

# **Treasury Management Strategy Statement**

Minimum Revenue Provision Policy Statement  
and Annual Investment Strategy

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2024/25

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## 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 2024/25

The strategy for 2024/25 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 Investment Guidance, DLUHC 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 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 South West 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 South West 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.

## **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 solely 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 2024/25 – 2026/27

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)					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
General Fund	12,501	12,747	12,550	9,548	8,245
Service loans to third parties	(170)	43	40	17	17
Other loans to third parties	0	0	0	0	0
Service investments	0	0	0	0	0
Projects for yield	0	0	0	0	0
HRA	6,247	4,381	4,906	4,906	4,906
<b>Total Capital Expenditure</b>	<b>18,578</b>	<b>17,171</b>	<b>17,496</b>	<b>14,471</b>	<b>13,168</b>

*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					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
<b>Total Capital Expenditure</b>	<b>18,578</b>	<b>17,171</b>	<b>17,496</b>	<b>14,471</b>	<b>13,168</b>
Capital receipts	(1,680)	(1,602)	(2,036)	(803)	(1,606)
Capital grants and other contributions	(2,750)	(2,836)	(1,900)	(944)	(868)
Direct revenue contributions	(1,393)	0	0	0	0
Use of earmarked reserves	(3,299)	(3,882)	(4,406)	(4,406)	(4,406)
<b>Financed in year</b>	<b>(9,122)</b>	<b>(8,320)</b>	<b>(8,342)</b>	<b>(6,153)</b>	<b>(6,880)</b>
<b>Net financing need for the year/ (surplus receipts)</b>	<b>9,456</b>	<b>8,851</b>	<b>9,154</b>	<b>8,318</b>	<b>6,288</b>

## 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:

<b>Capital Financing Requirement</b>					
	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
General	12,025	21,226	31,140	38,749	44,904
Service loans to third parties	4,359	3,662	2,338	2,226	1,308
Other loans to third parties	467	467	467	467	467
Investments	2,649	2,627	2,593	2,546	2,498
Projects for yield	0	0	0	0	0
<b>CFR General Fund</b>	<b>19,500</b>	<b>27,982</b>	<b>36,538</b>	<b>43,988</b>	<b>49,177</b>
<b>CFR HRA</b>	<b>84,649</b>	<b>84,640</b>	<b>84,631</b>	<b>84,620</b>	<b>84,610</b>
<b>Total CFR</b>	<b>104,149</b>	<b>112,622</b>	<b>121,169</b>	<b>128,608</b>	<b>133,787</b>
<b>Movement in CFR</b>	<b>9,329</b>	<b>8,473</b>	<b>8,547</b>	<b>7,439</b>	<b>5,179</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year/ (surplus receipts)	9,456	8,851	9,154	8,318	6,288
Less MRP/VRP and other financing movements*	(127)	(378)	(607)	(879)	(1,109)

\* 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.

<b>Planned External Borrowing</b>					
	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Service spend	0	0	6,827	2,787	(358)
Housing	0	0	0	0	0
Regeneration	0	0	2,493	5,781	6,969
Financial Intervention	0	0	(166)	(250)	(323)
Projects for yield	0	0	0	0	0
Treasury management - in year*	0	3,279	3,708	4,170	4,664
Treasury management - earlier years*	0	2,880	18,308	0	0
	<b>0</b>	<b>6,159</b>	<b>31,170</b>	<b>12,488</b>	<b>10,952</b>

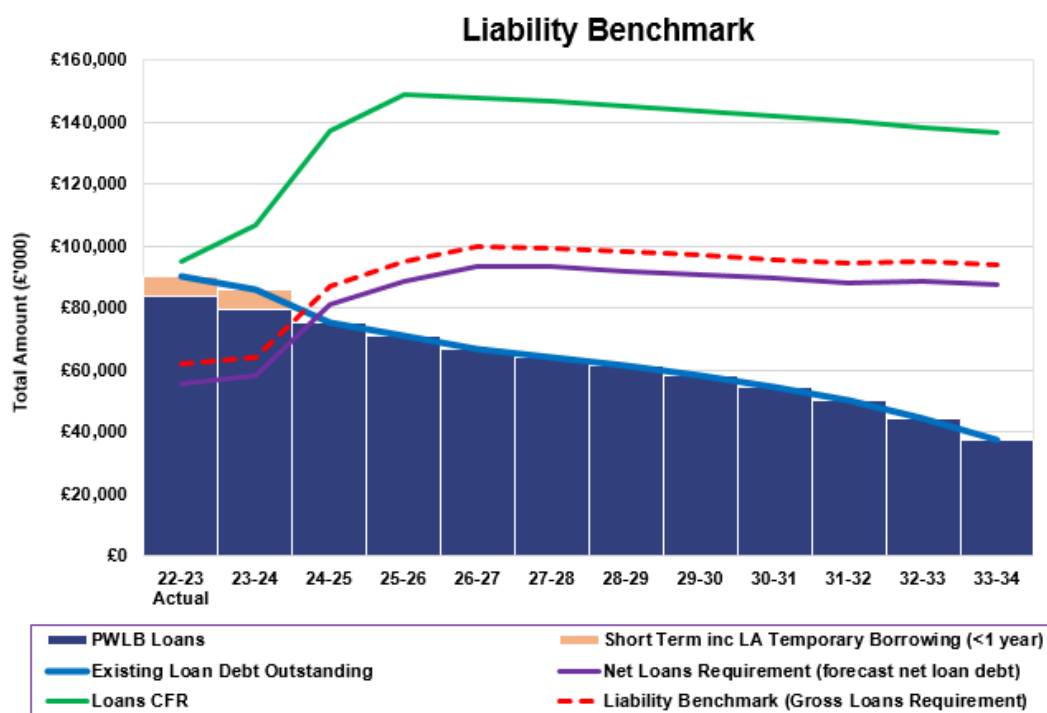
\* This represents the refinancing or extending of existing debt and the externalisation of internal borrowing. None of this relates to Projects for Yield.

## 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.



An analysis of the above Liability Benchmark, which covers the period to 31 March 2034, is provided below:

1. As at the 31 March 2023, the starting point for the liability benchmark chart, the Authority had approximately £59.35m in treasury deposits. £30.65m was held in externally managed investments and £28.7m was held in 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 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 will 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 these “temporary” cash reserves of £28.7m would give a distorted picture of the liability benchmark calculations, hence only the externally managed investments have been included.

2. Existing PWLB loan debt is shown as the blue 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 10 years, a HRA self-financing loan is due to mature. At year-end 31 March 2023, a PWLB loan for the HRA of £2.88m matured; it is planned to re-finance it externally via the PWLB but currently it is being re-financed internally by a temporary loan from the General Fund.

3. At year-end 31 March 2023, a short-term temporary borrowing requirement existed. The Authority’s bank current account was technically overdrawn 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.

4. The PWLB and the temporary borrowing requirement together are shown as the Existing Loan Debt Outstanding, (blue line).

5. The Net Loans Requirement, (purple line), shows existing and planned prudential borrowing, projected into the future, net of the external treasury investments.

6. 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 2026/27 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.

7. The Liability Benchmark or Gross Loans Requirement, (red line) is the Net Loans Requirement plus a short-term liquidity allowance\*. Any years where actual loans outstanding, (blue line), exceed the benchmark, (red line), represent an over-borrowed position. Any years where actual loans, (blue line), are less than the benchmark, (red line), indicate a future borrowing requirement. The chart shows a growing borrowing requirement in future years; much of this is due to HRA self-financing loans maturing, which will then need re-financing but the sharp increase in the gap in 2023-24 through to 2026-27 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 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 MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full council approval (or closest equivalent level) in advance of each financial year.

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)** – MRP will be based on the estimated life of the assets;

Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25, or in the year after the asset becomes operational.

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

There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made.

MRP in respect of assets acquired under Finance Leases or PFI and leases where the Authority is lessee will be charged at an amount equal to the principal element of the annual repayment.

For capital expenditure on loans to third parties 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.

At 31 March 2023, cumulative VRP overpayments, (wholly in respect of the HRA), will be £4,460,079.

## 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 as at 31 March 2023 and the position as at 31 December 2023 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				
	31.3.23	31.3.23	31.12.23	31.12.23
	Actual	Actual	Actual	Actual
	£000	%	£000	%
<b>Treasury investments</b>				
Banks	6,000	10.12%	5,010	6.38%
Building Societies	0	0.00%	0	0.00%
Local Authorities	0	0.00%	17,100	21.76%
DMADF (HM Treasury)	15,000	25.27%	16,550	21.06%
Money Market Funds	7,700	12.97%	9,000	11.45%
<b>Total managed in house</b>	<b>28,700</b>	<b>48.36%</b>	<b>47,660</b>	<b>60.65%</b>
Money Market Funds*	30,649	51.64%	30,925	39.35%
Property Funds	0	0.00%	0	0.00%
<b>Total managed externally</b>	<b>30,649</b>	<b>51.64%</b>	<b>30,925</b>	<b>39.35%</b>
<b>Total treasury investments</b>	<b>59,349</b>	<b>100.00%</b>	<b>78,585</b>	<b>100.00%</b>
<b>Treasury external borrowing</b>				
PWLB	(84,046)	100.00%	(83,108)	100.00%
<b>Total external borrowing</b>	<b>(84,046)</b>	<b>100.00%</b>	<b>(83,108)</b>	<b>100.00%</b>
<b>Net treasury investments/ (borrowing)</b>	<b>(24,697)</b>		<b>(4,523)</b>	
<i>* market value</i>				

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.

<b>Gross External Debt</b>					
	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Borrowing at 1 April	89,730	90,240	88,338	115,275	122,951
OLTL at 1 April*	0	0	0	0	0
<b>External Debt at 1 April</b>	<b>89,730</b>	<b>90,240</b>	<b>88,338</b>	<b>115,275</b>	<b>122,951</b>
Expected change in borrowing	510	(1,902)	26,937	7,676	5,446
Expected change in OLTL*	0	0	0	0	0
<b>External Debt at 31 March</b>	<b>90,240</b>	<b>88,338</b>	<b>115,275</b>	<b>122,951</b>	<b>128,397</b>
<b>Capital Financing Requirement</b>	<b>104,149</b>	<b>112,622</b>	<b>121,169</b>	<b>128,608</b>	<b>133,787</b>
<b>Under/ (over) borrowing</b>	<b>13,909</b>	<b>24,284</b>	<b>5,894</b>	<b>5,657</b>	<b>5,390</b>

\* OLTL = other long term liabilities

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

<b>Purpose of debt</b>					
	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Temporary cashflow borrowing	3,313	2,350	2,350	2,350	2,350
General fund expenditure	1,300	437	27,462	35,224	40,758
Finance loans to third parties	978	906	833	757	679
Projects for yield	0	0	0	0	0
HRA capital expenditure	84,649	84,645	84,630	84,620	84,610
<b>External Debt at 31 March</b>	<b>90,240</b>	<b>88,338</b>	<b>115,275</b>	<b>122,951</b>	<b>128,397</b>
Proportion of total debt % used to finance loans to third parties	1.08%	1.03%	0.72%	0.62%	0.53%

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

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					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Debt	90,639	90,240	115,275	122,951	128,397
Other long term liabilities	2,000	4,000	4,000	4,000	4,000
	<b>92,639</b>	<b>94,240</b>	<b>119,275</b>	<b>126,951</b>	<b>132,397</b>

**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					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
Debt	96,817	96,435	121,474	129,165	134,621
Other long term liabilities	2,000	4,000	4,000	4,000	4,000
	<b>98,817</b>	<b>100,435</b>	<b>125,474</b>	<b>133,165</b>	<b>138,621</b>

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 of £87.844m set by the Government as the authorised limit has been used; although the Government abolished HRA debt caps in October 2018, the Authority still uses it internally to define the maximum HRA CFR limit for its HRA self-financing regime. This internal limit is currently:

HRA Debt Limit					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
HRA debt cap*	87,844	87,844	87,844	87,844	87,844
HRA CFR	84,649	84,640	84,631	84,620	84,610
HRA headroom	3,195	3,204	3,213	3,224	3,234

\* The Government abolished debt caps in October 2018 but this is still used internally as a guideline.

### 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 through to the second half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 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.*

- *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 may temporarily delay re-financing, given that longer dated borrowing rates are expected to fall from their current levels; (see initial paragraph of 3.4 above).*

### 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.

### **3.7 Debt rescheduling**

Rescheduling of current borrowing in our debt portfolio is unlikely to occur, as there is still a very large difference between premature redemption rates and new borrowing rates.

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

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

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

The 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 DLUHC 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 2022/23 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.) More recently, 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 to be sufficiently comprehensive and iterative

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 flexibility, and to ensure the spread of risk, access to an investment portal has been arranged which allows officers to review and potentially transact with a small range of money market funds directly. 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.

<b>Creditworthiness Criteria</b>		
	<b>Criteria</b>	<b>Maximum Money and/ or % Investment Limit</b>
<b>External (Long Term) Investment Fund</b>		
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
<b>Cash Flow/ Internal Investments</b>		
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
<i>The "deposits" referred to in the above table relate either to cash, floating rate notes or certificates of deposit.</i>		

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 is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

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 of 5.25%.

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	
2023/24 (residual)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

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

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 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*).

#### 4.6 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.

#### 4.7 External fund managers

The Authority currently has the following amounts invested:

<b>External funds</b>			
	<b>Fitch International Fund Quality Rating</b>	<b>Fitch Fund Market Sensitivity Rating</b>	<b>Total Investment (market value at 31.12.23) £000</b>
<b>Pooled investment vehicles, OEICS</b>			
Royal London Asset Management - Short Term Fixed Income Fund S Inc	AAAf	S1	15,582
Payden & Rygel - Sterling Reserve Fund	AAAf	S1	15,343
The AAAf Fund Quality Credit Rating reflects the very high credit quality of a fund, as measured by its weighted average rating factor.			
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.			

<b>5</b>	<b>APPENDICES</b>	
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## 5.1 CAPITAL PRUDENTIAL & TREASURY INDICATORS 2024/25 – 2026/27

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)					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
General Fund	12,501	12,747	12,550	9,548	8,245
Service loans to third parties	(170)	43	40	17	17
Other loans to third parties	0	0	0	0	0
Service investments	0	0	0	0	0
Projects for yield	0	0	0	0	0
HRA	6,247	4,381	4,906	4,906	4,906
<b>Total Capital Expenditure</b>	<b>18,578</b>	<b>17,171</b>	<b>17,496</b>	<b>14,471</b>	<b>13,168</b>

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					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%
General Fund	0.68%	1.76%	2.30%	8.35%	10.42%
HRA	23.23%	18.31%	16.96%	16.97%	16.76%

Note that previously, financing costs could be reduced by interest and investment income. This has been removed from the calculation in the 2021 CIPFA Prudential Code. Note also, that the ratio of general fund financing costs to net revenue is beginning to climb 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					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%
Service delivery	0.68%	1.03%	1.02%	1.03%	2.64%
Internally managed treasury deposits	2.94%	5.53%	1.88%	0.86%	0.81%
Externally managed pooled money market funds	2.26%	5.54%	3.06%	2.04%	1.94%
Investment property	1.03%	0.74%	0.63%	0.62%	0.61%
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					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	%	%	%	%	%
Internally managed treasury deposits	1.64%	3.15%	2.15%	1.94%	1.85%

## c. HRA ratios

HRA ratio of debt to revenues					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
	£000	£000	£000	£000	£000
HRA debt	84,649	84,645	84,630	84,620	84,610
HRA revenues	18,363	20,143	21,308	21,735	22,169
	%	%	%	%	%
<b>Ratio of debt to revenues</b>	<b>460.98%</b>	<b>420.22%</b>	<b>397.17%</b>	<b>389.33%</b>	<b>381.66%</b>

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

HRA ratio of debt to revenues					
	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
HRA debt	£84,649,000	£84,645,000	£84,630,000	£84,620,000	£84,610,000
Number of HRA properties	4,158	4,176	4,176	4,176	4,176
<b>Debt per dwelling</b>	<b>£20,358</b>	<b>£20,269</b>	<b>£20,266</b>	<b>£20,263</b>	<b>£20,261</b>

### 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:

<b>Maturity Structure of fixed interest rate borrowing 2024/25</b>			
		<b>Lower</b>	<b>Upper</b>
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%	30.00%
10 years to 20 years	2034/35 to 2043/44	0.00%	40.00%
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%	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:

<b>Maturity Structure of fixed interest rate borrowing 2024/25</b>			
		<b>£'000</b>	<b>%</b>
Under 12 months	2024/25	4,217	3.19%
12 months to 2 years	2025/26	4,233	3.20%
2 years to 5 years	2026/27 to 2028/29	17,598	13.31%
5 years to 10 years	2029/30 to 2033/34	29,771	22.51%
10 years to 20 years	2034/35 to 2043/44	44,350	33.53%
20 years to 30 years	2044/45 to 2053/54	18,346	13.87%
30 years to 40 years	2054/55 to 2063/64	0	0.00%
40 years to 50 years	2064/65 to 2073/74	13,743	10.39%
<b>Total</b>		<b>132,258</b>	<b>100.00%</b>

#### 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 £30.925m 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 8 January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.80	4.30	3.80	3.30	3.20	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.60	4.10	3.70	3.20	3.20	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

*Additional notes by Link on this forecast table: -*

- Our central forecast for interest rates was previously updated on 7 November and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

### PWLB RATES

- The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is c70 basis points difference between the 5 and 50 year parts of the curve.

**The balance of risks to the UK economy: -**

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

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- **Geopolitical risks**, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran, and North Korea, which could lead to increasing safe-haven flows.

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

- Despite the recent tightening to 5.25%, the **Bank of England allows inflationary pressures to remain elevated** for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Projected **gilt issuance, inclusive of natural maturities and QT**, could be too much for the markets to comfortably digest without higher yields compensating.

## LINK GROUP FORECASTS

We expect the MPC will keep Bank Rate at 5.25% until the second half of 2024 to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. We do not think that the MPC will increase Bank Rate above 5.25%.

### 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, as inflation starts to fall through 2024.

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 08.01.24 p.m.	Target borrowing rate now (end of Q4 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	4.53%	3.70%	3.80%
10 years	4.67%	3.90%	3.80%
25 years	5.19%	4.20%	4.20%
50 years	4.97%	4.00%	4.00%

**Borrowing advice:** Our long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies

will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to factor in Bank Rate reductions for 2024 and later.

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

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.55%	4.70%
2025/26	3.10%	3.20%
2026/27	3.00%	3.00%
2027/28	3.25%	3.25%
2028/29	3.25%	3.25%
Years 6 to 10	3.25%	3.25%
Years 10+	3.25%	3.25%

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

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

### 5.3 ECONOMIC BACKGROUND

- The third quarter of 2023/24 saw:
  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30<sup>th</sup> September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS “experimental” rate of unemployment has remained low at 4.2%;
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
  - Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
  - The Bank of England holding Bank Rate at 5.25% in November and December;
  - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.



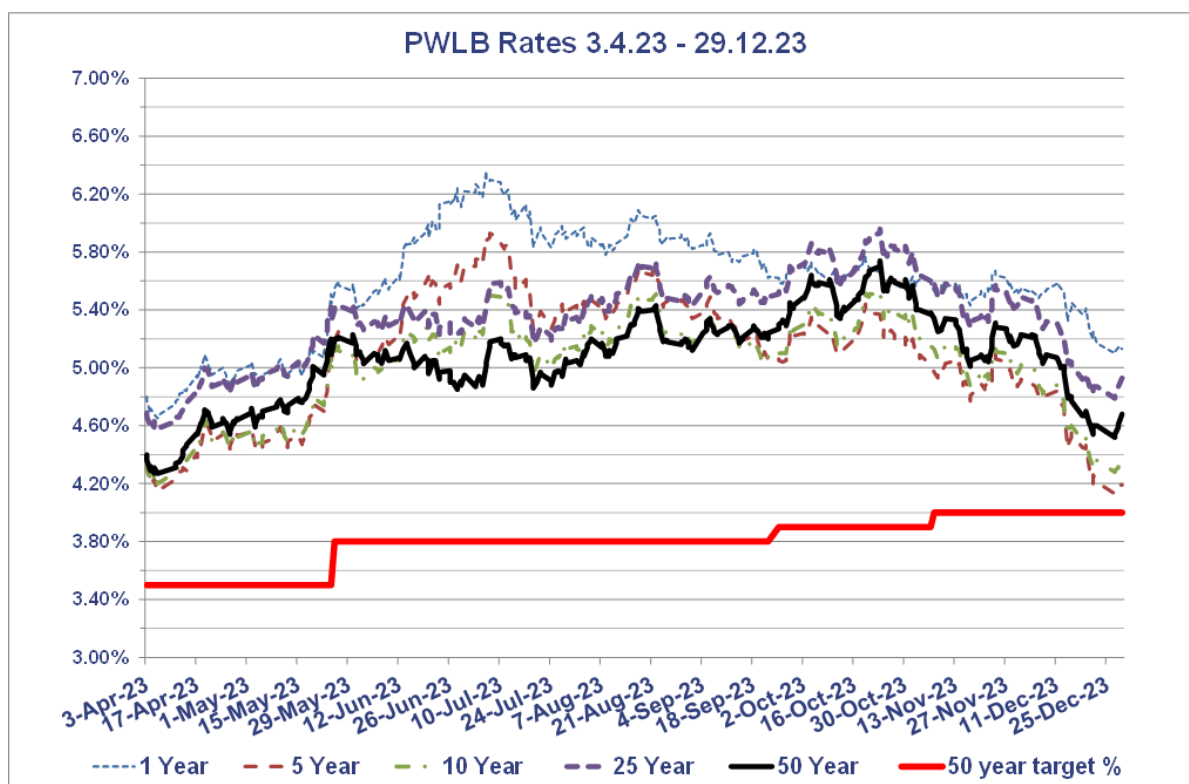
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with the Halifax house price index recently pointing to a 1.7% year on year increase whilst Nationwide's December data pointed to a -1.8% year on year decrease. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to

October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17<sup>th</sup> month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.

- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from \$1.21 in November to \$1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.

#### PWLB RATES 03.04.23 – 29.12.23



#### HIGH/LOW/AVERAGE PWLB RATES FOR 03.04.23 – 29.12.23

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	4.65%	4.13%	4.20%	4.58%	4.27%
<b>Date</b>	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
<b>High</b>	6.36%	5.93%	5.53%	5.96%	5.74%
<b>Date</b>	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
<b>Average</b>	5.60%	5.09%	5.03%	5.35%	5.08%
<b>Spread</b>	1.71%	1.80%	1.33%	1.38%	1.47%

#### MPC meetings 2 November and 14 December 2023

- On 2 November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14 December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.

- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

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

The DLUHC 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**

The Authority acknowledges that ESG issues are increasingly significant but is aware that a consistent and 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. However, 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 2023/24 AS AT 31 December 2023

(Time limit 365 days unless specifically stated)

<b>UK High Street Banks</b>			
<i>UK or Irish bank with presence in UK and a short-term Fitch rating of F1 or higher</i>	<b>Long-Term Fitch Rating</b>	<b>Short-Term Fitch Rating</b>	<b>Max Investment</b> £
<b>Lloyds Banking Group</b>			
Lloyds Bank plc (RFB)	A+	F1	2,000,000
Lloyds Bank Corporate Markets plc (NRFB)	A+	F1	2,000,000
Bank of Scotland plc (RFB)	A+	F1	2,000,000
<b>Others</b>			
Barclays Bank UK plc (RFB)	A+	F1	2,000,000
Barclay Bank plc (NRFB)	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 Westminster Bank plc (RFB)	A+	F1	2,000,000
Santander UK plc	A+	F1	2,000,000
The Royal Bank of Scotland plc (RFB)	A+	F1	2,000,000

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

		<b>Total Assets of Building Society</b> £000	<b>Assets &gt; £1 Billion</b>	<b>Max Investment</b> £
1	Nationwide	269,730,000	Yes	3,000,000
2	Yorkshire	73,860,900	Yes	3,000,000
3	Coventry	58,202,100	Yes	3,000,000
4	Skipton	31,266,600	Yes	3,000,000
5	Leeds	25,626,500	Yes	3,000,000
6	Principality	11,044,200	Yes	3,000,000
7	West Bromwich*	5,617,200	Yes	3,000,000
8	Newcastle*	5,300,500	Yes	3,000,000
9	Nottingham*	3,825,000	Yes	2,000,000
10	Cumberland*	3,086,000	Yes	2,000,000
11	National Counties*	2,394,067	Yes	2,000,000
12	Progressive*	1,900,204	Yes	2,000,000
13	Cambridge*	1,859,631	Yes	2,000,000
14	Monmouthshire*	1,488,508	Yes	2,000,000
15	Newbury*	1,453,406	Yes	2,000,000
16	Saffron*	1,283,034	Yes	2,000,000
17	Leek United*	1,238,284	Yes	2,000,000
18	Furniss*	1,233,610	Yes	2,000,000

<b>Non UK Banks</b>			
	<b>Long-Term Fitch Rating</b>	<b>Short-Term Fitch Rating</b>	<b>Max Investment £</b>
<b>Abu Dhabi (U.A.E)</b>			
First Abu Dhabi Bank PJSC	AA-	F1+	2,000,000
<b>Canada</b>			
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
<b>Finland</b>			
Nordea Bank Abp	AA-	F1+	2,000,000
<b>Germany</b>			
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	2,000,000
<b>Singapore</b>			
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
<b>U.S.A</b>			
Bank of New York Mellon, The	AA	F1+	2,000,000

<b>UK Government Debt Management Office</b>	
	<b>Max Investment £</b>
Debt Management Account Deposit Facility	Unlimited

<b>UK Local, Police and Fire Authorities</b>	
	<b>Max Investment £</b>
UK Local, Police and Fire Authorities	3,000,000

<b>Money Market Funds</b>		
	<b>Rating</b>	<b>Max Investment £</b>
CCLA – Public Sector Deposit Fund	AAAmf	3,000,000
Goldman Sachs Sterling Liquid Reserves Fund	AAAmf	3,000,000
Morgan Stanley Liquidity Funds – Sterling Liquidity Fund	AAAmf	3,000,000



## 5.6 CURRENT PORTFOLIO POSITION

The overall treasury management portfolio at 31 March 2023 and for the position as at 31 December 2023 are shown below for both borrowing and investments.

<b>Treasury Portfolio</b>				
	<b>31.3.23</b>	<b>31.3.23</b>	<b>31.12.23</b>	<b>31.12.23</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
<b>Treasury investments</b>				
<b>Banks</b>				
Lloyds Bank Call Account	1,000	1.69%	0	0.00%
Lloyds Bank Bonus Call Account	1,000	1.69%	0	0.00%
Lloyds Fixed Bespoke Term Deposit	0	0.00%	2,000	2.54%
Bank of Scotland Call Account	2,000	3.37%	2,000	2.54%
Santander Business Reserve Account	1,000	1.69%	10	0.01%
Santander Business Notice Account	1,000	1.69%	1,000	1.27%
<b>Building Societies</b>	0	0.00%	0	0.00%
<b>Local Authorities</b>				
Ashford Borough Council	0	0.00%	1,200	1.53%
Blackpool Borough Council	0	0.00%	1,900	2.42%
Devon County Council	0	0.00%	3,000	3.82%
Eastleigh Borough Council	0	0.00%	2,500	3.18%
Leeds City Council	0	0.00%	2,500	3.18%
London Borough of Barking and Dagenham	0	0.00%	3,000	3.82%
Wirral Metropolitan Borough Council	0	0.00%	3,000	3.82%
<b>DMADF (HM Treasury)</b>	15,000	25.27%	16,550	21.06%
<b>Money Market Funds</b>				
CCLA - Public Sector Deposit Fund	3,000	5.05%	3,000	3.82%
Goldman Sachs - Sterling				
Liquid Reserves Fund	1,700	2.86%	3,000	3.82%
Morgan Stanley Sterling Liquidity Fund	3,000	5.05%	3,000	3.82%
<b>Total managed in house</b>	<b>28,700</b>	<b>48.36%</b>	<b>47,660</b>	<b>60.65%</b>
<b>Money Market Funds*</b>				
Payden Sterling Reserve Fund	15,120	25.48%	15,343	19.52%
Royal London Asset Management Short Term Fixed Income Fund	15,529	26.16%	15,582	19.83%
<b>Total managed externally</b>	<b>30,649</b>	<b>51.64%</b>	<b>30,925</b>	<b>39.35%</b>
<b>Total treasury investments</b>	<b>59,349</b>	<b>100.00%</b>	<b>78,585</b>	<b>100.00%</b>
<b>Treasury external borrowing</b>				
PWLB	(84,046)	100.00%	(83,108)	100.00%
<b>Total external borrowing</b>	<b>(84,046)</b>	<b>100.00%</b>	<b>(83,108)</b>	<b>100.00%</b>
<b>Net treasury investments/ (borrowing)</b>	<b>(24,697)</b>		<b>(4,523)</b>	
<i>* market value</i>				

## 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.*