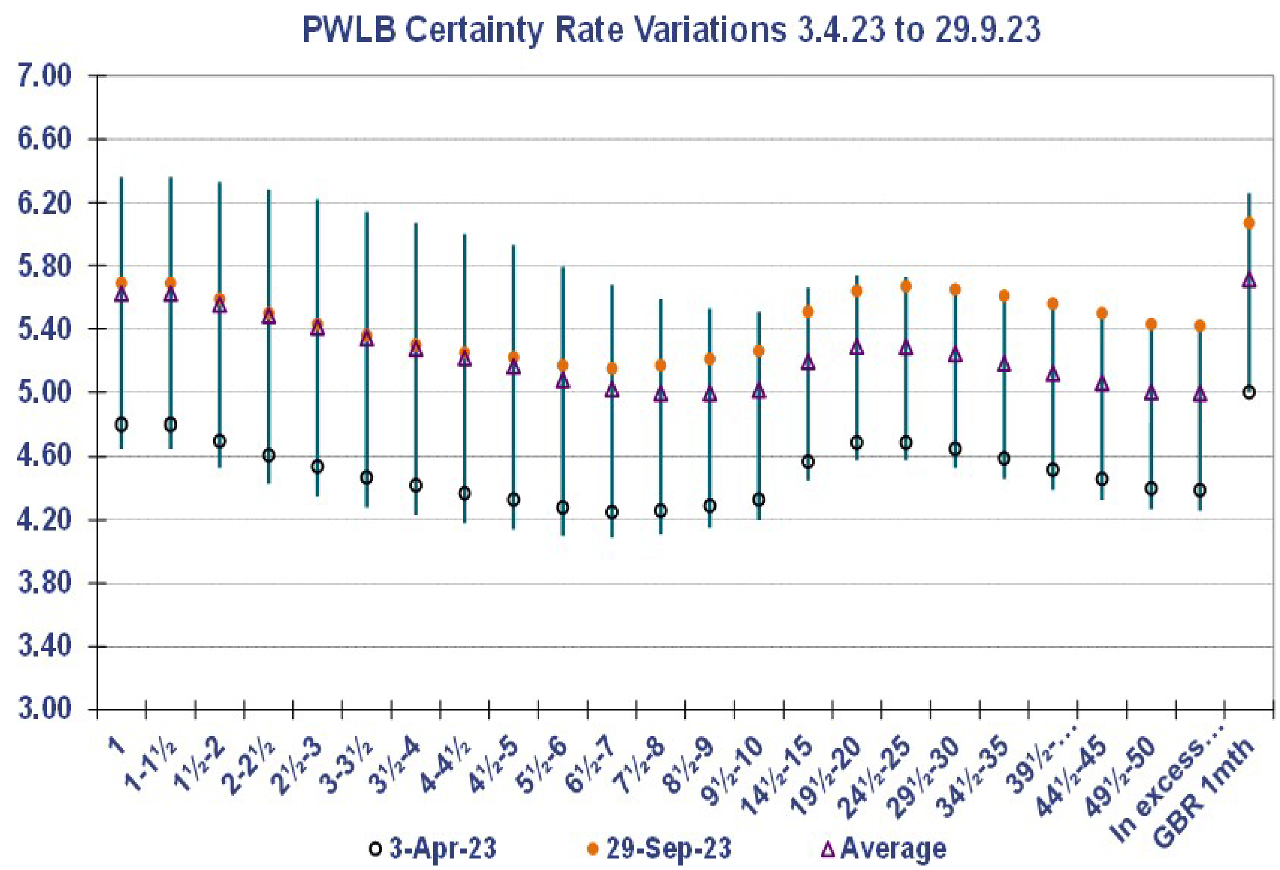
5.9 In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.

5.10 Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures," citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time." Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.

5.11 This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.





High/low/average PWLB rates for 01.04.23 – 29.09.23

	1 year	5 year	10 year	25 year	50 year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/23	06/04/23	06/04/23	06/04/23	05/04/23
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/23	07/07/23	22/08/23	17/08/23	28/09/23
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

5.12 The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

5.13 The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

5.14 **Central Bank Concerns** - Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

5.15 Ultimately however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

6. Borrowing Strategy

6.1 The capital investment plans provide details of the anticipated spending and non-treasury investment activity of the council. The treasury management function ensures that the council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to facilitate this joint nature of activity. This will involve both the organisation of the cash flow and, where capital investment plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions, and the annual investment strategy.

6.2 In general, the council will borrow for one of two purposes – to finance cash flow in the short-term or to fund capital investment over the longer term.

6.3 The council's treasury portfolio position at 31 March 2024, with forward projections is summarised below and detailed in table 3.4. The actual external borrowing (under treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement (CFR), highlights an underlying need to borrow £179.432m in 2024/25, £101.284m in 2025/26 and £89.735m 2026/27. There is a large requirement in the early years. This is due to the impact of new capital investment schemes in the programme. More detail on capital expenditure can be found in the council's Capital Strategy which will be presented to Full Council for approval on 26 February 2024.

6.4 A key aim of the Treasury Management Strategy is to minimise the cost of the council's external borrowing (portfolio), through seeking to spread the period for which loans are raised so as to avoid any undue fluctuation on interest costs arising from the future need to replace earlier amounts borrowed.

6.5 Currently the average rate of interest on the council's loan portfolio is 2.562% which is considered to be a beneficially low rate. The achievement of such low average rate demonstrates how the council benefits from the best value for money in terms of its borrowing. This is the result of a number of years proactively managing the portfolio on loans through restructuring and taking advantage of the best possible interest rates available. The proposed treasury management strategy aims to continue this successful approach.

6.6 The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- UK Local Authorities
- Municipal Bond Agency
- Any institution approved for investments including high quality supranational banks
- European Banks Green Sustainable Bond Issuances
- World Wide Banks Green Sustainable Bond Issuances
- UK public and private sector pension funds

- Insurance companies
- UK Infrastructure Bank
- Any other financial institution approved by the Prudential Regulation Authority, which is part of the Bank of England and is responsible for the regulation and supervision of banks, building societies, credit unions, insurers, and major investment firms
- Capital market bond investors either over the counter or through electronic trading platforms
- Community Municipal Bonds
- Local Bonds
- Local authority bills
- Overdraft
- Negotiable Bonds
- Internal (capital receipts and revenue balances)
- Commercial Paper
- Medium Term Notes
- Finance leases

6.7 **New financial institutions as a source of borrowing and / or types of borrowing** – currently the PWLB Certainty Rate is set at gilts+ 80bps. However, consideration may still need to be given to sourcing funding from the follow:

- Local authorities - primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate
- Financial institutions - primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years
- Municipal Bonds Agency – possibly still a viable alternative depending on market circumstances prevailing at the time.

The PWLB rate forecasts are given in the table below. The current forecast shows that rates are expected to fall gradually over the next three years.

	PWLB Borrowing Rates			
	5 year	**10 year**	**25 year**	**50 year**
Mar-24	4.50	4.70	5.20	5.00
Jun-24	4.40	4.50	5.10	4.90
Sep-24	4.30	4.40	4.90	4.70
Dec-24	4.20	4.30	4.80	4.60
Mar-25	4.10	4.20	4.60	4.40
Jun-25	4.00	4.10	4.40	4.20
Sep-25	3.80	4.00	4.30	4.10
Dec-25	3.70	3.90	4.20	4.00
Mar-26	3.60	3.80	4.20	4.00
Jun-26	3.60	3.70	4.10	3.90
Sep-26	3.50	3.70	4.10	3.90
Dec-26	3.50	3.70	4.10	3.90
Mar-27	3.50	3.70	4.10	3.90

6.8 These forecasts are based around an expectation that there will normally be variations of +/-25bp during each quarter around these average forecasts in the normal economic and political circumstances. However, greater variations can occur should there be any unexpected shocks to financial and/or political systems.

6.9 The PWLB has a margin over gilt yields of 80 bps on loans lent to local authorities, consideration has been given to sourcing funding at cheaper rates. The council will evaluate the option of borrowing further from the bond markets during 2024/25. Borrowing from the bond market will take place if it offers greater value for money than borrowing from the PWLB. The degree to which any option proves cheaper than PWLB Certainty Rate and the changes to criteria is still evolving at the time of writing and further updates will be provided.

6.10 Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Section 151 Officer 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 long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.
- If it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are still lower than they are projected to be in the next few years.

6.11 There will remain a cost of carry to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost – the difference between borrowing costs and investment returns. The council's policy for 2024/25 will be to balance investments to obtain returns within the council's risk appetite. However, an assessment of the opportunity for borrowing will be made on the cost of borrowing long-term, within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the council can ensure the security of such funds.

6.12 The council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be in respect of known needs, having regard to the Capital Strategy, after having regard also to the need to ensure value for money and the security of such funds.

6.13 All borrowing transactions will be reported to the Audit and Corporate Governance Committee in their quarterly monitoring reports / outturn report / mid-year review report.

7. Debt Rescheduling

7.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates. However, if the opportunity does come available where it is advantageous for the council to repay/reschedule then these options will be carefully considered and executed.

7.1 The reasons for any rescheduling to take place will include:

(a) The generation of cash savings and/or discounted cash flow savings,
(b) Help fulfil the borrowing strategy outlined above,
(c) Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

7.2 All rescheduling will be reported to the Audit and Corporate Governance Committee in the next periods quarterly monitoring report.

8. Treasury Policy Statement

8.1 The Treasury Management Policy Statement sets out the policies and objectives of Treasury Management Activities which is revised annually. It reflects December 2021 guidance.

8.2 In accordance with the CIPFA TM Code, the council defines treasury management activitiesas:

"The management of the council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

8.3 'Investments' are described within the latest Investment Guidance as covering all of the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily or partially for financial returns, such as investment property portfolios. To the extent that this recommendation includes investments which are not managed as part of normal treasury management activity, the relevant council policy detail is contained within their Investment Strategy.

8.4 The council regards the successful identification, monitoring, and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. The council's Treasury Management Practices Statement will cover the management of Treasury Manage Risk.

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

8.6 The council will create and maintain, as the cornerstone for effective treasury management:

- A Treasury Policy Statement, setting out the policies, objectives, and approach to risk management of its treasury management activities
- Suitable Treasury Management Practices (TMPs) setting out the manner in which the council will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities (reported to the Audit & Corporate Governance Committee annually)
- Treasury Management Prudential Indicators as determined by the recommendations

of the CIPFA Prudential Code;

- The content of the Policy Statement and TMPs will follow the recommendations contained in Sections 6 and 7 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.
- The council will receive reports on its treasury management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, an annual report after its close and a half year review report.
- The council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to the Audit & Corporate Governance Committee, and for the execution and administration of treasury management decisions to the Section 151 Officer, who will act in accordance with the council's Treasury Management Strategy and having regard to the TM Code, who is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

2024/25 Annual Investment Strategy

9. Introduction

9.1 The aim of the council's Investment strategy is to:

- Maintain the principal amount of sums invested,
- Maintain policy flexibility.

9.2 The council's Section 151 Officer, under delegated powers, will undertake the most appropriate form of investments made in reliance upon S.12, Local Government Act 2003 (LGA) depending on the prevailing interest rates at the time, and taking into account the risks and the security, liquidity, yield and ESG of those investments.

9.3 The council invests surplus cash balances only with certain approved organisations, as security of funds is of primary importance. All investments will be made in accordance with the council's investment policies and prevailing legislation and regulations.

10. Investment Policy – Management of Risk

10.1 The Department of Levelling Up, Housing and Communities (DLUHC – this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended their recommendation regarding the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, as managed by the treasury management team. Non-financial investments, essentially the purchase of income yielding assets are covered in the Capital Strategy.

10.2 When making a S.12 investment, the council will have regard to:

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the CIPFA TM Code")
- CIPFA Treasury Management Guidance Notes 2021.

10.3 The council's investment priorities in order are:

(a) The security of the principal amounts invested.
(b) The liquidity of its "specified" treasury management investments (funds, reserves and cash balances)
(c) Yield
(d) ESG Impact (covering environmental, social and governance)

10.4 The council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity and in line with the council's risk appetite. In the current economic climate, it is considered appropriate in general to keep new treasury management investments short term to cover cash flow needs in high credit rated institutions However, where appropriate the council will also consider the value available in longer periods.

10.5 The council has reviewed its classification with financial institutions under Market in Financial Instruments Directive (MIFID II). A schedule has been included with the Treasury Management Practices document of those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

10.6 In accordance with guidance from DLUHC and CIPFA, which places a high priority on the management of risk, the council has stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list, which also enable diversification and thus avoidance of concentration risk.

10.7 Furthermore, the council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the council will engage with its advisors to maintain and monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is integrated into the credit methodology provided by the advisors, Link Asset Services in producing its colour coding which show the varying degrees of suggested creditworthiness.

10.8 The council's officers also recognise that there are other risks of material importance to the treasury portfolio from an environmental, social and governance perspective. It is important, therefore, to assess these risks as well and to understand if these create potential longer-term financial and reputational risks for the council, and if there are any commonalities with the council's key objectives in this regard. To this end, the council will use information sources and its advisors as appropriate to assist it in scrutinising and understanding if these might affect the suitability of potential counterparties.

10.9 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

10.10 The aim of the strategy is to generate a list of highly creditworthy counterparties, which will also enable diversification and thus avoidance of concentration risk. The intention of the strategy is to provide security of investment, minimisation of all risks and alignment where possible with the council's policy objectives.

10.11 Investment instruments identified for use in the financial year are listed below under the 'Specified' and 'Non-Specified' investments categories. Counterparty limits will be as set through the council's Treasury Management Practices Statement.

11. Specified Investments (maturities up to one year) and Counterparty Limits

11.1 All such investments will be sterling denominated, with maturities up to maximum of 1 year, meeting the minimum 'high' rating criteria where applicable. The maximum limit will be applied to each account (i.e. bank, local authority, bond, etc.)

1. Specified Investments (limit per counterparty)	**Maximum Group Limit**
UK Government	Unlimited
Local Authorities	£20m
Money Market Funds CNAV (AAA Credit Rating)	£75m
Money Market Funds LVNAV (AAA Credit Rating)	£75m
Money Market Funds VNAV (AAA Credit Rating)	£75m

All investments with maturities up to maximum 1-year, high credit criteria:			
	Minimum 'High' Credit Criteria	**Maximum Limit**	**Maximum Maturity Period**
Debt Management Agency Deposit Facility	UK sovereign rating	£50m	1 year
Term deposits – local authorities and other public institutions	UK sovereign rating	£20m	1 year
Rated UK building societies	A-A-	£5m	1 year

11.2 Term deposits with banks

	Minimum 'High' Credit Criteria	**Maximum Limit**	**Maximum Maturity Period**
UK Banks	AAA/A-	£75m	1 year
Non-UK Banks	AAA/A-	£10m	1 year

*The countries approved for investing with their banks: Australia, Canada, Denmark, Germany, Luxembourg, Netherlands, Norway, Singapore, Sweden, Switzerland, Finland, USA, Abu Dhabi (UAE), Hong Kong, France, UK, Belgium, and Qatar.

Other instruments

	Minimum 'High' Credit Criteria	Max Individual Investment	Maximum Total Investment	Max Maturity Period
Certificates of deposits issued by banks and building societies	UK sovereign rating	£5m	£20m	1 year
UK Government (Gilts/T-Bills/Repos)	UK sovereign rating	Unlimited	Unlimited	1 year
Supra-national Banks, European Agencies Investment instruments	AA/Aa/AA	£10m	£20m	1 year
Covered Bonds	AA/Aa/AA	£5m	£10m	1 year
Bond Funds	AAA/BBB	£10m per fund		1 year / rolling
Managed Account	AAA / BBB or sovereign Rating of investments	£50m per fund		1 year / rolling

12. Non-Specified Investments (maturities over one year)

12.1 These are any investments which do not meet the specified investment criteria. The investments may be for periods in excess of one year, and/or more complex instruments which require greater consideration before being authorised.

12.2 A maximum of 95% may be held in aggregate in non-specified investments. A variety of investment instruments will be used both debt and equity subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the above categories. The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Term deposits with nationalised banks and building societies:			
	Minimum 'High' Credit Criteria	**Maximum Limit**	**Maximum Maturity Period**
UK Banks	AAA/A-	£20m	5 year
Non-UK Bank	AAA/A-	£10m	5 year

12.3 Maturities of any period:

	Minimum 'High' Credit Criteria	**Maximum Individual Investment**	**Maximum Group Limit**	**Maximum Maturity Period**
Corporate Bonds Corporate Bond Funds / Gilt Funds	AAA/BBB	£20m	£20m	5 years
Covered Bonds	AA+ - A-	£10m	£10m	5 years
Churches, Charities and Local Authorities (CCLA) Property Fund	Internal and External Due Diligence	£20m	£20m	1 year rolling

12.4 Maturities in excess of 1 year

	Minimum 'High' Credit Criteria	Maximum Individual Limit	Maximum Group Limit	Maximum Maturity Period
Term deposits – local authorities and other public institutions	UK sovereign rating	£20m	£20m	3 years
Certificates of deposits issued by banks	UK sovereign rating	£5m	£20m	3 years
UK Government Gilts	UK sovereign rating	£5m	£50m	5 years
Bonds issued by multilateral development banks	AAA/AA	£5m	£20m	5 years
Green Energy / Climate Change Bonds	Internal and External Due Diligence	£10m	£10m Less than 25% of the total project investment or maximum £10m per bond.	5 years
Sovereign bond issues (i.e. other than the UK government)	UK sovereign rating	£5m	£20m	5 years
Live Wire Community Energy	Internal Due Diligence	£0.5m	£0.5m	5 years
Loan Notes	Internal and External Due Diligence	£30m	£50m	5 years
Equity, property, multi asset or credit Pooled Funds	Internal and External Due Diligence	£40m	£50m	5 years
Altana Social Impact Partnership	Internal & External Due Diligence	£20m	£20m	5 years
Real Estate Investment Trusts (REITS)	Internal & External Due Diligence	£20m	£20m	5 years
Bank Tier 2 Capital Both upper & lower levels	Rated & unrated Internal and External Due Diligence	£10m	£10m	10 years

Fitch Ratings' long-term credit ratings are assigned on an alphabetic scale from 'AAA' to 'D', first introduced in 1924 and later adopted and licensed by S&P. Like S&P, Fitch also uses intermediate +/− modifiers for each category between AA and CCC (e.g., AA+, AA, AA−, A+, A, A−, BBB+, BBB, BBB−, etc.).

12.5 As a result of the change in accounting standards for 2022/23 under IFRS 9, the council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, the DLUHC concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years commencing from 1.4.18, ending 31.3.23. DLUHC extended the override for a further two years in December 2022 till February 2025.

12.6 The IFRS 9 provisions are unlikely to apply to any of the council's non-financial investments where these are separately treated as capital expenditure or for other reasons do not fall within the definition of a financial instrument. Items of capital expenditure are not considered to satisfy the asset/liability criteria that is required in order for a financial instrument to be subject to IFRS9.

13 Creditworthiness Policy

13.1 This council uses the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from all three rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

13.2 This modelling approach combines credit Ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the council to determine the suggested duration for investments on some occasions.

13.3 The selection of counterparties with a high level of creditworthiness will be achieved by selection of institutions down to a minimum durational band within Link Asset Services weekly credit list of worldwide potential counterparties. The council will therefore use counterparties within the following durational bands:

Colour	Suggested Duration
Yellow	5 years *
Dark Pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light Pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
Purple	2 years

Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

**The yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt.*

13.4 The Link Asset Services' creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system; it does not give undue preponderance to just one agency's ratings.

13.5 Typically, the minimum credit ratings criteria the council use will be a short-Term rating (Fitch or equivalents) of F1 and a Long-Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

13.6 All credit ratings will be monitored weekly. The council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service:

- If a downgrade results in the counterparty/investment scheme no longer meeting the council's minimum criteria, its further use as a new investment will be withdrawn immediately;
- In addition to the use of credit ratings the council will be advised of information in movements in Credit Default Swap (CDS) against the iTraxx (CDS product brand name) benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the councils lending list.

13.7 Sole reliance will not be placed on the use of this external service. In addition, this council will also use market data and information, information on any external support for banks and the credit ratings of that government support.

13.8 **Creditworthiness** –Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

13.9 **CDS prices** –Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

14. Country Limits

14.1 The council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide them). The list will be added to, or deducted from by officers should ratings change in accordance with this policy.

15. Interest Rate Outlook

15.1 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are detailed below (the long-term forecast is for periods over 10 years in the future):

Average earning in each year	Now	TMSS 2023/24 (Previously)
2023/24 (residual)	5.30%	4.40%
2024/25	4.70%	3.30%
2025/26	3.20%	2.60%
2026/27	3.00%	2.50%
2027/28	3.25%	2.80%
Years 6 to 10	3.25%	2.80%
Years 10+	3.25%	2.80%

16. Liquidity of Investments

16.1 The maximum period of investment of treasury balances will be ten years.

16.2 There will be no more than £30m of core treasury funds committed for a period over 5 years.

17. Financial Derivatives

17.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The GPOC arising from Section 1 of the *Localism Act 2011* May have removed some uncertainty as to whether, and to what extent, local authorities are able to enter into "stand-alone" forms of derivative contract (i.e. those that are not embedded into a loan or investment). Should any such opportunity arise, the individual conditions/circumstances would be subjected to approve consideration processes.

17.2 The council will as a general rule only consider standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

17.3 In line with the CIPFA Code, the council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

18. Environmental Social & Governance (ESG) Policy

18.1 The council is committed to being a responsible investor at all times. Responsible investment means to recognise the importance of the long-term health and stability of the financial markets, and to understand that this depends on key external non-financial factors, such as the environment, social stability, and strong governance. Collectively, these factors are often referred to under the umbrella of ESG (Environmental, Social and Governance).

18.2 The council's objective is to recognise all these risks, to mitigate them where possible and thereby improve the security of its portfolio in the long-term.

18.3 Within these risks, the council has identified climate change as a long-term, material, and systemic financial risk with the potential to significantly impact the treasury portfolio and the council's financial resilience over time. Therefore, the council seeks to:

- Minimise exposure to counterparties and investments heavily impacted by climate change risk.
- Increase exposure to sectors, counterparties, and investments, such as renewables, whose activities aid the transition to a lower carbon world and economy.
- Contribute meaningfully to an improved economically sustainable future locally and nationally, without sacrificing security.

18.4 This is not to downplay other non-financial risks. The council sees positive social impact also as a key mitigate to aid long-term financial stability, and as a meaningful contribution to the local, regional, and national economy. Good governance meanwhile is also critical to safeguarding the council's reputational risk.

18.5 The council's core ESG principles are set out below in full:

- The council recognises the potential impact of its counterparties and investments on the environment, workers, communities, and society, as well as the potential impact of climate change on the counterparties, businesses into which the council invests, the council itself and its local economy and community.
- The council will seek to ensure where possible its investment counterparties will, act responsibly with respect to the environment, aiming for a sustainable approach to the use of resources, avoiding irresponsible disposal of hazardous products and unnecessary waste.
- The council and its counterparties will be non-discriminatory (whether on grounds of gender, race, or disability), and adopt equality and diversity in their employment practices.
- The council seeks to ensure it and its counterparties always respect human rights and ensure no exploitation of child labour.
- The council and its counterparties will seek to act with integrity at all times in their

dealings.

- The council will seek to encourage positive ESG behaviour, engaging with counterparties and investments where appropriate to encourage best practice and drive change.
- The council will comply with any industry standard ESG guidelines that may arise and otherwise, always seek to ensure best practices, actively managing ESG considerations and risks alongside its financial considerations and risks.

18.6 The council will incorporate ESG issues into its analysis and decision-making processes when considering the treasury portfolio and investments. The council will seek to use data and analysis to determine the type and materiality of relevant issues for counterparties, and their alignment with the council's core principles.

18.7 It is important to note that the council shall invest on the collective basis of its investment priorities – Security, Liquidity, Yield and ESG impact – having considered all factors contributing to the risk of its counterparties and investments, including ESG factors to the extent these indirectly or directly impact on financial risk and return as well as the council's broader policy objectives.

18.8 The council will also seek to report progress, providing transparency on the ESG profile and impact of its portfolio investments, and report progress semi-annually to the Audit and Corporate Governance Committee. These will be through supporting investments and counterparties aligned with the council's objectives, reviewing the ESG policies of funds and counterparties where appropriate, and the sourcing of suitable metrics where relevant such as for example, social impact metrics, external ratings and quantifying the investments in assets and businesses contributing to climate change reduction.

19. Policy on the use of external service providers

19.1 The council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

19.2 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

19.3 The council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. The council's external fund managers will comply with the Annual Investment Strategy. In order to aid this assessment, the council is provided with a suite of regular reporting from its managers. This includes quarterly/semi-annual and annual reports, statements, access to online fund reporting sites, etc.

19.4 In addition to formal reports, the Treasury Management Risk Officer Group (TMRG) meets with representative's fund managers giving presentations. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets. The group also recommend investing or not in new investment instruments providing an additional level of governance.

19.5 Markets in Financial Instruments Directive – the council has opted up to professional client status with its providers of financial services, including advisers, brokers, and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the council's treasury management activities, the Section 151 Officer believes this to be the most appropriate status.

20. Treasury Management Scheme of Delegation

20.1 The scheme of delegation is in the council's Treasury Management Practices Statement which will be reported to the Audit and Corporate Governance Committee on an annual basis for approval, this will next be reported at the March 2024 meeting.

20.2 The council considers it essential, for the purposes of the effective control and monitoring of its Treasury Management activities, the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that the responsibilities of Treasury Management is always clear. A synopsis of the scheme of delegation is given below:

20.3 Full Council

- approval of annual treasury management and investment strategies
- approval of the Mid-Year Review Report of Treasury Management
- approval of capital strategy
- monitoring of yearly Treasury Outturn Report

20.4 Audit and Corporate Governance Committee

- the body appointed by council for the scrutiny of Treasury Management
- recommend the council's Annual Treasury Management Strategy to council
- receiving and reviewing quarterly monitoring reports
- recommending the yearly Mid-Year Review and Treasury Outturn Report to council

20.5 Section 151 Officer

The Section 151 Officer and in their absence their appointed deputies is the delegated responsible officer by Full Council for the operation of the council's overall borrowing and investment activities. The Section 151 Officer will implement and monitor the Treasury Management Strategy and make recommendations to the responsible body. The role of the Section 151 Officer (as detailed in the 2021 Treasury Management Code) includes:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly and monitoring compliance
- Submitting regular treasury management policy reports
- Submitting budgets and budget variations

- Receiving and reviewing management information reports
- Reviewing the performance of the treasury management function
- Ensuring the adequacy of treasury management function
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function
- Ensuring the adequacy of internal audit and liaising with external audit
- Recommending the appointment of external service providers.
- Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments, and treasury management, with a long-term timeframe.
- Ensuring that the capital strategy is prudent, sustainable, affordable, and prudent in the long term and provides value for money.
- Ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.
- Ensuring that the authority has appropriate legal powers to undertake expenditure on non-financial assets and the financing.
- Ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources.
- Making in year changes to the Treasury Management Strategy that must be reported to the Audit & Corporate Governance Committee and Full council.
- Ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities.
- Provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans, and financial guarantees.
- Ensuring that members are adequately informed.
- Ensuring that the authority has adequate expertise, whether in house or externally provided, to carry out the above
- Creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed, to include the following:
    - Risk management, including investment and risk management criteria for any material non-treasury investment portfolios.
    - Performance measurement and management, including methodology and criteria for assessing the performance and success of non-treasury investments.
    - Decision making, governance and organisation, including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate profession due diligence is carried out to support decision making.
    - Reporting and management information, including where and how often monitoring reports are taken.
    - Training and qualifications, including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

21. Minimum Revenue Provision (MRP) Strategy

21.1 The council is required to make a minimum revenue provision (MRP) to a revenue account for each financial year. An earlier statutory provision contained within Regulation 28 of the 2003 Capital Finance and Accounting Regulations was replaced in 2008 by a requirement for the council to calculate an amount of MRP each year which they consider to be prudent. In order to arrive at an annual prudent provision, the council is required to have regard to statutory Guidance.

21.2 The statutory change in the method for assessing a prudent provision reflected in general an intention to vary the earlier annual 4% charge in respect of outstanding capital debt liability to an annual charge, assessed in equal instalments, which spread future debt liability over a period bearing some relation to that which an “associated” asset is anticipated to provide a benefit for the council (the asset life method).

21.3 The amount of capital debt liability that was outstanding at the time the statutory change was introduced was not subject to this revised beneficial life consideration. The MRP Guidance provided that this historic liability could either continue in accordance with the previous statutory method of assessment (referred to in the Guidance as Option 1) or be subject to local variation. The council has approved a local variation which will result in this proportion of outstanding debt liability being charged more prudently by way of equal annual provision over a 50-year period. This was agreed in a detailed report by the Audit & Corporate Governance Committee at their meeting of 19 November 2015.

- The Guidance suggests four options for charging amounts of outstanding capital debt liability:
- Option 1: Regulatory method – MRP is equal to the amount determined in accordance with the former Regulations 28 and 29 of the 2003 Regulations.
- Option 2: CFR method – MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year.
- Option 3: Asset Life Method – MRP is to be determined by reference to the useful life of the asset.
- Option 4: Depreciation method – MRP is deemed to be equal to the provision required in accordance with deprecation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements.

21.4 As indicated, the council has adopted a local determined option in respect of the historical element of debt liability. For most of its future capital debt liability arising from capital expenditure, the council has determined to adopt Option 3. This reflects the asset “useful life” approach. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years in line with Guidance. The council may separately determine different approaches should this be considered appropriate, such as in the case of loans treated as capital expenditure, and certain larger schemes or transactions which warrant a more locally determined prudent approach.

21.5 The determination of which expenditure should be charged under Option 3, and the life periods considered to be applicable to these, will in general be carried out under delegated powers by the Section 151 Officer after taking professional advice. Any variation from Guidance suggestions will be specifically considered and agreed by the Audit & Corporate Governance Committee and Full Council.

A prudent provision will not be considered for new amounts of debt liability until the year following that in which the scheme or asset giving rise to the debt liability has been completed.

21.6 Items of capital debt liability will only be considered for division into separate amount(s) in cases where two or more major components have substantially different useful economic lives. Assets will not be transferred into the asset register and fixed assets account until they are completed.

21.7 In the case of loans treated as capital expenditure which give rise to a capital debt liability, the council has determined that, in general, it will reflect a prudent approach if no amount of MRP is charged where there is reasonable or actual expectation of principal repayment(s) being made either during the currency of the maximum loan period (e.g. through tranches of principal repayment) or where the maturity date offers sufficient expectation of full principal repayment within a reasonable period. MRP for loans will be equated to the principal repayment profile of the loans. Where an actual or expected credit loss has been recognised on any capital loan during the year then MRP will be provided. The MRP charge in the year will not be less than the credit loss amount, however it can be reduced by the value of previous amounts provided to write down the CFR on that loan.

21.8 Where the capital loan is not a commercial loan then the council can opt not to provide MRP. However, where an actual or expected credit loss has been recognised on any capital loan then the MRP charge in the year must not be less than the loss amount.

21.9 Prudent MRP will be determined with respect to the Authority's total capital financing requirement.

21.10 The council has adopted a similar type of policy that will apply in the case of the Golden Square Shopping Centre. Instead of relying solely upon principal element of repayments to satisfy the MRP liability, the annual MRP charge that will be made will equate to the principal amount that has been assessed by the council's advisers, Price Waterhouse Coopers, to be included each year within the repayments received by the Authority under the lease. Rather than resulting in a fixed annual MRP charge over the period of the lease, the nominal amount of MRP charge each year will be regarded as met by the element of the lease rental which serves to write down the outstanding long-term debtor created as a consequence of the lease having been granted. The deferred capital receipt created under this arrangement will be earmarked on a yearly basis to pay off the debt liability over 200 years and will equate to the MRP charge. This approach mirrors that which is recommended within paragraph 20 of the MRP Guidance with regard to leases where the authority is a lessee. This was agreed by a full report on the issue to The Audit & Corporate Governance Committee of their meeting of 15 December 2011.

21.11 For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

21.12 The council, if it considers it prudent for a particular financial year, will set aside capital receipts, to reduce outstanding aggregate capital debt liability. But capital receipts will not be used in lieu of a prudent charge to revenue.

21.13 This MRP policy will be reviewed on an annual basis. If it is proposed to vary the terms of the agreed Policy Statement during any year, a revised statement will be submitted to the Audit and Corporate Governance Committee for consideration at that time. At the time of writing this statement DLUHC where consulting on changes to MRP Guidance the consultation does not close until 16 February 2024 with changes implemented from 1 April 2024. Any changes needed for changes to the policy following changes in guidance will be reported to the Audit & Corporate Governance Committee and Full Council in year.

21.14 **Redwood Bank** - The council has also noted that the likely life period of their equity holding in Redwood Bank will be considerably longer than might apply to more common forms of share capital acquisitions, which are likely to be more representative of investments rather than assets that provide an economic regeneration. For this reason, the council has determined it will depart from the wording of the Guidance, which suggests a 20-year life period, and agreed that it would be prudent to determine a 50-year life period for this asset in recognition of the anticipated benefit period. The council will thus charge MRP on the asset over 45 years to reflect the previous 5-year MRP holiday the Council have previously taken.

21.15 **Commercial Property Investment Programme** - The council will make a voluntary MRP charge using the Annuity method which is recommended by Guidance. This approach was agreed in a detailed paper to the Audit & Corporate Governance Committee at their meeting of 10 February 2022.

Annexe A

Glossary of Terms

ABL	Affordable Borrowing Limit
Basis Point (BP)	1/100th of 1%, i.e. 0.01% (or 0.0001 decimal form)
Base Rate	Minimum lending rate of a bank or financial institution in the UK
Bank Tier 2 Capital Both upper & lower levels	Subordinated debt investment in a bank.
Benchmark	A measure against which the investment policy or performance of a fund manager can be compared.
Bill of Exchange	A financial instrument financing trade.
Callable Deposit	A deposit placed with a bank or building society at a set rate for a set amount of time. However, the borrower has the right to repay the funds on pre agreed dates before maturity. This decision is based on how market rates have moved since the deal was agreed. If rates have fallen the likelihood of the deposit being repaid rises, as cheaper money can be found by the borrower.
Cash Fund Management	Fund management is the management of an investment portfolio of cash on behalf of a private client or an institution, the receipts and distribution of dividends and interest, and all other administrative work in connection. with the portfolio.
Certificate of Deposit (CD)	Evidence of a deposit with a specified bank or building society repayable on a fixed date. They are negotiable instruments and have a secondary market; therefore, the holder of a CD is able to sell it to a third party before the maturity of the CD.
Commercial Paper	Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers. Such instruments are unsecured and usually discounted, although some may be interest bearing.
Constant Net Asset Value (CNAV)	Constant Net Asset Value refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a Net Asset Value (NAV), or value of a share of the fund, at £1 and calculate their price to 2 decimal places.
Corporate Bond	Strictly speaking, corporate bonds are those issued by companies. However, the term is used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations, and government agencies.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender/borrower/writer of a swap/etc.)
Covered Bonds	Covered bonds are debt securities issued by a bank or mortgage institution and collateralised against a pool of assets that, in case of failure of the issuer, can cover claims at any point of time.
CDS	Credit Default Swap – a swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.

CFR	Capital Financing Requirement
CIPFA	Chartered Institute of Public Finance and Accountancy
CLG	Department for Communities and Local Government
CPI	Consumer Price Index – calculated by collecting and comparing prices of a set basket of goods and services as bought by a typical consumer, at regular intervals over time. The CPI covers some items that are not in the RPI, such as unit trust and stockbroker's fees, university accommodation fees and foreign students' university tuition fees.
Debt Management Agency Deposit Facility	Government body that offers fixed term deposits.
Derivative	A contract whose value is based on the performance of an underlying financial asset, index, or other investment, e.g. an option is a derivative because its value changes in relation to the performance of an underlying stock.
DLUHC	Department for Levelling Up Housing and Communities
DMADF	Deposit Account offered by the Debt Management Office, guaranteed by the UK government.
ECB	European Central Bank – sets the central interest rates in the EMU area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%. It does not accept that monetary policy is to be used to manage fluctuations in unemployment and growth caused by the business cycle.
EIA	Equality Impact Assessment
EMU	European Monetary Union
Equity	A share in a company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.
EU	European Union
Fed.	Federal Reserve Bank of America – sets the central rates in the USA
Floating Rate Notes (FRN)	Bonds on which the rate of interest is established periodically with reference to short-term interest rates
Forward Deal	The act of agreeing today to deposit funds with an institution for an agreed time limit, on an agreed future date, at an agreed rate.
Forward Deposits	Same as forward dealing (above).
FCA	Financial Conduct Authority – one of the main UK regulatory bodies with three main objectives – to protect consumers, to protect and enhance the integrity of financial markets and to promote effective competition.
Fiscal Policy	The Government policy on taxation and welfare payments.
GDP	Gross Domestic Product
GF	General Fund
Gilt	Registered British government securities giving the investor an absolute commitment from the government to honour the debt that those securities represent.
Gilt Funds	Pooled fund investing in bonds guaranteed by the UK government.
Government MMF	MMFs that invest solely in government securities, or reverse repurchase agreements backed by Government Securities.
GPOC	General Power of Competence

HM Treasury	Her Majesty's Treasury
HRA	Housing Revenue Account
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IMP	Investment Management Practices for Non-Treasury Investments
iTraxx	The brand name for the group of credit default swaps index products.

LOBO's	Lenders Option Borrowers Option loans
LFS	Labour Force Survey
Loan Notes	Loan notes are a financial instrument which detail when a loan must be repaid by the borrower and what interest is payable to the lender. Loan notes are often used as a way of investing in a company or property transaction.
LGA	Local Government Association
LTI	Long Term Investments (Commercial / Pooled Funds) more than 365 days
LVNAV MMF (Low Volatility Net Asset Value)	Low Volatility Net Asset Value (LVNAV) MMFs are short-term MMFs. Funds are primarily invested in money market instruments, deposits, and other short-term assets. Units in the fund are purchased or redeemed at a constant price so long as the value of the underlying assets do not deviate by more than 0.2% (20bps) from par (i.e. 1.00).
Managed Account	Council's owned account containing treasury bills, bonds, and other low risk investment instruments.
MiFID	Markets in Financial Instruments Directive is a regulation that increases the transparency across the European Union's financial markets and standardises the regulatory disclosures required for particular markets. The directive has been in force across the European Union (EU) since 2008
Money Market Fund (MMF)	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short-term instruments. It is very similar to a unit trust, however in an MMF.
Monetary Policy committee (MPC)	Government body that sets the bank rate (commonly referred to as being base rate). Their primary target is to keep inflation within plus or minus 1% of a central target of 2% in two years' time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
MRP	Minimum Revenue Provision – the annual charge to the revenue account of the prudent provision for the repayment of debt, incurred in respect of capital expenditure financed from borrowing or other long-term credit arrangements.
MTFP	Medium Term Financial Plan
Open Ended Investment Companies	A diversified pooled investment vehicle, with a single purchase price, rather than a bid/offer spread.
OIS	Overnight Indexed Swap – an interest rate swap where the periodic floating payment is generally based on a return calculated from a daily compound interest investment.
Other Bond Funds	Pooled funds investing in a wide range of bonds.
PAYE	Pay As You Earn
PFI	Private Finance Initiative

PWLB	Public Works Loan Board
QE	Quantitative Easing
Reverse Gilt Repo	This is a transaction as seen from the point of view of the party which is buying the gilts. In this case, one party buys gilts from the other and, at the same time and as part of the same transaction, commits to resell equivalent gilts on a specified future date, or at call, at a specified price.
Retail Price Index (RPI)	Measurement of the monthly change in the average level of prices at the retail level weighted by the average expenditure pattern of the average person.
Real Estate Investment Trust (REIT)	A real estate investment trust (REIT) is a publicly traded company that owns, operates, or finances income-producing properties.
REPOS	In a repo, one party sells an asset (usually fixed-income securities) to another party at one price and commits to repurchase the same or another part of the same asset from the second party at a different price at a future date or (in the case of an open repo) on demand.
RPIX	As RPI but excluding mortgage interest rate movements.
RPIY	As RPI but excluding mortgage interest rate movements and changes in prices caused by changes in taxation.
SONIA	Sterling Overnight Index Average – SONIA is the effective reference overnight rate for unsecured transactions in the Sterling market
Sovereign Issues (Ex UK Gilts)	Bonds issued or guaranteed by nation states but excluding UK government bonds.
STI	Short Term Investments – less than 365 days
Supranational Bonds	Bonds issued by supranational bodies, e.g. European investment bank. These bonds – also known as Multilateral Development Bank bonds – are generally AAA rated and behave similarly to gilts but pay a higher yield ("spread") given their relative illiquidity when compared with gilts.
SORP	Statement of Recommended Practice
S151	Section 151 Officer
Term Deposit	A deposit held in a financial institution for a fixed term at a fixed rate.
TMP	Treasury Management Practice
Treasury Bill	Treasury bills are short term debt instruments issued by the UK or other governments. They provide a return to the investor by virtue of being issued at a discount to their final redemption value.
UBS	Union Bank of Switzerland
US	United States
Ultra-Short Dated Bond Fund (USDBF)	Fund designed to produce an enhance return over the above Money Market Fund (MMF). The manager may use a wide range of alternative options to try and generate excess performance.
VNAV	Variable Net Asset Value – refers to funds which use mark-to-market accounting to value some of the assets.
WARoR	Weighted Average Rate of Return is the average annualised rate of return weighted by the principal amount in each rate.
WAM	Weighted Average Time to Maturity is the average time, in days, till the portfolio matures, weighted by principal amount.

WATT	Weighted Average Total Time is the average time, in days, that deposits are lent out for, weighted by principal amount.
WA Risk	Weighted Average Credit Risk Number. Each institution is assigned a colour corresponding to a suggested duration using Sector’s Suggested Credit Methodology.
Model WARoR	Model Weighted Average Rate of Return is the WARoR that the model produces by taking into account the risks inherent in the portfolio.

Annexe B – Prudential Indicators

Within the prudential indicators there are a number of key indicators to ensure that the council operates its activities within defined limits.

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

A Capital Investments

For capital programme purposes, the council makes a reasonable estimate of the capital debt liability, that it plans to incur or envisages will arise, in the following three years and after each year-end it will account for the actual capital expenditure incurred for each year.

The council's capital programme informs the requirements of these indicators. In terms of the capital expenditure element of aggregate capital activity (which includes non-financial investments), the amounts incurred by the council in 2022/23, the revised estimate for the current year and estimates for the future years are as follows:

Invest to Save programme relates to areas such as capital expenditure on investment properties, loans to third parties, etc.

The table below summarises the above capital financing plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need:

2021/22	**2022/23**	**2023/24**		**2023/24**	**2024/25**	**2025/26**	**2026/27**	**Forecast**
Actual	**Actual**	**MTFP**	**Capital Expenditure**	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Total**
£m	**£m**	**£m**		**£m**	**£m**	**£m**	**£m**	**£m**
125.773	192.512	337.722	Unsupported Borrowing	229.050	179.432	101.284	89.735	599.501
20.795	35.574	55.686	Capital Grants and Reserves	28.486	71.836	26.298	0	126.620
71.786	1.366	10.211	Capital Receipts	7.982	3.183	0	0	11.165
0.454	0.291	4.043	External Funding	2.908	4.461	2.568	2.022	11.959
5.803	1.414		Revenue Funding	0.078	0	0	0	0.078
224.611	**231.157**	**407.662**	**Total Capital Financing**	**268.504**	**258.912**	**130.15**	**91.757**	**749.323**

B Capital Financing Requirement – the council's borrowing need

Another prudential indicator is the council's Capital Financing Requirement (CFR). The CFR represents the total historic outstanding capital investment debt liability which has not yet been paid charged to revenue or otherwise financed. It is essentially a measure of the council's indebtedness and in turn their underlying borrowing need. Any capital financing liability which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets' life, and so charges the economic consumption of capital assets as they are used. It may also be reduced by the setting aside of monies achieved from asset disposals.

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

2023/24 Forecast £m	Capital Financing Requirement (CFR)	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
2042.690	CFR	2198.288	2279.667	2349.424
196.554	**Movement in CFR**	**155.598**	**81.379**	**69.757**
229.050	Financing need for the year	179.432	101.284	89.735
0	Over borrowed from previous year	0	0	0
-32.496	Less MRP, other financing movements	-23.834	-19.905	-19.978
196.554	**Net Movement in CFR**	**155.598**	**81.379**	**69.757**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown above demonstrate the scope of this activity and proportionality to the council's remaining activity.

C Gross Borrowing Requirement

There is a clear linkage between the authority's capital financing requirement indicators and its gross external borrowing. Within the code there is a key indicator of prudence that ensures that, over the medium term, gross borrowing is only for a capital purpose. This can be demonstrated by comparing gross external borrowing shown in the table below to the total CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. Gross external borrowing should not exceed this limit except in the short term. There is some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

The council's treasury portfolio position at 31 March 2023, with forward projections are summarised below. The table shows the actual external debt (the treasury management operation), against the underlying capital borrowing need (the Capital Financing Requirement (CFR)), highlighting any over or under borrowing:

2022/23	2023/24	Current Portfolio Position	2024/25	2025/26	2026/27
1647.665	1817.601	Debt at 1 April	1954.977	2097.405	2198.357
169.936	137.376	Expected change in Debt	142.428	100.952	79.260
1817.601	1954.977	External Debt at 31 March	2097.405	2198.357	2277.617
1846.136	2042.690	Capital Financing Requirement	2198.288	2279.667	2349.424
28.535	**87.713**	**Under / (Over) borrowing**	**100.883**	**81.310**	**71.807**

The Section 151 Officer reports that the council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

D Authorised Limit for External Debt

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

The authority has to set an Authorised Limit, which is the statutory maximum borrowing permitted, and an Operational Boundary, which is the normal level of borrowing expected, for external debt. This is a statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The Authorised Limits set out below are consistent with the authority's current commitments, existing plans and the proposals set out in this report for the capital expenditure and financing, and with its approved treasury policy statement and practices. They are based on the most likely, prudent, but not worst case scenario, with sufficient headroom over and above this to allow for operational management recognising that during the year it may be necessary to exceed the operational boundary in order to take advantage of interest rate movements or to accommodate unusual cash flow movements.

2022/23	2023/24		2024/25	2025/26	2026/27
Actual	**Estimate**	**Authorised Limit**	**Estimate**	**Estimate**	**Estimate**
£m	**£m**	**for External Debt**	**£m**	**£m**	**£m**
1647.665	2150.474	Borrowing	2307.146	2418.193	2505.379
3.367	3.212	Other Long-Term Liabilities (PFI / Leasing)	3.046	2.867	2.675
1651.032	**2153.686**	**Total Authorised Limit**	**2310.192**	**2421.060**	**2508.054**

This indicator being the maximum limit the council may borrow at any point in time in the year. If borrowing above this level were needed a report would go to council for authorisation to increase the limit.

E Operational Boundary for External borrowing and other financing

The operational boundary is a key management tool for in-year monitoring. Temporary breach of the operational boundary will not in itself be a cause for concern, although a sustained breach might indicate an underlying issue that would need investigation and action.

The Operational Boundaries below are based on the Authorised Limit, estimating the authority's most likely level of borrowing and leasing each year. It includes long-term borrowing to fund capital and short-term borrowing to meet day to day variations in cash flow but without the additional headroom.

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

2022/23	2023/24		2024/25	2025/26	2026/27
Actual	**Estimate**	**Operational Boundary**	**Estimate**	**Estimate**	**Estimate**
£m	**£m**	**for External Debt**	**£m**	**£m**	**£m**
1647.665	1964.977	Borrowing	2107.405	2208.357	2287.617
3.367	3.212	Other Long-Term Liabilities (PFI /Leasing)	3.046	2.867	2.675
1651.032	**1968.189**	**Total Operational Boundary**	**2110.451**	**2211.224**	**2290.292**

Treasury management indicators for debt

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / improve performance. The indicators are:

F Maturity structure of borrowing

It is recommended that the council sets upper and lower limits for the maturity structure of its debt for the forthcoming year as follows:

Maturity Structure	Lower Limit		Upper Limit	
	Fixed	Variable	Fixed	Variable
Under 12 months	0%	0%	30%	40%
12 months to 2 years	0%	0%	30%	0%
2 years to 5 years	0%	0%	35%	0%
5 years to 10 years	0%	0%	30%	0%
10 years to 20 years	15%	0%	100%	0%
20 years to 30 years	15%	0%	100%	0%
30 years to 40 years	5%	0%	100%	0%
40 years and above	5%	0%	100%	0%

The above percentages are the ranges for the projected borrowing maturing in each year out of the total projected borrowing. The indicator is designed to be a control over the council having large concentrations of fixed interest rate debt needing to be replaced at any one time and thus being at risk of having to borrow large amounts when interest rates may be unfavourable.

Please note that the maturity structure guidance for LOBO loans deems the maturity date to be the next call date which would account for £48.5m of the current loan portfolio. The loans have remained as the expected maturity date; however, these loans could potentially be called by the lender within the next six-month period, but they are unlikely to do so due to the current low interest rate environment.

G Fixed interest rate exposure

The table below shows the council's upper limit for fixed interest rate exposure for the next three years. This indicator shows the percentage of borrowing that can be undertaken at fixed interest rates. Up to 100% of borrowing can be at fixed interest rates. Again, this indicator is set at levels to reduce the risk from interest rate movements.

Upper Limit – Fixed Interest Rate Exposure	2024/25 %	2025/26 %	2026/27 %
Fixed Interest Rates	100	100	100

H **Variable interest rate exposure**

The following indicator shows the percentage of borrowing that can be undertaken at variable interest rates. The purpose of the indicator is to restrict variable rate borrowing in order to reduce the risk from sudden movements in interest rates. The council sets its upper limit for borrowing, reflecting variable interest rates less investments that are variable rate investments at 40%.

Upper Limit – Variable Interest Rate Exposure	**2024/25 %**	**2025/26 %**	**2026/27 %**
Variable Interest Rates	40	40	40

I **Investment periods**

It is recommended that the council sets a limit on the amount invested for periods longer than one year of £80m for 2024/25 for treasury management investments, with the maximum period for any one investment being ten years. These limits are set with regard to the council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

Upper Limit for Total Principal Sums Invested for over 365 days	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
Long Term Investment includes Pooled Funds	80	80	80

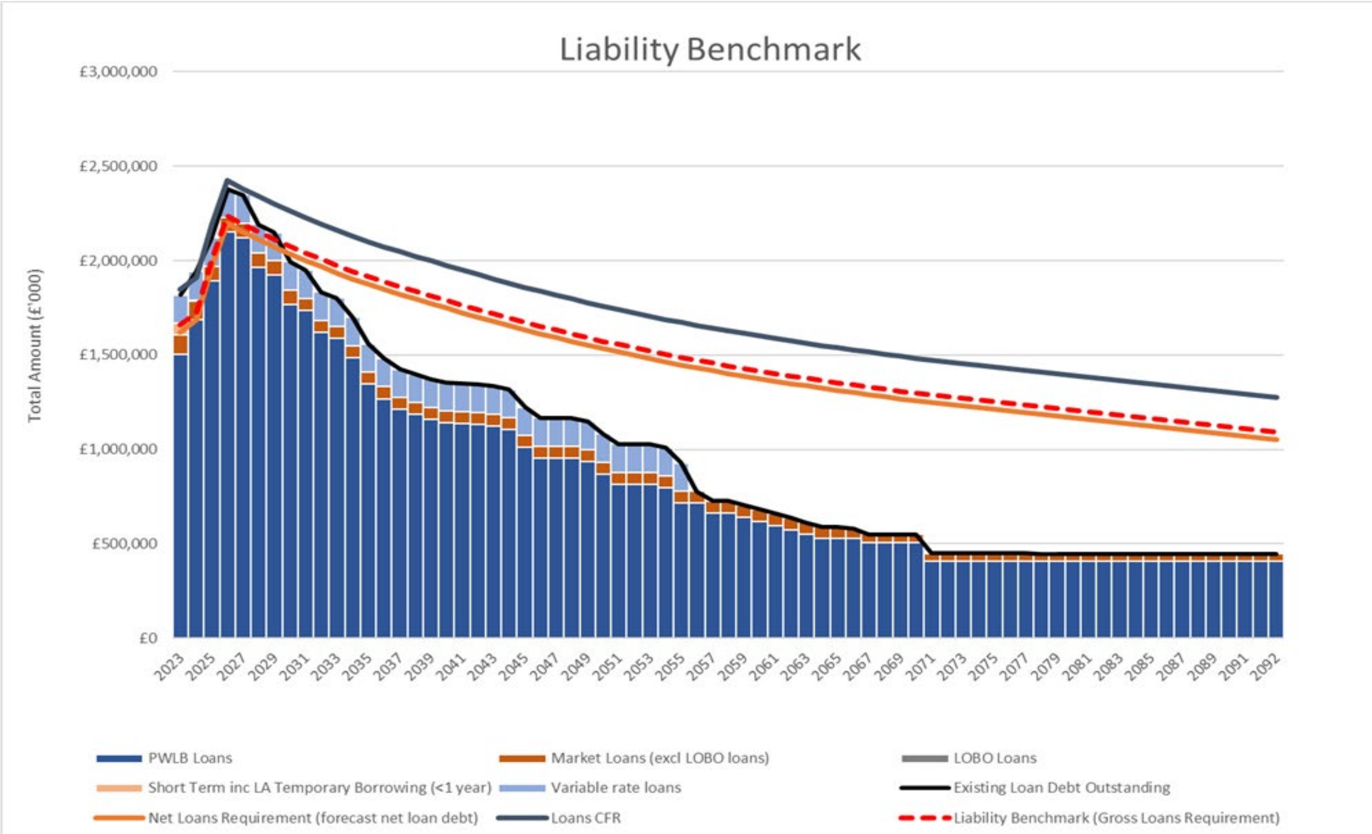
L. **Net income from commercial and service investments as a proportion of the net revenue stream**

The indicator shows non-treasury investment income as a percentage of the net revenue stream of the council.

	23/24 Estimate £m	**24/25 Estimate £m**	**25/26 Estimate £m**	**26/27 Estimate £m**
Commercial Income & Service Investments	21.331	21.338	21.737	21.737
Net Service Expenditure (NSE)	183.009	196.541	214.986	225.584
Commercial income to NSE ratio	11.66%	10.86%	10.11%	9.64%

M **Liability Benchmark**

The Prudential Code (2021 Edition) recommends the production of a liability benchmark, which is shown in the graph below. The liability benchmark is the level of expected external borrowing given current projections for capital investment up to year 2025/26. The projected borrowing levels show what the council expects it level to be. Where the aggregate borrowing level is below the benchmark, the council will be in an under-borrowed position, and when it is above it will be over-borrowed. This makes assumptions regarding repayment dates, and this can be used as a tool for scheduling future borrowing requirements.



The liability benchmark is the level of expected debt given current projections for capital expenditure up to year 2025/26. The projected debt levels show what the council expects its debt level to be. Where the debt level is below the benchmark, the council will be in an under-borrowed position, and when it is above it will be over-borrowed.

In the graph above it shows an over-borrowed position for the current period and the next couple of years – this is mainly due to slippage in the capital programme.

This makes assumptions regarding repayment dates, and this can be used as a tool for scheduling future borrowing requirements.

The bars represent the maturity profile of current loans and the white space between the existing loans and the Net loan requirement is the borrowing requirement for future years.