Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2025/26

Key Considerations

2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework

CIPFA published the revised codes on 20 December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Authority, therefore, 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.

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 that are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity that 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.

The revised Treasury Management Code will require an authority to implement the following: -

1. **Adopt a new 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, with material differences between the liability benchmark and actual loans to be explained;

2. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;

4. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority;

5. **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report

performance against all forward-looking prudential indicators at least quarterly. The CFO 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 and should be reported as part of the authority's integrated revenue, capital, and balance sheet monitoring;

6. **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

The main requirements of the Prudential Code relating to service and commercial investments are: -

1. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e., that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;
2. An authority must not borrow to invest for the primary purpose of commercial return;
3. 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;
4. 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;
5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;
6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

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

1. 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;

2. 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);

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

4. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);

5. 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);

6. 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;

As this TMSS 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.

However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially, before considering investment return.

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

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

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, including 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."*

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

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following: -

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

1.2.2 Treasury Management reporting

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

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators);
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

Before being recommended to the Council, the above reports are required to be adequately scrutinised. The Cabinet undertakes this role.

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 but do require to be adequately scrutinised. This role is undertaken by the Audit and Governance Committee. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

1.3 Treasury Management Strategy for 2025/26

The strategy for 2025/26 covers two main areas:

Capital issues

- the capital expenditure 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 and activities of the Authority;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, DLUHC (now MHCLG) Investment Guidance, DLUHC (now MHCLG) MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 Training

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

Furthermore, 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.

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.

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 (as set out in the schedule that may be adopted by the organisation).

- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis."

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

Members undertook training on 26 June 2019 and training has been scheduled for late January/ February 2025. Further training will be arranged as required.

There is a post with specific responsibility for treasury management within the accountancy team and the Council is committed to ensuring the holder has relevant qualifications and has access to the training and support required to undertake this role.

In addition, the Council's treasury management team is a member of the Southwest Treasury Management Benchmarking Group hosted by Link Asset Services. This group has members from approximately 14 authorities and provides a forum for interpreting Treasury Management data across the area and sharing best practice. The group also allows the opportunity to consider any potential forthcoming treasury management risks, the early identification of which can aid proactive investment management.

The Council maintains an internal audit function through the Southwest Audit Partnership (SWAP). SWAP undertakes a periodic internal audit review of the treasury management function. In the latest audit by SWAP, the treasury management function was given a Reasonable Opinion.

Further review is also provided by the external audit team, who consider the reporting of treasury management data within the financial statements as part of their external audit opinion work.

A formal record of the training received by officers central to the Treasury function will be maintained by the Financial Services Team. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Democratic Services Team.

1.5 Treasury management consultants

The Authority uses Link Group, Treasury solutions as its external treasury management advisors.

The Authority 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, our treasury advisers.

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 Authority 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.

The scope of investments within the Authority's operations will include conventional treasury investments, (the placing of residual cash from the Authority's functions) and may include non-treasury investments. Non-treasury investments require specialist advisers, and the Authority will seek to appoint suitable specialist advisers in relation to such activity, as and when required.

1.6 Treasury management investments and other investments

The Treasury Management Strategy Statement and Annual Investment Strategy deals soley with treasury management investments. In order to give an holistic view of the Authority's borrowing need, the report summarises service related loans to third parties and commercial investment activities. Other than this, these investments are not dealt with in this document.

2 THE CAPITAL PRUDENTIAL INDICATORS 2025/26 – 2027/28

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

These indicators help show the effect of the financing and borrowing strategy that the Authority plans to adopt over the next three financial years (as a minimum).

The indicators also act as an early warning system, to flag up if the Authority decides to set capital programmes without the necessary finances to fund them.

2.1 Capital expenditure and financing

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.

Gross Capital Expenditure to be incurred (Actual and Estimated)					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
General Fund	5,897	18,456	20,480	8,031	9,242
Service loans to third parties	43	26	17	17	10
Other loans to third parties	0	0	0	0	0
Service investments	0	1,240	0	0	0
Projects for yield	0	0	0	0	0
HRA	10,453	15,133	12,277	7,418	5,806
Total Capital Expenditure	**16,393**	**34,855**	**32,774**	**15,466**	**15,058**

The above excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

Note: Place and Prosperity capital expenditure is shown within the "general" heading above.

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

Financing of Capital Expenditure					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
Total Capital Expenditure	**16,393**	**34,855**	**32,774**	**15,466**	**15,058**
Capital receipts	(1,525)	(2,618)	(1,418)	(1,418)	(1,418)
Capital grants and other contributions	(1,936)	(7,233)	(1,534)	(1,032)	(846)
Direct revenue contributions	(2,618)	(983)	0	0	0
Use of earmarked reserves	(3,843)	(2,922)	(2,069)	(2,069)	(2,069)
Financed in year	**(9,922)**	**(13,756)**	**(5,021)**	**(4,519)**	**(4,333)**
Net financing need for the year/ (surplus receipts)	**6,471**	**21,099**	**27,753**	**10,947**	**10,725**

2.2 The Authority's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not been paid for immediately 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 that broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g., PFI and finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Authority is not required to borrow separately for these schemes. The Authority currently has no such schemes within the CFR.

The Authority is asked to approve the CFR projections below:

Capital Financing Requirement					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
General	15,578	26,070	44,168	49,932	56,911
Service loans to third parties	3,991	2,695	2,569	2,409	1,552
Other loans to third parties	467	467	467	467	467
Service investments	0	1,190	1,183	1,176	1,169
Other Investments	2,627	2,593	2,546	2,498	2,448
Projects for yield	0	0	0	0	0
CFR General Fund	22,663	33,015	50,933	56,482	62,547
CFR HRA	87,211	95,999	104,979	109,100	111,608
Total CFR	**109,874**	**129,014**	**155,912**	**165,582**	**174,155**
Movement in CFR	**5,725**	**19,140**	**26,898**	**9,670**	**8,573**

Movement in CFR represented by					
Net financing need for the year/ (surplus receipts)	6,471	21,099	27,753	10,947	10,725
Less MRP/VRP and other financing movements*	(746)	(1,959)	(855)	(1,277)	(2,152)

** MRP = Minimum Revenue Provision. VRP = Voluntary Revenue Provision. Other financing movements will include any PFI/ finance lease annual principal amounts*

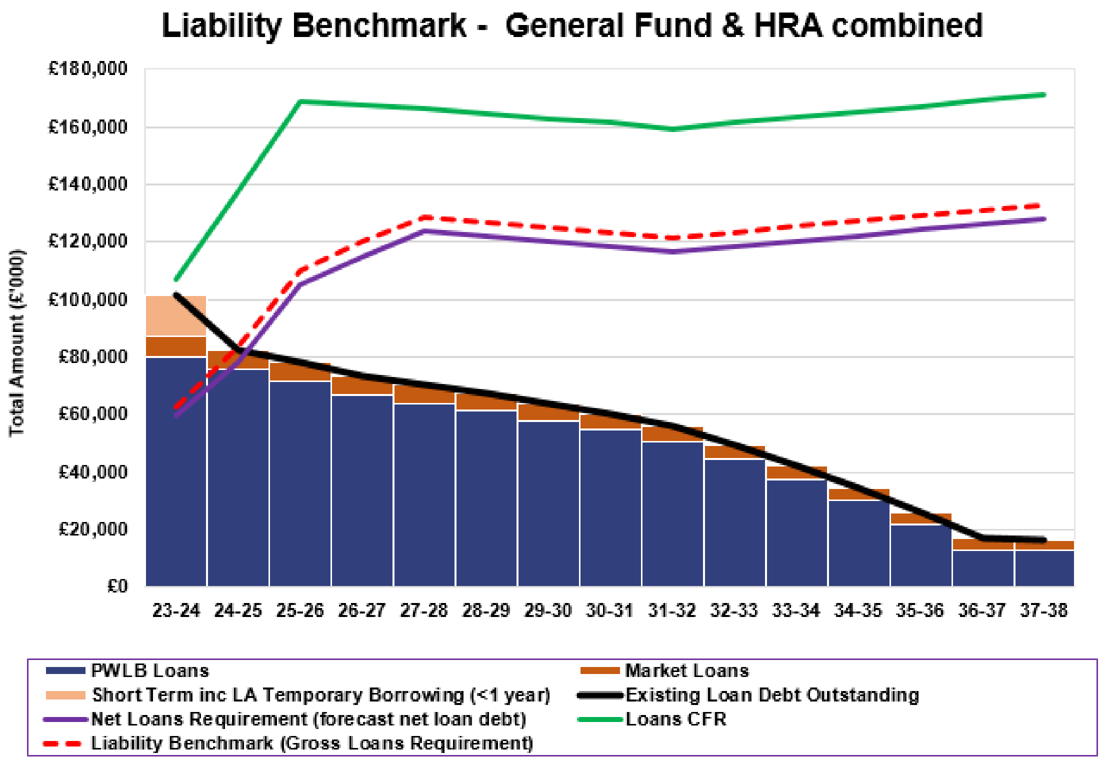
Note: Place and Prosperity capital expenditure is shown within the "general" heading above.

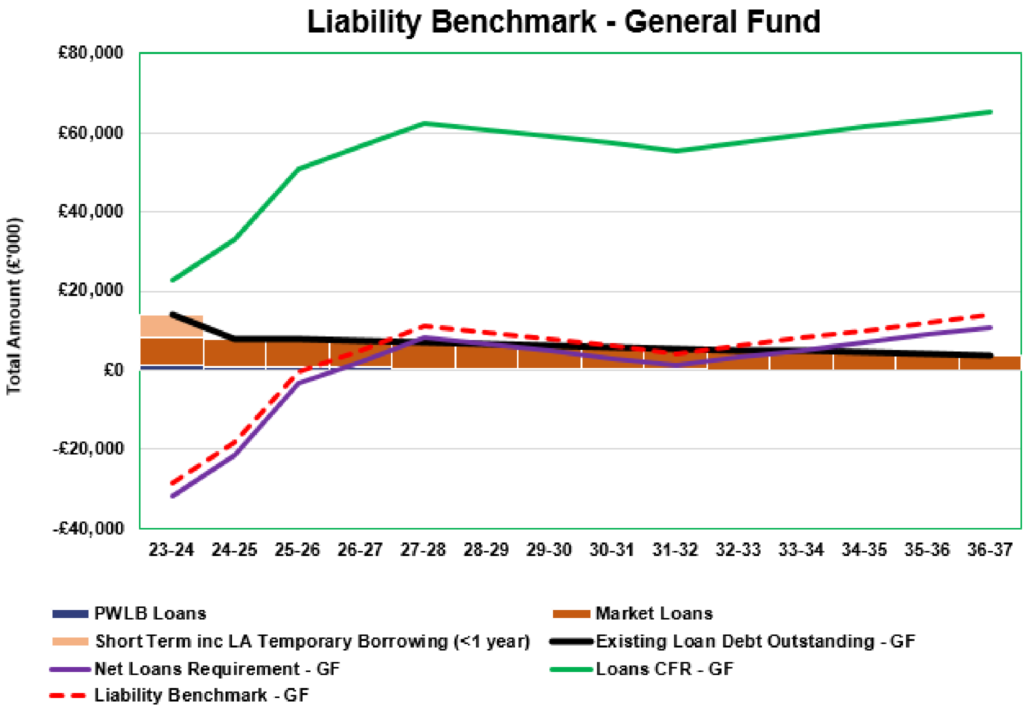
2.3 Liability Benchmark

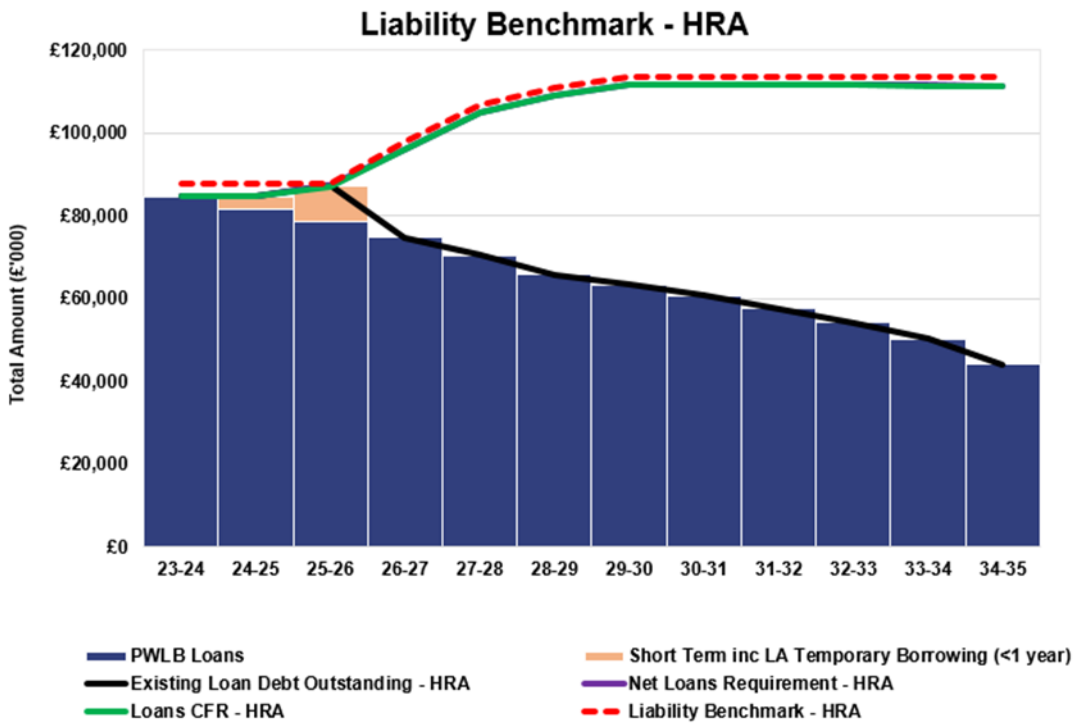
The Authority is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

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




Liability Benchmark - General Fund
£80,000
£60,000
£40,000
£20,000
£0
-£20,000
-£40,000
Total Amount (£'000)
23-24
24-25
25-26
26-27
27-28
28-29
29-30
30-31
31-32
32-33
33-34
34-35
35-36
36-37
PWLB Loans
Market Loans
Short Term inc LA Temporary Borrowing (<1 year)
Existing Loan Debt Outstanding - GF
Net Loans Requirement - GF
Loans CFR - GF
Liability Benchmark - GF


Liability Benchmark - HRA
£120,000
£100,000
£80,000
£60,000
£40,000
£20,000
£0
Total Amount (£'000)
23-24
24-25
25-26
26-27
27-28
28-29
29-30
30-31
31-32
32-33
33-34
34-35
PWLB Loans
Short Term inc LA Temporary Borrowing (<1 year)
Existing Loan Debt Outstanding - HRA
Net Loans Requirement - HRA
Loans CFR - HRA
Liability Benchmark - HRA

An analysis of the above Liability Benchmark, which covers the period to 31 March 2038, is provided below:

1. On 31 March 2024, the starting point for the liability benchmark charts, the Authority had approximately £61.4m in treasury deposits. £30.94m was held in externally managed investments and £30.46m was held in, (mainly fixed term), deposits, managed by the Authority's own treasury team. Usually, at the year-end, the amount of internally managed treasury deposits held by the Authority is minimal, however, since March 2020, grants for Covid 19, Homes for Ukraine, around £18.65m for the potential Heat Distribution Network project, (latter not yet included in capital spending plans), and a number of other central government initiatives such as the Energy Rebate scheme, has meant the Authority is holding much larger cash deposits than usual. Some of these may be repayable to central government and those that are not, are expected to be expended in the next two or three years. It was felt that including all these "temporary" cash reserves of £30.46m would give a distorted picture of the liability benchmark calculations, hence only the externally managed investments have been included, £7.076m of the temporary deposits, (the latter to offset the Heat Distribution Project loan in 4. below that is included in borrowing in the liability benchmark chart), and a further £7.6m of temporary deposits that were invested on the last working day of March 2024 as being surplus to need that day; (the latter offsetting part of the temporary short-term treasury borrowing of £13m – see 3. below).

2. Existing PWLB loan debt is shown as the blue element of the bar chart. As PWLB loans mature, so the level of PWLB debt is declining over time. Much of this debt relates to the HRA. Each year, over the next few years, a HRA self-financing loan is due to mature. At year-end 31 March 2023 and 2024, PWLB loans for the HRA of £6.159m matured; it is planned to re-finance these externally via the PWLB but on 31 March 2024 they were being re-financed temporarily via short-term temporary borrowing and/or internally from the General Fund. This is included in the pink element of the bar chart.

3. At year-end 31 March 2024, a short-term temporary borrowing requirement existed. The Authority's bank current account was technically overdrawn by £1.188m at this year-end, due to the interval between raising and debiting BACS payments. By the time the payments were presented through the bank, treasury deposits had been withdrawn to ensure sufficient funds were held in the bank current account. Following interest rates increasing dramatically in recent years, the Authority has had a policy of running down investment balances rather than taking out new long-term borrowing. However, in March 2024 the Authority borrowed £13m, temporarily short-term and pre-emptively, to bridge a potential gap between the end of March 2024 and early April 2024 when new year funding such as Council Tax, NNDR and government grant income was received. For these purposes, this temporary borrowing of £13m on 31 March 2024 has been apportioned £4.3m to the General Fund and £8.7m to the HRA, (the latter being a proxy for General Fund internal financing). This Short-term Temporary borrowing is shown as the pink bar chart.

4. On 31 March 2022, as part of assembling funds for the Heat Distribution Project, (not yet included in capital spending plans as it is still not clear if this project will proceed), a £7.076m market loan was borrowed in advance from Triple Point Heat Networks Investment Management. This relates wholly to the General Fund and is shown on the liability benchmark charts as the brown bar chart. *(Note: it had been anticipated this would be converted to a grant and treated as such hitherto, but is accepted this is, in fact, a loan).*

5. The PWLB and the temporary and market borrowing requirements together are shown as the Existing Loan Debt Outstanding, (black line).

6. The Net Loans Requirement, (purple line), shows existing and planned prudential borrowing, projected into the future, net of the treasury investments. (Note that on the HRA the Net Loans Requirement (purple line) is hidden as it follows the same trajectory as the

Loans CFR (green line), since there are no treasury investments to net against the borrowing).

7. The Loans CFR, (green line), relates to capital expenditure planned that has not been funded and therefore gives rise to a financing need. As the capital expenditure plans in the document cover only the three years to 2027/28 but no further into the future, the Loans CFR level peaks at that point and starts to decline. However, because the Loans CFR is mainly HRA-related, (for which there is no requirement to make Minimum Revenue Provision, unlike the General Fund), the Loans CFR does not decrease as quickly as if it were wholly related to the General Fund.

8. The Liability Benchmark or Gross Loans Requirement, (red dotted line) is the Net Loans Requirement plus a short-term liquidity allowance*. Any years where actual loans outstanding, (black line), exceed the benchmark, (red dotted line), represent an over-borrowed position. Any years where actual loans, (black line), are less than the benchmark, (red dotted line), indicate a future borrowing requirement. The overall chart shows a growing borrowing requirement in future years; much of this is due to HRA self-financing loans maturing. that then need re-financing, as well as additional unfunded HRA capital expenditure that has a borrowing need and this can be illustrated in the HRA-specific chart. However, the General-Fund-specific chart shows the Gross Loan Requirement (red dotted line) increasing sharply between 2023-24 through to 2027-28 and relates to recent unfunded general fund capital projects. According to CIPFA's Prudential Code, all the Authority's long term borrowing must be both 'affordable' and 'prudent'. Therefore, the Authority must be confident that it is able to pay back both the interest and principal of any borrowing through its revenue budget. Whilst new borrowing will enable the Authority to construct useful assets, it will also lead to an increased 'call' on revenue budgets for many years into the future

**The Short-term liquidity allowance means an adequate (but not excessive) allowance for a level of excess cash to be invested short-term to provide access to liquidity if needed (due to short-term cash flow variations, for example*).

2.4 Minimum revenue provision (MRP) policy statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP). The 2003 Regulations have been further amended with full effect from April 2025 to expressly provide that in determining a prudent provision local authorities cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute. The Authority is required to calculate a prudent provision of MRP that ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The Authority is recommended to approve the following MRP Statement.

From 1 April 2008 for all unsupported borrowing, the MRP policy will be:

- **Asset life method (annuity)**

Regulation 27(3) allows a local authority to charge MRP in the financial year following the one in which capital expenditure financed by debt was incurred.

Capital expenditure financed by borrowing in 2024/25 will not be subject to an MRP charge until 2025/26, or in the financial year following the one in which the asset becomes available for use.

The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

The Authority has determined that MRP is not required for borrowing or credit arrangements used to finance capital expenditure on housing assets and accounted for within the Housing Revenue Account (HRA) as it has determined, through its duty to charge depreciation and hold a Major Repairs Reserve, that prudent provision has been made.

MRP in respect of assets acquired under Finance Leases or PFI, (or applicable leases where a right-of use asset is on balance sheet), will be charged at an amount equal to the principal element of the annual repayment.

For capital expenditure on loans to third parties, (all of which are non-commercial), where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

MRP Overpayments

Under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years, if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

On 31 March 2024, cumulative VRP overpayments, (wholly in respect of the HRA), were £4,464,587.

3 BORROWING

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

3.1 Current portfolio position

The overall treasury management portfolio on 31 March 2024 (excluding loans to third parties) and the position on 31 December 2024 are shown below for both borrowing and investments.

A more detailed schedule of investments and borrowing can be found in Appendix 5.6.

Treasury Portfolio				
	31.3.24	**31.3.24**	**31.12.24**	**31.12.24**
	Actual (Restated)	**Actual (Restated)**	**Actual**	**Actual**
	£000	**%**	**£000**	**%**
Treasury investments				
Banks	1,010	1.65%	2,000	3.29%
Building Societies	0	0.00%	0	0.00%
Local Authorities	21,600	35.17%	8,500	13.98%
DMADF (HM Treasury)	250	0.41%	12,600	20.73%
Money Market Funds	7,600	12.38%	6,700	11.03%
Total managed in house	**30,460**	**49.61%**	**29,800**	**49.03%**
Money Market Funds**	30,937	50.39%	30,979	50.97%
Property Funds	0	0.00%	0	0.00%
Total managed externally	**30,937**	**50.39%**	**30,979**	**50.97%**
Total treasury investments	**61,397**	**100.00%**	**60,779**	**100.00%**
Treasury external borrowing				
Building Societies - temporary borrowing	(5,000)	5.01%	0	0.00%
Local Authorities - temporary borrowing	(8,000)	8.01%	0	0.00%
Triple Point Heat Networks Investment Management	(7,076)	7.08%	(7,076)	8.19%
PWLB - long and short term borrowing	(79,829)	79.90%	(79,309)	91.81%
Total external borrowing	**(99,905)**	**100.00%**	**(86,385)**	**100.00%**
Net treasury investments/ (borrowing)	**(38,508)**		**(25,606)**	
** 31.3.24 restated to include £7.076m loan from Triple Point Heat Networks ** market value (Payden market value at 6.1.25)*				

The above treasury external borrowing at 31.3.24 excludes the temporary bank overdraft of £1.188m which is used for operational purposes and accrued interest of £0.214m.

The Authority's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Gross External Debt					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Actual (Restated)	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
Borrowing at 1 April*	**97,315**	**101,307**	**128,770**	**155,843**	**165,565**
OLTL at 1 April*	0	0	0	0	0
External Debt at 1 April	**97,315**	**101,307**	**128,770**	**155,843**	**165,565**
Expected change in borrowing	3,992	27,463	27,073	9,722	9,314
Expected change in OLTL**	0	0	0	0	0
External Debt at 31 March	**101,307**	**128,770**	**155,843**	**165,565**	**174,879**
Capital Financing Requirement	**109,875**	**129,014**	**155,912**	**165,582**	**174,155**
Under/ (over) borrowing	**8,568**	**244**	**69**	**17**	**(724)**

**2023-24 restated to include £7.076m loan from Triple Point Heat Networks and £2.567m temporary borrowing reallocated from General Fund to HRA. **OLTL = other long term liabilities*

Within the above figures, the level of debt relating to various activities is as follows:

Purpose of debt					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Actual (Restated)	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
Temporary borrowing:					
- bank overdraft	1,188	2,350	2,350	2,350	2,350
- cashflow	6,902	0	0	0	0
- late adjustment to HRA*	(2,567)	0	0	0	0
Capital expenditure					
- original	451	22,512	40,820	46,776	53,939
- late adjustment*	7,076	7,076	6,937	6,660	6,383
Finance loans to third parties	906	833	757	679	599
Projects for yield	0	0	0	0	0
	13,956	32,771	50,864	56,465	63,271
Temporary borrowing for capital expenditure:					
- original	6,159	0	0	0	0
- late adjustment from GF*	2,567	0	0	0	0
Capital expenditure	78,625	95,999	104,979	109,100	111,608
	87,351	95,999	104,979	109,100	111,608
External Debt at 31 March	**101,307**	**128,770**	**155,843**	**165,565**	**174,879**
Proportion of total debt % used to finance loans to third parties	0.89%	0.65%	0.49%	0.41%	0.34%

**2023-24 restated to include £7.076m loan from Triple Point Heat Networks and £2.567m temporary borrowing reallocated from General Fund to HRA.*

Note: Place and Prosperity capital expenditure is shown within the "general" heading above. HRA capital expenditure in 2023/24 includes an element of temporary borrowing.

Within the range of prudential indicators, there are a number of key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for

2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Director of Finance reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

3.2.1 The operational boundary. 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. An additional £4.0m, (increased from £2.0m), has been included to allow for potential increases in debt that might result from accounting changes following the implementation of IFRS 16 Leases on 1 April 2024: (other long-term liabilities).

Operational Boundary					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Actual (Restated)	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
Debt	101,307	128,770	155,843	165,565	174,879
Other long term liabilities	4,000	4,000	4,000	4,000	4,000
	105,307	**132,770**	**159,843**	**169,565**	**178,879**

3.2.2 The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full 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.

1. This is the 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 local authority plans, or those of a specific authority, although this power has not yet been exercised.
2. The Authority is asked to approve the following Authorised Limit.

Authorised Limit Overall					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Actual (Restated)	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
Debt	101,307	128,770	155,843	165,565	174,879
Headroom	3,493	5,000	5,000	5,000	5,000
Other long term liabilities	4,000	4,000	4,000	4,000	4,000
	108,800	**137,770**	**164,843**	**174,565**	**183,879**

The authorised limit includes an additional amount as headroom for unanticipated cash movements, including those due to slippage.

Within the above, headroom for the General Fund is set at £3.0m, and an additional £4.0m, (increased from £2.0m), has been included to allow for potential increases in debt that might result from accounting changes following the implementation of IFRS 16 Leases on 1 April 2024: (other long term liabilities). Also, within the above, for the HRA, a debt cap, (now abolished), of £87.844m set by the Government as the authorised limit has been used until 2023/24; from 2024/25 headroom of £2.0m has been added for the HRA. This internal limit is currently:

HRA Authorised Limit					
	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual (Restated)	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
HRA Debt	87,351	95,999	104,979	109,100	111,608
HRA headroom	493	2,000	2,000	2,000	2,000
	87,844	**97,999**	**106,979**	**111,100**	**113,608**

3.3 Prospects for interest rates

See the Appendix, section 5.2.1

3.4 Borrowing strategy

The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated in 2025 even if some rate cuts arise.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in long and short term rates,* borrowing will be postponed.

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

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

In practice therefore, the borrowing strategy is dependent on the amount and timing of capital expenditure, given the market conditions at the time, and the capital-financing requirement is likely to be funded via a combination of external fund disinvestment and/or loans from the PWLB/ others. In recent years, whilst interest rates have been low, the Authority has been re-financing its self-financing HRA loans as they have matured each year. They have been re-financed over 50 years. Whilst it is intended to continue with this policy, the Authority has and may continue, temporarily, to delay re-financing, or may choose instead to refinance for much shorter time periods initially, whilst longer dated borrowing rates remain elevated.

3.5 Cash Flow or Temporary Borrowing

In addition to borrowing for capital purposes, the Authority also borrows in the short-term to meet day-to-day shortages in its call account. This borrowing requirement is inherent within the operation of this account and is normally covered overnight via the call account overdraft and cleared the next day.

In some instances, particularly around the year-end, the overdraft may not provide a sufficient short-term buffer, and in these instances, the Authority can borrow via the market at fixed rates for a fixed term of less than 3 months.

3.6 Policy on borrowing in advance of need

The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

Borrowing in advance will be made within the constraints that:

- It will be limited to no more than the expected increase in borrowing need (CFR) over the three year planning period; and
- The authority would not look to borrow more than 12 months in advance of need.

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

Note: on 31 March 2022, a £7.076m market loan was borrowed in advance from Triple Point Heat Networks Investment Management. This relates wholly to the General Fund in connection with the planned District Heat Network Project which is not yet included in capital expenditure plans as it is not clear if the project will proceed. It had been anticipated this would be converted to a grant and has been treated as such hitherto, but is now accepted that this is, in fact, a loan).

3.7 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

If rescheduling is done, it will be reported to Cabinet at the earliest meeting following its action.

3.8 Financial Institutions as a Source of Borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also the UK Investment Bank and 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).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

4. ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

The Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

The Authority's investment policy has regard to the following: -

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

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

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated.

The above guidance from the MHCLG and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets.

3. This Authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

    a. **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year. *(Note: the operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The lack of a credit rating means that non-rated building societies are automatically included in the non-specified investments category).*

    b. **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

4. **Non-specified investments limit.** The Authority has determined that it will limit the maximum total exposure to non-specified investments, (except for investments in non-rated building societies), as being £20m of the total investment portfolio at the point of investment, (see section 5.4).

5. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the table in section 4.3.

6. Only the Authority's external funds can be invested for **longer than 365 days**, (see section 5.1.5).

7. All investments will be denominated in **sterling**.

8. As a result of the change in accounting standards for 2023/24 under IFRS 9, this authority will consider the implications of investment instruments that 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 Ministry of Housing, Communities and Local Government, [MHCLG], 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 ending 31.3.23.) Subsequently, a further extension to the over-ride to **31.3.25** has been agreed by Government.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance; (see section 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.
The above criteria are unchanged from last year.

4.2 Creditworthiness policy

The primary principle governing the Authority's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Authority will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment section 5.4; and

- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Authority's prudential indicators covering the maximum principal sums invested.

The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Authority for approval, as necessary. These criteria are separate to those that determine which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality that the Authority may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by the Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. In addition a full review of the counterparty list is carried out on a regular basis.

The security of the Authority's financial assets is paramount, and whilst the strategy needs to be clear in this area it also needs be sufficiently comprehensive and itterative in order to provide operational flexibility within, what at times, is a volatile macroeconomic environment. As the financial backdrop changes it is essential that the strategy is set to enable an efficient response to those changes.

The Authority manages the majority of its internal investments via money market funds and a range of banks and building societies in line with the creditworthiness criteria referred to below. Additionally the Authority has opened a Debt Management Deposit Account Facility with the UK Government's Debt Management Office.

In order to address the need for flexibilty, and to ensure the spread of risk, access to an investment portal has been arranged which allows officers to review and potentially transact directly with a small range of money market funds. All money market funds considered suitable with reference to the creditworthiness criteria will be approved for use by the Director of Finance before an account is opened. The Authority currently has access to three money market funds; if appropriate operationally, consideration will be given to opening additional money market funds in the future.

This strategy was changed to include corporate bonds within its creditworthiness criteria for the first time in 2016/17. Investments in corporate bonds are limited to a duration of less than 1 year, must be AAA rated and have a maximum value of £2m. The Authority will not trade corporate bonds directly, but will trade via a specialist investment intermediary, whose fee is linked to the return. Given the short duration, it is anticipated the majority of trades will be via the secondary market.

In the 2018/19 Treasury Management Strategy, the Authority approved the inclusion of alternative investments such as Property Funds in Non-Specified Investments.

The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be carried out before investment of this type is undertaken.

4.3 Creditworthiness Criteria

The Authority's proposed creditworthiness criteria are included in the table below.

Creditworthiness Criteria		
	Criteria	**Maximum Money and/ or % Investment Limit**
External (Long Term) Investment Fund		
Pooled Investment Schemes (e.g., bond funds)	AAA long-term rating backed up with lowest volatility (V1/S1)	60% of External Fund total
Alternative Investment Funds e.g., property funds	The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using. Appropriate due diligence will also be carried out before investment of this type is undertaken.	£10m
Cash Flow/ Internal Investments		
Deposit Building Societies	With over £5 Billion in total assets	£3m
Deposit Building Societies	With over £1 Billion in total assets	£2m
Deposit with UK incorporated banks	Minimum F1, A1 or P1 short term backed up by A long term credit rating	£2m
Deposit with banks incorporated outside the UK but entitled to accept deposits in the UK	Minimum F1+, A1+ or P1+ short term backed up by AA- long term credit rating	£2m
Money Market Funds	AAA	£3m
UK Local, Police & Fire Authorities		£3m
UK Government Treasury Bills/ Gilts/ Debt Management Deposit Facility		No limit
Corporate Bonds	AAA and less than one year duration	£2m
The "deposits" referred to in the above table relate either to cash, floating rate notes or certificates of deposit.		

The Authority will not invest in subsidiaries that do not have a credit rating in their own right and a separate FSA licence from the parent company.

In the event of a downgrade resulting in a counterparty or investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

Any changes in counterparty ratings or other criteria that put the counterparty below the minimum criteria whilst the Authority holds a deposit will be brought to the attention of the Director of Finance and the Portfolio Holder for Finance immediately, with an appropriate response decided on a case-by-case basis.

The Authority's current counterparty list is included at section 5.5.

It is recommended that Cabinet approves the creditworthiness criteria above.

The proposed criteria for specified and non-specified investments are shown in Appendix 5.4 for approval.

4.4 Investment strategy

4.4.1 In-house funds.

Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that the risks are relatively balanced between Bank Rate staying higher for longer, if inflation picks up markedly through 2025 post the 30 October 2024 Budget, or it may be cut quicker than expected if the economy stagnates. The economy only grew 0.1% in Q3 2024, but the CPI measure of inflation is now markedly above the 2% target rate set by the Bank of England's Monetary Policy Committee two to three years forward.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

4.4.2 Investment returns expectations.

The current forecast shown in appendix 5.2.1 includes a forecast for the current Bank Rate to fall to a low of 3.5%.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

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

For its cash flow generated balances, the Authority will seek to utilise its business reserve, instant access and notice accounts, money market funds and short-dated deposits, in order to benefit from the compounding of interest.

4.5 Upper Limit for Total Principal Sums invested over 365 days

This limit is set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment. The Authority is asked to confirm approval that only external investments, (i.e., those managed by external fund managers), can be invested for over 365 days. Currently the Authority has £30.979m in specified investments with external fund managers. Although these investments have been held continuously for over 365 days, in practice, the Authority has been free to access the funds on quarter days without loss of income or access the funds with 3 days' notice, if necessary.

4.6 Investment performance / risk benchmarking

This Authority will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day SONIA *(Sterling Overnight Index Average).*

4.7 End of year investment report

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

4.8 External fund managers

The Authority currently has the following amounts invested:

External funds			
	Fitch International Fund Quality Rating	**Fitch Fund Market Sensitivity Rating**	**Total Investment (market value at 31.12.24)**
Pooled investment vehicles, OEICS			**£000**
Royal London Asset Management - Short Term Fixed Income	AAAf	S1	15,389
Payden & Rygel - Sterling Reserve Fund*	AAAf	S1	15,590

The AAAf Fund Quality Credit Rating reflects the very high credit quality of a fund, as measured by its weighted

The S1 Fund Market Sensitivity Rating reflects a fund's very low sensitivity to market risk factors. It also takes into account the investment advisor's strong capabilities as well as the fund's sound legal and regulatory environment.

** market value at 6.1.2025.*

5 APPENDICES

5.1 CAPITAL PRUDENTIAL & TREASURY INDICATORS 2025/26 – 2027/28

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

5.1.1 Capital Expenditure

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.

Gross Capital Expenditure to be incurred (Actual and Estimated)					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
General Fund	5,897	18,456	20,480	8,031	9,242
Service loans to third parties	43	26	17	17	10
Other loans to third parties	0	0	0	0	0
Service investments	0	1,240	0	0	0
Projects for yield	0	0	0	0	0
HRA	10,453	15,133	12,277	7,418	5,806
Total Capital Expenditure	**16,393**	**34,855**	**32,774**	**15,466**	**15,058**

The above excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

Note: Place and Prosperity capital expenditure is shown within the "general" heading above.

5.1.2 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework, prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances. The Authority is asked to approve the following indicators:

a. Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs), against the net revenue stream.

The estimates of financing costs include current commitments and the proposals in this budget report.

Ratio of financing costs to net revenue stream					
	2023/24	**2024/25**	**2025/26**	**2026/27**	**2027/28**
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	%	**%**	**%**	**%**	**%**
General Fund	2.07%	2.76%	7.73%	17.45%	18.11%
HRA	22.54%	22.97%	24.02%	25.88%	26.70%

Note that the ratio of financing costs to net revenue is climbing as new borrowing is taken out to finance capital expenditure plans.

b. Ratio of net income from investments as proportion of net revenue stream

Non HRA Ratio of net income from investments as proportion of net revenue stream					
	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%
Service delivery	1.16%	2.25%	0.27%	1.31%	2.35%
Internally managed treasury deposits	6.42%	5.09%	2.22%	2.67%	2.28%
Externally managed pooled money market funds	6.14%	5.22%	5.07%	6.08%	5.20%
Investment property	0.74%	0.73%	0.61%	0.82%	0.74%
Other commercial returns	0.00%	0.00%	0.00%	0.00%	0.00%

Non HRA Ratio of net income from investments as proportion of net revenue stream					
	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%
Internally managed treasury deposits	3.10%	2.03%	1.07%	0.95%	0.88%

c. HRA ratios

HRA ratio of debt to revenues					
	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual (Restated)	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
HRA debt	87,351	95,999	104,979	109,100	111,608
HRA revenues	19,708	21,244	21,923	22,361	22,808
	%	%	%	%	%
Ratio of debt to revenues	**443.23%**	**451.89%**	**478.85%**	**487.90%**	**489.34%**

The above indicator identifies the trend in the level of HRA debt (borrowing and other long-term obligations).

HRA ratio of debt to revenues					
	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual (Restated)	Estimate	Estimate	Estimate	Estimate
HRA debt	£87,351,000	£95,999,000	£104,979,000	£109,100,000	£111,608,000
Number of HRA properties	4,131	4,128	4,125	4,122	4,119
Debt per dwelling	**£21,145**	**£23,256**	**£25,449**	**£26,468**	**£27,096**

5.1.3 Maturity structure of borrowing

Maturity structure of borrowing. *(This is the amount of projected long-term borrowing that is due for repayment in each period, expressed as a percentage of total borrowing).* These gross limits are set to reduce the Authority’s exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

At any point, the actual percentages of debt projected to mature in each year will add up to 100%, but the proposed indicator is for a range of approved percentages. This gives discretion within an approved range to the treasury team. It does mean that each ‘set’ of figures will sum to more than 100%.

The Authority is asked to approve the following treasury indicators and limits:

Maturity Structure of fixed interest rate borrowing 2025/26			
		Lower	**Upper**
Under 12 months	2024/25	0.00%	20.00%
12 months to 2 years	2025/26	0.00%	20.00%
2 years to 5 years	2026/27 to 2028/29	0.00%	20.00%
5 years to 10 years	2029/30 to 2033/34	0.00%	25.00%
10 years to 20 years	2034/35 to 2043/44	0.00%	35.00%
20 years to 30 years	2044/45 to 2053/54	0.00%	20.00%
30 years to 40 years	2054/55 to 2063/64	0.00%	20.00%
40 years to 50 years	2064/65 to 2073/74	0.00%	25.00%
50 years to 60 years	2074/75 to 2083/84	0.00%	20.00%

Within the HRA, the majority of the loans are over the longer term, as aligned to the HRA business plan, resulting in the upper limit being higher from years 5–20.

The upper limits on the maturity structure of borrowing will shift slightly each year as the maturity dates draw closer. However, the limits shown are in line with expectations based on the funding plans.

In addition to the above, the Authority has an overdraft limit of £0.35m and can, if required, borrow for periods less than 3 months at fixed rates, in order to meet daily cash flow requirements. The Strategy is managed to avoid short-term fixed borrowing where possible. With the exception of the bank overdraft therefore, all borrowing the Authority undertakes is at a fixed rate of interest.

The actual amounts maturing in each period are shown in the table below and reflect both the actual and potential loan commitments as referred to elsewhere within this strategy.

Based on capital borrowing plans included in the budget and plans for non-treasury loans, the current projected maturity structure of borrowing is shown below:

Maturity Structure of fixed interest rate borrowing 2025/26			
		£'000	**%**
Under 12 months	2024/25	4,233	2.21%
12 months to 2 years	2025/26	4,850	2.53%
2 years to 5 years	2026/27 to 2028/29	14,075	7.36%
5 years to 10 years	2029/30 to 2033/34	32,494	16.98%
10 years to 20 years	2034/35 to 2043/44	51,081	26.70%
20 years to 30 years	2044/45 to 2053/54	25,606	13.38%
30 years to 40 years	2054/55 to 2063/64	0	0.00%
40 years to 50 years	2064/65 to 2073/74	32,099	16.78%
50 years to 60 years	2074/75 to 2083/84	26,891	14.06%
Total		**191,329**	**100.00%**

5.1.4 Control of Interest Rate Exposure

Please see paragraphs 5.2.1, 3.4 and 4.4.

5.1.5 Upper Limit for Total Principal Sums invested over 365 days

This limit is set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment. The Authority is asked to confirm approval that only external investments, (i.e., those managed by external fund managers), can be invested for over 365 days. Currently the Authority has £30.979m in specified investments with external fund managers. Although these investments have been held continuously for over 365 days, in practice, the Authority has been free to access the funds on quarter days without loss of income or access the funds with 3 days' notice, if necessary.

5.2 INTEREST RATES

5.2.1 The Prospects for Interest Rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 11 November 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

Additional notes by Link on this forecast table: -

- Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, we have significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

- If we reflect on the 30 October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

- The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

- There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing, and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

- Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August, and November).

- Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.

- Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

- So far, we have made little mention of the US President election. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.

- Our revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are to the upsides. Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 11.11.24 p.m.	Target borrowing rate now (end of Q3 2026)	Target borrowing rate previously (end of Q3 2026)
5 years	5.02%	4.30%	3.90%
10 years	5.23%	4.50%	4.10%
25 years	5.66%	4.90%	4.40%
50 years	5.42%	4.70%	4.20%

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). 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 be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

We will continue to monitor economic and market developments as they unfold. Typically, we formally review our forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider our position on an ad hoc basis as required.

Our 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, we continue to monitor events and will update our forecasts as and when appropriate.

5.3 ECONOMIC BACKGROUND (to 12th December 2024)

The third quarter of 2024 (July to September) saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

Over the aforementioned period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession.

However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.

If we reflect on the 30 October Budget, our central case is that those policy announcements will prove to be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be elevated at 2.7% y/y (Q4 2025) before dropping back to sub-2% in 2027. Nonetheless, since the Budget, the October inflation print has shown the CPI measure of inflation bouncing up to 2.3% y/y with the prospect that it will be close to 3% by the end of the year before falling back slowly through 2025. The RPI measure has also increased significantly to 3.4% y/y.

How high inflation goes will primarily be determined by several key factors. First amongst those is that the major investment in the public sector, according to the Bank of England, will lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing, and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises in the June 2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.

Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.

Currently, it also seems likely that net inward migration is set to fall, so there is likely to be a smaller pool of migrant workers available who, in the past, have filled the requirement for construction worker demand. The Government plans to heavily promote training schemes, particularly to the one million 16- to 24-year-olds who are neither in education nor work. But it is arguable as to whether the employee shortfall can be made up from this source in the requisite time, even if more do enter the workforce.

Against, this backdrop, there may be a near-term boost to inflation caused by a wave of public sector cash chasing the same construction providers over the course of the next year or so, whilst wages remain higher than the Bank currently forecasts because of general labour shortages, including in social care where Government accepts there is a 150,000 shortfall at present.

Unemployment stands at a low 4.3% (September), whilst wages are rising at 4.3% y/y (including bonuses) and 4.8% (excluding bonuses). The Bank would ideally like to see further wage moderation to underpin any further gradual relaxing of monetary policy. Indeed, over the next six months, the market is currently only pricing in Bank Rate reductions in February and May – which would see Bank Rate fall to 4.25% - but further cuts, thereafter, are highly likely to be even more data-dependent.

If we focus on borrowing, a term we are likely to hear throughout 2025 is "bond vigilante". Essentially, this represents a generic term for when the market is ill at ease with the level of government borrowing and demands a higher return for holding debt issuance. In the UK, we do not need to go back too far to recall the negative market reaction to the Truss/Kwarteng budget of 2022. But long-term borrowing rates have already gradually moved back to those levels since their recent low point in the middle of September 2024. Of course, the UK is not alone in this respect. Concerns prevail as to what the size of the budget deficit will be in the US, following the election of Donald Trump as President, and in France there are on-going struggles to form a government to address a large budget deficit problem too. Throw into the mix the uncertain outcome to German elections, and there is plenty of bond investor concern to be seen.

Staying with the US, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks continue to abound in Europe, the Middle East and Asia.

In the past month, the US Core CPI measure of inflation has indicated that inflation is still a concern (3.3% y/y, 0.3% m/m), as has the November Producer Prices Data (up 3.0 y/y v a market estimate of 2.6% y/y, 0.4% m/m v an estimate of 0.2% m/m) albeit probably insufficient to deter the FOMC from cutting US rates a further 0.25% at its December meeting. However, with Trump's inauguration as President being held on 20 January, further rate reductions and their timing will very much be determined by his policy announcements and their implications for both inflation and Treasury issuance.

Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. More recently, however, 10 year gilt yields have spiked back up to 4.35%.

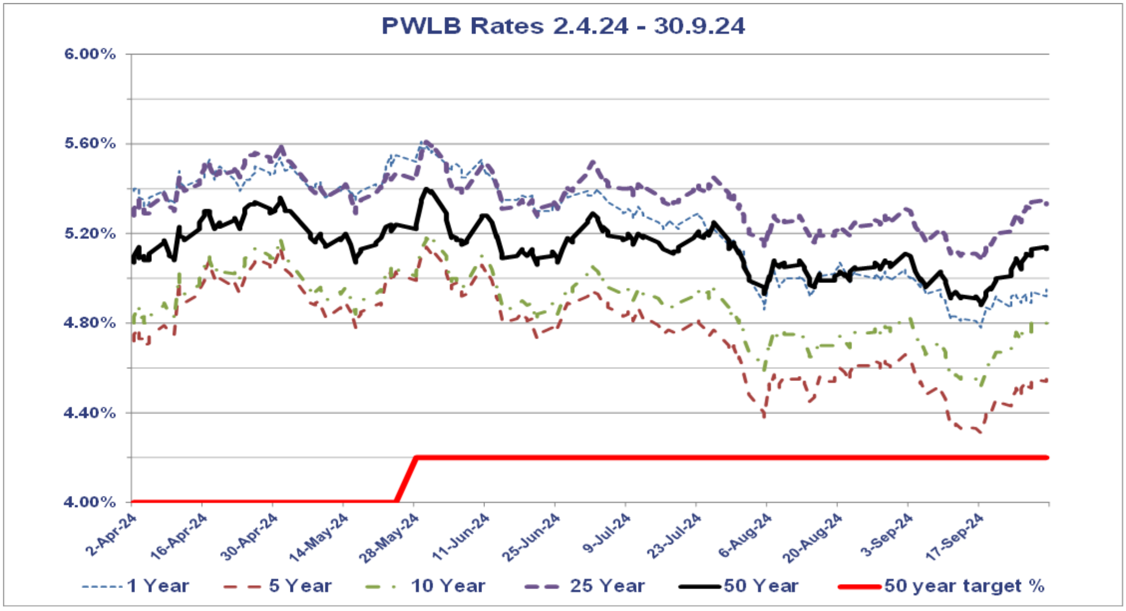
The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8.304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any further rally (or not) is likely to be the breadth of AI's impact on business growth and performance.

MPC meetings: 9 May, 20 June, 1 August, 19 September, 7 November 2024

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the Federal Open Market Committee, but this came to nothing.
- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut, but the language used by the Monetary Policy Committee emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.

PWLB RATES 02.04.24 - 30.09.24



HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

5.4 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The MHCLG issued Investment Guidance in 2018 and this forms the structure of the Authority's policy below. These guidelines do not apply to either trust funds or pension funds, which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for local authorities to invest prudently and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this Authority to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Authority will apply its principles to all investment activity.

In accordance with the Code, the Director of Finance has produced treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an Annual Investment Strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Authority will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Authority is:

Strategy guidelines – The main strategy guidelines are contained in the body of the Treasury Management Strategy Statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Authority has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months once the remaining period to maturity falls to under 12 months.

These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments that would not be defined as capital expenditure with: -

- The UK Government (such as the Debt Management Account deposit facility, UK Treasury Bills, or a Gilt with less than one year to maturity).

- Investments in Banks incorporated in the UK with a credit rating by Standard and Poor, Moody's and / or Fitch rating agencies of at least A/F1, A1 or P1, with a limit of £2m on the amount invested.

- Investments in Banks incorporated outside of the UK but entitled to accept deposits in the UK, per the Bank of England Prudential Regulation Authority list of banks, with a credit rating by Standard and Poor's, Moody's and / or Fitch rating agencies of at least AA-/F1+/A1+/P1, with a limit of £2m on the amount invested.

- Pooled investment vehicles (such as Money Market Funds) that have been awarded a high credit rating by Standard and Poor's, Moody's and/ or Fitch rating agencies of AAA for Constant Net Asset Value (CNAV) funds and Low Volatility Net Asset Value (LVNAV) funds and AAA V1/S1 for Variable Net Asset Values (VNAV). *

- Internal Investments up to 9 months up to agreed limits, in UK Building Societies with an asset basis of over £1 billion and rated by Standard and Poor's, Moody's and / or Fitch rating agencies. *(Non-rated UK Building Societies fall into the non-specified investments category).*

- Corporate bonds rated AAA of less than one-year duration.

- UK Local, Police and Fire Authorities with a limit of £3m on the amount invested with each.

> ***** *Following the Money Market Fund Regulations of 21 July 2018, only public debt CNAV MMFs, (those investing 99.5% into government debt instruments etc.), remain as CNAVs. All other CNAVs converted to LVNAVs. VNAVs were unaffected by the changes.*

Non-Specified Investments are any other type of investment, (i.e., not defined as specified above), (but required by the Authority to be in sterling). *(Note: the operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Authority may make investments up to 9 months up to agreed limits in non-rated Building Societies with an asset basis of over £1 billion).*

The Authority amended its strategy in the 2018/19 Treasury Management Strategy Document to include Alternative Investment Instruments, such as Property Funds, in the Non-Specified Investment category. The use of these Alternative Investment Instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any such fund it may consider using. Appropriate due diligence will also be carried out before investment of this type is undertaken.

The Authority limits non-specified treasury investments, (excluding in building societies), to £20m of the value of its investment portfolio at the point of investment, with the maximum amount invested being in line with criteria outlined in the Table above.

Environmental, Social and Governance (ESG) Considerations

ESG issues are increasingly significant, but the Authority is aware that a consistent, developed approach to ESG, particularly for short-term cash deposits, is difficult, when there is currently a diversity of market approaches to ESG classification and analysis. Over time, this Authority will consider its credit and counterparty policies in light of ESG information and develop its own ESG investment policies and treasury management practices consistent with the organisation's own relevant policies. In the meantime, the use of mainstream credit rating agencies, many of whom incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings, is an interim measure.

5.5 INTERNAL COUNTERPARTY LIST 2025/26 AS AT 31 December 2024

(Time limit 365 days unless specifically stated)

Money Market Funds	**Rating**	**Max Investment £**
CCLA – Public Sector Deposit Fund	AAAmmf	3,000,000
Goldman Sachs Sterling Liquid Reserves Fund	AAAmmf	3,000,000
Morgan Stanley Liquidity Funds – Sterling Liquidity Fund	AAAmmf	3,000,000

UK Government Debt Management Office	**Max Investment £**
Debt Management Account Deposit Facility	Unlimited

UK High Street Banks			
UK or Irish bank with presence in UK and a short-term Fitch rating of F1 or higher	**Long-Term Fitch Rating**	**Short-Term Fitch Rating**	**Max Investment £**
Lloyds Bank plc (RFB)	AA-	F1+	2,000,000
Lloyds Bank Corporate Markets plc (NRFB)	AA-	F1+	2,000,000
Bank of Scotland plc (RFB)	AA-	F1+	2,000,000
Barclays Bank UK plc (RFB)	A+	F1	2,000,000
Barclay Bank plc (NRFB)	A+	F1	2,000,000
Goldman Sachs International Bank	A+	F1	2,000,000
Handelsbanken plc	AA	F1+	2,000,000
HSBC UK Bank plc (RFB)	AA-	F1+	2,000,000
HSBC Bank plc (NRFB)	AA-	F1+	2,000,000
National Bank of Kuwait (International) plc	A+	F1	2,000,000
National Westminster Bank plc (RFB)	A+	F1	2,000,000
NatWest Markets plc (NRFB)	A+	F1	2,000,000
Santander Financial Service plc (NRFB)	A+	F1	2,000,000
Santander UK plc	A+	F1	2,000,000
Standard Chartered Bank	A+	F1	2,000,000
The Royal Bank of Scotland plc (RFB)	A+	F1	2,000,000

UK Local, Police and Fire Authorities	
	Max Investment
	£
UK Local, Police and Fire Authorities	3,000,000

Non UK Banks			
	Long-Term Fitch Rating	Short-Term Fitch Rating	Max Investment
			£
Abu Dhabi (U.A.E)			
First Abu Dhabi Bank PJSC	AA-	F1+	2,000,000
Australia			
Australia and New Zealand Banking Group Ltd	AA-	F1+	2,000,000
Commonwealth Bank of Australia	AA-	F1+	2,000,000
National Australia Bank Ltd	AA-	F1+	2,000,000
Westpac Banking Corporation	AA-	F1+	2,000,000
Canada			
Bank of Montreal	AA-	F1+	2,000,000
Bank of Nova Scotia	AA-	F1+	2,000,000
Canadian Imperial Bank of Commerce	AA-	F1+	2,000,000
Royal Bank of Canada	AA-	F1+	2,000,000
Toronto Dominion Bank	AA-	F1+	2,000,000
Finland			
Nordea Bank Abp	AA-	F1+	2,000,000
Germany			
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	2,000,000
Netherlands			
ING Bank N.V.	AA-	F1+	2,000,000
Singapore			
DBS Bank Ltd	AA-	F1+	2,000,000
Oversea Chinese Banking Corporation Ltd	AA-	F1+	2,000,000
United Overseas Bank Ltd	AA-	F1+	2,000,000
Sweden			
Svenska Handelsbanken AB	AA-	F1+	2,000,000
U.S.A			
Bank of America N.A.	AA	F1+	2,000,000
Bank of New York Mellon, The	AA	F1+	2,000,000
JPMorgan Chase Bank N.A.	AA	F1+	2,000,000
Wells Fargo Bank N.A.	AA-	F1+	2,000,000

Building Societies (time limit: up to 9 months). *(* Unrated building societies are non-specified investments).*

		Total Assets of Building Society	Assets > £1 Billion	Max Investment
		£000		**£**
1	Nationwide	269,363,000	Yes	3,000,000
2	Yorkshire	74,224,900	Yes	3,000,000
3	Coventry	61,725,900	Yes	3,000,000
4	Skipton	34,700,900	Yes	3,000,000
5	Leeds	28,249,100	Yes	3,000,000
6	Principality	12,309,300	Yes	3,000,000
7	Newcastle*	6,211,400	Yes	3,000,000
8	West Bromwich*	5,904,000	Yes	3,000,000
9	Nottingham*	4,481,200	Yes	2,000,000
10	Cumberland*	3,214,069	Yes	2,000,000
11	National Counties*	2,514,173	Yes	2,000,000
12	Progressive*	1,963,355	Yes	2,000,000
13	Cambridge*	1,890,826	Yes	2,000,000
14	Monmouthshire*	1,700,000	Yes	2,000,000
15	Newbury*	1,547,000	Yes	2,000,000
16	Saffron*	1,437,629	Yes	2,000,000
17	Leek United*	1,313,844	Yes	2,000,000
18	Furniss*	1,300,555	Yes	2,000,000

5.6 CURRENT PORTFOLIO POSITION

The overall treasury management portfolio on 31 March 2024 on 31 December 2024 are shown below for both borrowing and investments.

Treasury Portfolio				
	31.3.24	**31.3.24**	**31.12.24**	**31.12.24**
	Actual (Restated)	**Actual (Restated)**	**Actual**	**Actual**
	£000	**%**	**£000**	**%**
Treasury investments				
Banks				
Bank of Scotland Fixed Term Deposit	0	0.00%	2,000	3.29%
Santander Business Reserve Account	10	0.02%	0	0.00%
Santander Business Notice Account	1,000	1.63%	0	0.00%
Building Societies	0	0.00%	0	0.00%
Local Authorities				
Aberdeen Borough Council	3,000	4.89%	2,000	3.29%
Central Bedfordshire Council	3,000	4.88%	0	0.00%
Cheltenham Borough Council	3,000	4.88%	0	0.00%
Crawley Borough Council	2,100	3.42%	0	0.00%
Devon County Council	3,000	4.88%	0	0.00%
Eastleigh Borough Council	2,500	4.07%	0	0.00%
London Borough of Barking and Dagenham	3,000	4.89%	0	0.00%
Perth and Kinross Council	0	0.00%	1,500	2.47%
Stoke on Trent City Council	2,000	3.26%	2,000	3.29%
Surrey County Council	0	0.00%	3,000	4.93%
DMADF (HM Treasury)	250	0.41%	12,600	20.73%
Money Market Funds				
CCLA - Public Sector Deposit Fund	3,000	4.89%	3,000	4.93%
Goldman Sachs - Sterling Liquid Reserves Fund	1,800	2.93%	700	1.16%
Morgan Stanley Sterling Liquidity Fund	2,800	4.56%	3,000	4.94%
Total managed in house	**30,460**	**49.61%**	**29,800**	**49.03%**
Money Market Funds*				
Payden Sterling Reserve Fund	15,337	24.98%	15,389	25.32%
Royal London Asset Management Short Term	15,600	25.41%	15,590	25.65%
Total managed externally	**30,937**	**50.39%**	**30,979**	**50.97%**
Total treasury investments	**61,397**	**100.00%**	**60,779**	**100.00%**
Treasury external borrowing				
Building Societies - temporary borrowing	(5,000)	5.01%	0	0.00%
Local Authorities - temporary borrowing	(8,000)	8.01%	0	0.00%
Triple Point Heat Networks Investment Management	(7,076)	7.08%	(7,076)	8.19%
PWLB - long and short term borrowing	(79,829)	79.90%	(79,309)	91.81%
Total external borrowing	**(99,905)**	**100.00%**	**(86,385)**	**100.00%**
Net treasury investments/ (borrowing)	**(38,508)**		**(25,606)**	

** 31.3.24 restated to include £7.076m loan from Triple Point Heat Networks   ** market value (Payden market value at 6.1.25)*

5.7 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- 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 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.

The above is a list of specific responsibilities of the S151 officer in the 2021 Treasury Management Code. However, implicit in the recent changes in both codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management). The following are examples of the major extension in the functions of this role: -

- 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 their 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.
- 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.
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority.
- ensuring that the authority has adequate expertise, either 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 *(TM Code p54): -*
    - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
    - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
    - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision*

making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*

- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*