

Report title	Treasury Management Strategy 2025/26
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Department	Financial Services
Exempt?	No

Purpose of report:

For noting and recommendation

Synopsis of report:

The report sets out the Treasury Management Strategy, Prudential and Treasury Management Indicators, and Minimum Revenue Provision Statement for 2025/26.

All the information required under the relevant legislation and professional codes of practice is set out in the report including:

- **training requirements**
- **the policy on use of external service providers**
- **the Council's prudential indicators**
- **the minimum revenue provision (MRP) policy**
- **the current treasury position**
- **prospects for interest rates**
- **the borrowing strategy**
- **policy on borrowing in advance of need**
- **debt rescheduling**
- **the investment strategy**

This report should be read in conjunction with the Capital & Investment Strategy report for 2025/26

Recommendation:

The members are invited to note the content of the report and recommend that the Council approve the following:

- i) The proposed 2025/26 Treasury Management Strategy encompassing the Annual Investment Strategy**
- ii) The Prudential and Treasury Management Indicators for 2025/26**

iii) The Authorised Limit for external borrowing by the Council in 2025/26, be set at £705,246,000 (this being the statutory limit determined under Section 3 (1) of the Local Government Act 2003.

iv) The MRP Policy Statement for 2025/26 as set out in paragraph 7.16

1. Context of report

- 1.1. 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 cash flow is adequately planned, with cash being available when it is needed. Surplus cash is managed (invested) according to the Council's risk appetite, prioritising cash security and adequate liquidity over investment returns.
- 1.2. Another function of the treasury management function is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the long-term cash flow planning to ensure that the Council can meet its capital spending and financing obligations. This management of long-term cash flow may involve arranging long-term financing (in the form of loans or use of the reserves). On occasion, when it is prudent and economic, any existing debt may be restructured to meet Council risk or cost objectives.
- 1.3. 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.
- 1.4. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

“The management of the local authority’s borrowing, investments and cashflows, 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”.
- 1.5. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management (“the Code”), and the CIPFA Prudential Code for Capital Finance in Local Authorities (“the Prudential Code”).
- 1.6. Whilst any commercial initiatives or loans to the 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.
- 1.7. The Council recognises that effective financial planning and appraisal, risk management and governance are essential to achieving a prudent approach to capital expenditure, investment, and financing. Therefore, all investment decisions (treasury and non-treasury) are taken having regard to the Council's Corporate Business Plan,

Medium Term Financial Strategy, Capital & Investment Strategy and Treasury Management Strategy.

2. Treasury Reporting Requirements

- 2.1. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These are:
- i) **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report which is forward looking and covers:
 - the capital expenditure plans and associated 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 Annual Investment Strategy, (the parameters on how investments are to be managed)
 - ii) **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.
 - iii) **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.
- 2.2. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. Therefore, these reports are required to be adequately scrutinised by both the Corporate Management Committee and the Overview and Scrutiny Select Committee before being recommended to the Council.
- 2.3. In addition to the three major reports detailed above, additional quarterly reporting (end of June/end of December) are reported for review by the Corporate Management and Overview & Scrutiny Committees.
- 2.4. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Corporate Management Committee, and for the execution and administration of treasury management decisions to the Assistant Chief Executive (s151 Officer), who will act in accordance with the Council’s Treasury Policy Statement and Treasury Management Practices (“TMPs”).
- 2.5. A glossary of treasury terms has been included in Appendix A to assist Members with understanding some of the terms used in this report.

3. Treasury Management Strategy for 2025/26

- 3.1. The strategy for 2025/26 covers the requirements of the Local Government Act 2003, MHCLG Investment Guidance, MHCLG MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.
- 3.2. The CIPFA Prudential and Treasury Management Codes require all local authorities to include 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
- 3.3. The aim of the Capital Strategy is to ensure that all elected members on the Full Council fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite. The draft Capital & Investment Strategy for 2025/26 is set out elsewhere on this agenda.

4. Treasury management consultants

- 4.1. MUFG Corporate Markets (formerly known as Link Treasury Services Limited as part of the Link Group) act as the Council's external treasury management advisor.
- 4.2. The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of the external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.
- 4.3. It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.
- 4.4. The quality of this service is controlled by the Assistant Chief Executive (s151 Officer) assessing the quality of advice offered and other services provided by MUFG Capital Markets ("MUFG"). In particular, the Assistant Chief Executive (s151 Officer) holds regular meetings with MUFG (normally twice a year) where, in addition to discussing treasury strategy, the performance of the consultants is reviewed.

5. Training

- 5.1. The CIPFA Treasury Management Code (the Code) requires the responsible officer, in Runnymede's case the Assistant Chief Executive (S151 officer), to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.
- 5.2. Furthermore, the Code states 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".
- 5.3. Training courses on Treasury Management are carried out for the Council members on a bi-annual basis and were last delivered in October 2024 (one arranged by the Council's Finance officers and another one run by MUFG).
- 5.4. Relevant training courses, seminars and conferences are provided throughout the year to the Council's staff involved in treasury management activities by a range of organisations including the MUFG and CIPFA.
- 5.5. A formal record of the training received by officers is maintained by the Corporate Head of Finance. Similarly, a formal record of the treasury management/capital finance training received by Council members is maintained by Democratic Services.

6. Capital Prudential Indicators 2025/26 – 2027/28

- 6.1. The Authority's capital expenditure plans are the key driver of treasury management activity and are set out in the Capital & Investment Strategy report presented to the Corporate Management Committee each January. The output of the capital expenditure plans are reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The Capital Prudential Indicators for the years 2025/26-2027/28 are included in Appendix B
- 6.2. The Code requires all local authorities to look at capital expenditure and investment plans in light of the overall organisational strategy and resources and make sure that decisions are being made with sufficient regard to the long run financial implications and potential risks to the authority. The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported.
- 6.3. The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment and debt. Therefore, all investment decisions (treasury and non-treasury) are taken with regard to the Council's Corporate Business Plan, Medium Term Financial Strategy, Capital & Investment Strategy, Asset Management Strategy and Treasury Management Strategy.

Implementation of IFRS16: Leases

- 6.4. From 1 April 2024 the accounting standard which sets out the guidelines for accounting for leases changed from IAS 17 (International Accounting Standard) to IFRS 16: Leases (International Financial Reporting Standard). The definition of a lease is now 'a contract, or part of a contract, that conveys the right to use an asset for a period of time.'
- 6.5. Leasing obligations are similar to borrowing as they have an ongoing revenue budget commitment. Leasing will be considered following due diligence over the life of the asset, comparing the financial and non-financial benefits and risks compared to the Council owning such assets itself
- 6.6. The adoption of IFRS16 results in bringing lease liabilities on to the balance sheet (e.g. right of use, embedded, rolling and peppercorn leases) which will have an impact on the Council's Prudential Indicators such as Capital Financing Requirement (CFR), Minimum Revenue Provision (MRP) as well as indicators such as Authorised Borrowing Limit and Operational Boundary etc.
- 6.7. IFRS16 treatments will largely affect indicators for estimates that are subject to monitoring, rather than those that provide limits within which the authority must operate. The impact of IFRS16 implementation can therefore reasonably be reported after the fact as a variation on the original estimates. However, the Authorised Limit is a fixed level and the Council will be in breach of its statutory powers if this Limit is exceeded.
- 6.8. The Prudential Code requires the Authorised Limit to be set with components for borrowing and for other long-term liabilities. The limits set for either of these two

components can be exceeded, provided that the overall Authorised Limit is not broken. If this happens, the event must be reported to the next meeting of full Council.

- 6.9. The usual consequence of breaching the Authorised Limit is that the new borrowing or the new or modified credit arrangement that caused the breach would have been entered into unlawfully (sections 2 and 8 of the Local Government Act 2003 respectively).
- 6.10. To avoid breaching the Authorised Limit, assumptions as to the effects of these changes have been built into the Prudential Indicators. The assessment for the IFRS16 impact is due to be completed by 31 March 2025 for incorporation into the 2024/25 Statement of Accounts.

7. Minimum Revenue Provision (MRP)

- 7.1. When a Council funds capital expenditure by borrowing, the costs are charged to the Council Taxpayers in future years, reflecting the long-term use of the assets. Unlike a mortgage where amounts of principal are repaid each month, the borrowing undertaken by a Council is usually repayable on maturity at an agreed future date. The interest on borrowing is charged in the year it is payable.
- 7.2. To reflect this, the Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision – “MRP”), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision – “VRP”). The MRP exists as a charge to revenue each year in order to have sufficient monies set aside to meet the future repayment of principle on any borrowing undertaken. There isn’t an earmarked reserve for MRP, it is represented in the accounts as increased cash.
- 7.3. The MRP charge must be calculated with respect to all capital expenditure financed by debt (and which has not yet been provided for). The appropriate measure for this is the Capital Financing Requirement (CFR) as, when calculated correctly, this is a complete measure of all capital expenditure that has not yet been funded by either capital or revenue resources, and will include capital expenditure financed by external borrowing, internal borrowing and credit arrangements. The CFR is calculated in accordance with the requirements set out in the Prudential Code.
- 7.4. There is no requirement on the Housing Revenue Account (HRA) to make MRP. This does not remove the requirement for an authority to consider the debt associated with its HRA and ensure sufficient provision is made over the life of the assets to repay debt and make additional charges with respect to MRP if deemed necessary. The HRA Business plan starts making provision for repayment of its loans (over and above the statutory limit set-aside) from 2031.
- 7.5. Statutory guidance from the MHCLG requires local authorities to have Full Council approval of a MRP Policy Statement in advance of each year. The aim of the MHCLG Investment Guidance is to ensure that debt is repaid over a period that is commensurate with that over which the capital expenditure provides benefits. The guidance recommends the following options for all unsupported borrowing from April 2008:
 - **Asset Life Method** – MRP will be based on the estimated useful life of the asset. There are two main methods by which this can be achieved:
 - a. Equal instalment method

b. Annuity Method

- **Depreciation Method** - MRP will be equal to the provision required in accordance with depreciation accounting for each asset.
- Another method which the Authority has deemed a more suitable method after having regard to the MRP Guidance

7.6. The Council's current MRP Policy is based on the Asset Life (Annuity) Method.

7.7. Any charges made over the statutory MRP, VRP or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. For these sums to be reclaimed for use in the budget, the Council's MRP policy must disclose the cumulative overpayment made each year. To date the Council has made £1m of VRP.

MRP Policy Statement

7.8. The MRP Policy Statement takes into account all the requirements of the MRP Guidance. This includes policies on areas that the Council has no intention on utilising, such as capital directives, but which need to be included for completeness.

7.9. Also included in the MRP Policy Statement is our plans for setting aside Voluntary Revenue Provision (VRP) payments or general MRP overpayments. The Council's existing MRP Policy states that:

- ***There are currently no plans to make any Voluntary Revenue Provision (VRP) payments or general MRP overpayments in 2024/25.***

7.10. The only proposed change to the policy for 2025/26 is in relation to the above bullet point. During 2024/25 the Council repaid some of its borrowings which attracted a discount against the amount originally borrowed. Accounting rules state that any such discounts should be credited to the General Fund over a ten-year period and the Budget Report set out elsewhere in the January Corporate Management Committee, recommends that this discount is set aside and used to repay debt as VRP. Officers consider that this is the prudent approach and one which adheres to the MHCLG requirement set out in the Best Value Notice expiry notice, namely: "we expect the council to continue leading its own improvement journey and taking steps to reduce and manage its overall debt". It is therefore proposed to amend the final bullet point in the 2025/26 Policy Statement to read:

- ***The Council will continue to actively seek opportunities to apply Voluntary Revenue Provision (VRP) payments or general MRP overpayments as and when conditions allow.***

7.11. The Council's proposed MRP Policy for 2025/26, including the above change is set out below and accords with the requirements set out in statute and MRP Guidance:

- ***The Council will use the asset life (annuity) method as its main method for calculating MRP***
- ***In normal circumstances, MRP will be set aside from the date of acquisition. However, in relation to capital expenditure on redevelopment schemes, we will start setting aside an MRP provision from the date that the asset becomes operational and/or revenue income is generated***

- ***The Council will apply the asset life method for any expenditure capitalised under a Capitalisation Direction***
- ***Where the Council has acquired assets under leases, an MRP charge will be made for the amount by which the liabilities recognised for rents due over the remaining terms of the leases have been reduced by payments of rent in the financial year. The overall impact of this policy is that the annual charge against the General Fund Balance for leases will be the rents payable for each financial year.***
- ***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.***
- ***Capital receipts generated from the sale of investment properties funded by borrowing will be used to reduce the Council's overall CFR by the outstanding borrowed amounts against each property sold.***
- ***The Council will continue to actively seek opportunities to apply Voluntary Revenue Provision (VRP) payments or general MRP overpayments as and when conditions allow.***

8. Economic Data

Interest Rates

- 8.1. The Council has appointed MUFG Capital Markets as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. MUFG Capital Markets provided the following forecasts on 11 November 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates (gilt yields plus 80 bps):

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

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

Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% year on year (y/y) by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Quarter 4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

- 8.4. The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.
- 8.5. There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.
- 8.6. Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).
- 8.7. Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.
- 8.8. Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.
- 8.9. So far, we have made little mention of the US President election. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.
- 8.10. Our revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).

Gilt yields and PWLB rates

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

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

- 8.12. **Borrowing advice:** MUFG Capital Markets' long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.
- 8.13. We will continue to monitor economic and market developments as they unfold. Typically, the forecasts are formally reviewed following the quarterly release of the Bank of England's Monetary Policy Report but will consider our position on an ad hoc basis as required.
- 8.14. Further economic background data can be found in Appendix C

9. Borrowing Strategy

- 9.1. Following the Capital Review of Runnymede Borough Council undertaken by CIPFA in July 2023, in late December 2023 the Council received a non-statutory Best Value Notice ("NS-BVN") from MHCLG. One of the key comments from NS-BVN was Government's concern over the Council's high level of debt relative to its size, and, therefore, the Council was invited to agree plans to address this concern and deliver all recommendations set out in the CIPFA review.
- 9.2. In particular, the Council was requested to outline steps they plan to take to reduce and manage the overall debt of the Council. Throughout the last financial year the Council has taken steps to remove future borrowing from the capital programme and pay down debt where it has proven prudent to do so.
- 9.3. In December 2024, on the anniversary of the receipt of the NS-BVN, MHCLG stated that "Whilst we are not renewing the notice, the department remains concerned about the significant debt held by the council and the risk this carries", and that "We expect the council to continue taking steps to reduce and manage its overall debt."

- 9.4. Whilst the Council has no plans to take on further debt, it is a requirement that it sets a Borrowing Strategy that meets the legislative requirements. This Strategy sets out our approach to borrowing and is consistent with the ongoing dialogue with MHCLG.
- 9.5. The Prudential Code considers that legitimate examples of prudent borrowing include:
- financing capital expenditure primarily related to the delivery of a local authority's functions
 - temporary management of cash flow within the context of a balanced budget
 - securing affordability by removing exposure to future interest rate rises
 - refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.
- 9.6. The Prudential Code determines certain acts or practices that are not prudent activity for a local authority and incurs risk to the affordability of local authority investment. To this extent the guidance states "**An authority must not borrow to invest for the primary purpose of commercial return**". These principles apply to prudential borrowing for capital financing, such as externalising internal borrowing for the primary purpose of commercial return.
- 9.7. Access to the PWLB is essential for the Council to ensure liquidity and affordable borrowing (currently the PWLB Certainty Rate is set at gilts + 80 basis points). The Government's rules for access to PWLB lending require statutory Chief Finance Officers to certify that their Council's capital spending plans do not include the acquisition of assets primarily for yield, reflecting the view that local authority borrowing powers are granted to finance direct investment in local service delivery (including housing, regeneration and local infrastructure) and for cash flow management rather than to add gearing to return-seeking investment activity. Local authorities should not borrow to finance acquisitions where obtaining commercial returns is a primary aim.
- 9.8. In general, a Council will borrow for one of two purposes – **to finance cash flow in the short term or to fund capital investment over the longer term**. The Council 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 Council'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, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.
- 9.9. A key aim of the Treasury Management Strategy is to minimise the cost of the Council's loan portfolio whilst ensuring that the obligation to repay the loan is spread over a period. This reduces the impact on the revenue budget of interest payments.
- 9.10. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period which the funds are required. Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Assistant Chief Executive (s151) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.

- 9.11. Short term borrowing is the cheapest option (borrowing up to 3 years is generally cheaper than the PWLB Certainty Rate) but leaves the Council exposed to refinancing risk, which can be divided into interest rate risk (the risk that rates will rise) and availability risk (the risk that no-one will lend to the Council).
- 9.12. The Council's strategy for the long-term borrowing (over 12 months) can be summarised as follows:

Sources of borrowing

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

- Public Works Loan Board (PWLB)
- any institution approved for investments
- any other bank or building society approved by the Financial Conduct Authority
- UK public and private sector pension funds and Insurance Companies (except the Surrey Pension Fund)
- Capital market bond investors
- UK Municipal Bond Agency plc and other special purpose companies created to enable joint local authority bond issues (subject to committee report).

Other sources of borrowing may be considered during the year in which case they will be the subject of future committee reports before being submitted for approval at full Council.

Debt instruments

Borrowing will be arranged by one of the following debt instruments:

- fixed term loans at fixed or variable rates of interest, subject to the limits in the treasury management indicators
 - bonds
- 9.13. Any proposed borrowing will only be undertaken on a phased basis in accordance with agreed plans and requirements at that time. The borrowing of money purely to invest or lend-on to make a return is unlawful.
- 9.14. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the sums borrowed. Any decision to borrow in advance will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 9.15. 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. In determining whether borrowing will be undertaken in advance of need the Council will:
- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
 - Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.

- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
 - Consider the merits and demerits of alternative forms of funding.
- 9.16. The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be no more than six months, although the Council does not link particular loans with particular items of expenditure.
- 9.17. From time to time there may be potential opportunities to generate savings by switching from long term debt to short term debt and vice versa. Any such debt restructuring will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).
- 9.18. The reasons for any rescheduling to take place will include:
- the generation of cash savings and / or discounted cash flow savings;
 - helping to fulfil the treasury strategy;
 - to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 9.19. All rescheduling will be reported to the Council, at the earliest meeting following its action.

10. Annual Investment Strategy 2025/26

- 10.1. MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments (see section 12 below). This report deals solely with financial investments. Non-financial investments are held for two purposes, to generate income and to meet a strategic priority. These are entered into outside of normal treasury management activities, but nevertheless the TMS comes into play in their financing. The Council recognises that other financial investments also require careful management and discusses those in the Capital & Investment Strategy.
- 10.2. Local authorities must draw up an “Annual Investment Strategy” for the following financial year. This strategy may be revised at any time, but full Council must approve the revisions. Both the TM Code and the MHCLG Investment Guidance place a high priority on the management of risk and require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking high returns (yield). This SLY approach is inherent in our treasury management strategy.
- 10.3. In accordance with the above guidance, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration of risk.
- 10.4. The MHCLG Investment Guidance requires local authorities to cover a number of issues in their Annual Investment Strategy and the Council’s strategy fully complies with these requirements. The Council approved its Annual Investment Strategy for 2024/25 in February 2024. There are no proposed changes to the Strategy for 2025/26.

2025/26 Treasury Activity

- 10.5. MUFG suggested budgeted earnings rates for investments up to about three months' duration in each financial year are as follows:

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

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

- 10.6. The Council's treasury investments as of 31 December 2024 is comprised of:

Total Investments	31 Mar 24 £'000	31 Dec 24 £'000
<i>Specified Investments</i>		
Banking sector	33,000	36,000
Building societies	0	0
Local Authorities	5,000	5,500
Money Market Funds	7,600	21,100
<i>Unspecified Investments</i>		
Pooled Funds & Collective Investment Schemes	4,000	4,000
Funding Circle	14	4
Total Investments	49,614	66,604

- 10.7. The Council's borrowings as of 31 December 2024 is comprised of:

Total Borrowing	31 Mar 24 £'000	31 Dec 24 £'000
<i>Central government or a local authority</i>		
PWLB	589,000	567,000
<i>Other</i>		
Phoenix Life	38,615	38,033
Total Borrowing	627,615	605,033

The proportion of the Council's debt which is not central government or a local authority	6%	6%

- 10.8. Investments will be made with reference to the systemic balances and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Higher returns are usually obtainable by investing for longer periods, however, the current shape of the yield curve suggests the prospects for the Bank Rate on the reducing trend (starting in the second half of 2024) so an agile investment strategy would be appropriate to optimise returns. The Council manages its treasury investments to maximise investment income, whilst managing its exposure to risk and maintaining appropriate liquidity to meet its needs.

- 10.9. Based on the above forecasts, the 2025/26 estimate for investment income split between the General Fund and Housing Revenue Account (HRA) is as follows:

	General Fund £'000	HRA £'000	Total £'000
Gross external investment income	1,565	1,088	2,653
Interest on loans to RBC companies	2,102	0	2,102
Dividend income	160	0	160
Interest paid on deposits and balances	(25)	0	(25)
Net Investment Income	3,802	1,088	4,890
Debt Interest	(12,603)	(3,379)	(15,982)
Net Investment Income / (Debt interest)	(8,801)	(2,291)	(11,092)

- 10.10. The estimate is based on achieving the assumed interest rates set out in paragraph 10.5 above and using the level of revenue and capital reserves for 2025/26 as set out in the latest capital and revenue budgets contained in the Medium-Term Financial Strategy and HRA Business Plan.
- 10.11. Further details for counterparty limits and Council's investment strategy in 2025/26 are detailed in Appendix D.

Interest charge to the Housing Revenue Account (HRA)

- 10.12. The Council operates a two-pooled approach to its loans portfolio, which means we separate HRA and General Fund long-term loans. Interest payable and other costs or income arising from long-term loans (for example premiums and discounts on early redemption) are charged or credited to the respective revenue account.
- 10.13. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. We will calculate an average balance for the year and interest will be transferred between the General Fund and HRA at the Council's weighted average return on all its investments, adjusted for credit risk. This credit risk adjustment reflects the risk that any investment default will be a charge to the General Fund regardless of whether it was HRA cash that was lost.

Pooled Funds & Collective Investment Schemes

- 10.14 The Council invests in Pooled Funds. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Investments in these funds are long term in nature and over long-term horizons they provide investors with relatively strong levels of interest (in the form of dividends). However, the capital values of these assets can be subject to fluctuations (both up and down) over relatively short time frames.
- 10.15 Normal accounting convention would mean that under IFRS9: Financial Instruments, movements in the value of the amount invested should be charged directly to the General Fund. However, the MHCLG initially enacted a statutory override in April 2018 for a five-year period following the introduction of IFRS9 which was subsequently extended to 31 March 2025 and has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet (in the Pooled Investments Adjustment Account). This was intended to allow English authorities to adjust their investment portfolio and orderly withdraw funds, if required.

11. Treasury Risk Management

- 11.1. The Council's updated Risk Management framework was approved by Full Council in October 2023 and sets out the processes and procedures for the identification and evaluation of risks and opportunities and the cost-effective control of risks to ensure that they are reduced to an acceptable level and any impact on delivery of objectives is minimised.
- 11.2. Risks are assessed continually from both an operational and financial perspective. For the Financial risk category, the Council has set risk appetite for 2025/26 as "Cautious", which means "*Seeking safe delivery options with little residual financial loss only if it could yield upside opportunities*". Our Treasury Management approach is cautious as cash reserves are managed carefully using SLY principles to avoid risky investments.
- 11.3. To varying degrees and in the course of normal business, the Council will have exposures to counterparty credit, interest rate, foreign exchange, commodity price or other market events which could have significant effects on financial results if movements occur. The elimination of all risks and resultant income volatility is neither possible nor desirable. The management of the risks that the Council chooses to accept lies at the heart of the treasury risk management. The effective identification of exposures and management of these risks are integral to the Council's treasury management objectives. All treasury activity needs to be managed with the view to reduce the level of risk that remains over and above that the Council chooses to accept as part of its normal activities.
- 11.4. Overall responsibility for management of treasury risks (including funding and liquidity) always remains with the Council. None of the regulations or guidance prescribes any particular treasury management strategy for local authorities to adopt. The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year to minimise future risks.
- 11.5. As for the investment exposures, MHCLG issued revised statutory guidance on Local Government Investments in 2018, the MHCLG Investment Guidance, and this forms the structure of the Council's policies. The key intention of the MHCLG Investment Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the MHCLG Investment Guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2021 Edition) (TM Code).

- 11.6. The Prudential and Treasury Codes set the security of funds as a prime policy objective for cash management, and the avoidance of exposing public funds to unnecessary or unqualified risk. All authorities should consider a balance between security, liquidity and yield which reflects their own appetite, but which prioritises security over yield.
- 11.7. In accordance with the TM Code, the key treasury risks are discussed in detail in the Council's Treasury Management Practices (TMPs).

12. Non-Treasury Investments

- 12.1. Investment in non-financial (or non-treasury) investments, e.g. investment in property, do not form part of treasury management activities carried out by the treasury management team of the Council, and typically relate to either Service Type Investments or Commercial Type Investments. Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital & Investment Strategy Report submitted to the Corporate Management Committee in January 2025
- 12.2. *Service type investments* are where capital or revenue cash is advanced for a specific council objective and will be approved directly through committee. This may be an advance to a third party for economic regeneration, or for maintaining a community asset that meets the Council's own objectives.
- 12.3. *Commercial type investments* are where the objective is primarily to generate capital or revenue resources. The resources generated would then help facilitate local authority services.

13. Legal Implications

- 13.1. The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 (LGA 2003) and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code and the MHCLG Investment Guidance when carrying out their treasury management functions.
- 13.2. Part 1 of the LGA 2003 established the legislative framework for the prudential capital finance system for local authorities.
- 13.3. The LGA 2003 requires each Council to set an affordable borrowing limit (the "Authorised Limit"). The Full Council must carry out this duty; it cannot be delegated. Having set this limit, the Council may not exceed it except for specified temporary purposes. However, the Council can make a new limit at any time.
- 13.4. Regulations require local authorities to have regard to The Prudential Code when carrying out their duties under Part 1 of the LGA 2003. The Code requires that all prudential indicators are set, and revised, only by the Full Council. This is because the need for Members to approve prudential indicators for capital finance is regarded as an important part of the governance responsibilities of a local authority.
- 13.5. The LGA 2003 provides the Government with reserve powers to set borrowing limits for local authorities that override their locally determined limits. This could be in the

form of a national limit – this can only be imposed for national economic reasons – or a specific limit to prevent an individual authority borrowing more than it could afford.

- 13.6. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) state:

“A local authority shall determine for the current financial year an amount of minimum revenue provision which it considers to be prudent.”

14. Environmental/Sustainability/Biodiversity implications

- 14.1. Ethical or Sustainable investing is becoming a more commonplace discussion within the wider investment community. There are currently a small, but growing number of financial institutions and fund managers promoting Environmental, Social and Governance (ESG) products however the types of products we can invest in are constrained to those set out in our Investment Strategy which is driven by investment guidance, both statutory and from CIPFA, making it clear that all investing must adopt SLY principles – Security, Liquidity and Yield: ethical issues must play a subordinate role to those priorities.
- 14.2. ESG investing means different things to different people and can be highly subjective. For instance, some funds may invest in products that are known to be harmful, such as tobacco and alcohol but will not touch those that engage in other legal but morally ambiguous products. Likewise, gas or electricity companies may be shunned by a fund that does not like its green credentials, but which may turn a blind eye and invest in companies that have a poor attitude to labour and the working process.
- 14.3. As well as establishing what funds invest in, before investing in an ESG product, one of the most important issues is to understand the ESG “risks” that an entity is exposed to and evaluating how well it manages these risks which is not something that officers have the experience or available capacity to undertake. This is why, the Council predominantly invests in fixed term deposits with banks, building societies and other local authorities and uses Money Market Funds that predominantly do the same but on a much larger scale. However, all the rating agencies are now extolling how they incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings and in using these, the Council is by default already using ESG metrics in its ordinary course of business.
- 14.4. The Council’s Treasury Policy Statement and Treasury Management Practices (TMPs) refer to ESG principles in investing.

15. Timetable for Implementation

- 15.1. After consideration by the Corporate Management Committee, the Treasury Management Strategy will be the subject of review by the Overview and Scrutiny Select Committee. Both committees will then independently refer to full Council for approval. Once approved it will take effect from 01 April 2025.

16. Conclusions

- 16.1. The Council recognises that effective financial planning, option appraisal, risk management and governance processes are essential in achieving a prudent approach to capital expenditure, investment, and debt. Therefore, all investment decisions (treasury and non-treasury) are taken in conjunction with the Council’s

Corporate Business Plan, Medium Term Financial Strategy, Capital & Investment Strategy and Treasury Management Strategy.

- 16.2. With higher interest rates, increasing global political risks, potential recessions in 2024, sustained cost of living crisis, high inflation, potential financing constraints and more budget pressures, the investment policy and borrowing must remain prudent and affordable in combination with rigorous risk management practices.

17. Background Papers

- Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes – 2021 Edition
- The Prudential Code for finance in local authorities - 2021 Edition
- Ministry for Housing, Communities and Local Government (MHCLG) - Guidance on Local Authority Investments
- Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
- The Levelling Up and Regeneration Act 2023
- MHCLG Consultation on changes to statutory guidance and regulations: Minimum Revenue Provision

18. Appendices

- Appendix A – Glossary of Terms
- Appendix B – Prudential and Treasury Management Indicators 2025/26
- Appendix C – Economic Data
- Appendix D – Annual Investment Strategy 2025/26

Glossary

Term	Definition
Basis Point (bps)	1/100 th of 1%, i.e. 0.01%
The Bank of England	The central bank of the United Kingdom and the model on which most modern central banks have been based.
Call Accounts	Deposit accounts with banks and building societies that provide same day access to invested balances. Interest paid is usually linked to the level of the official base rate.
CFR – Capital Financing Requirement	The underlying need to borrow for capital purposes
CDs – Certificates of Deposit	Negotiable time deposits issued by banks and building societies which can pay either fixed or floating rates of interest. They can be traded on the secondary market, enabling the holder to sell the CD to a third party to release cash before the maturity date.
CPI – Consumer Price Index	This is a measure of the general level of price changes for consumer goods and services but excludes most owner occupier housing costs such as mortgage interest payments, council tax, dwellings insurance, rents etc.
Corporate bonds	Corporate bonds are those issued by companies. Generally, however, the term is used to cover all bonds other than those issued by governments. The key difference between corporate bonds and government bonds is the risk of default.
Cost of Carry	Costs incurred as a result of an investment position, for example the additional cost incurred when borrowing in advance of need, if investment returns don't match the interest payable on the debt.
Counterparties	These are the organisations responsible for repaying the Council's investment upon maturity and making interim interest payments.
CDS – Credit Default Swaps	A swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the product. By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.
DMADF – Debt Management Agency Deposit Facility	An investment facility run by part of the HM Treasury taking deposits at fixed rates for up to 6 months.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
Derivatives	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded.

DMO – Debt Management Office	An Agency of HM Treasury whose responsibility includes debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds.
ECB – European Central Bank	Sets the central interest rates in the European Monetary Union area. The ECB determines the targets itself for its interest rate setting policy; this is to keep inflation within a band of 0 to 2%
EIP – Equal Instalments of Principal	A repayment method whereby a fixed amount of principal is repaid at regular intervals with interest being calculated on the principal outstanding.
Fixed Deposits	These are loans to banks, building societies or other local authorities which are for a fixed period and at a fixed rate of interest.
FRN – Floating Rate Notes	Debt securities with payments that are reset periodically against a benchmark rate. FRNs can be used to balance risks incurred through other interest rate instruments in an investment portfolio.
Gilts / Gilt Edged Securities	These are issued by the UK Government in order to finance public expenditure. Gilts are generally issued for a set period and pay a fixed rate of interest. At the end of the set period the investment is repaid (at face value) by the Government. However, during the life of a gilt it will often be traded (bought and sold) at a price decided by the market.
Maturity loans	A repayment method whereby interest is repaid throughout the period of the loan and the principal is repaid at the end of the loan period.
MMF – Money Market Funds	Externally managed pooled investment schemes investing in short term cash instruments.
MRP – Minimum Revenue Provision	The minimum amount which must be charged to an authority's revenue account each year and set aside towards repaying borrowing.
MPC – Monetary Policy Committee	The MPC (Monetary Policy Committee of the Bank of England) is a group of nine individuals who, independently of government, set short term interest rates. Their primary target is to keep inflation within plus or minus 1% of a central target of 2.5% in two years time from the date of the monthly meeting of the Committee. Their secondary target is to support the Government in maintaining high and stable levels of growth and employment.
Multilateral Investment banks	International financial institutions that provide financial and technical assistance for economic development.
Municipal Bonds Agency	An independent body owned by the local government sector that seeks to raise money on the capital markets at regular intervals to on-lend to participating local authorities.
Pooled Funds	Investments made with an organisation who pool together investments from other organisations and apply the same investment strategy to the portfolio. Pooled fund investments benefit from economies of scale, which allows for lower trading costs per pound, diversification and professional money management.

Prudential Code	A governance procedure for the setting and revising of prudential indicators. Its aim is to ensure, within a clear framework, that the capital investment plans of the Council are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good practice.
PWLB – Public Works Loans Board	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow. Local authorities are able to borrow to finance capital spending from this source.
SONIA – Sterling Overnight Index Average	SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
Supranational Bonds	These are very similar in nature to gilts except that rather than being issued by the UK Government they are issued by supranational bodies supported by more than one national government such as the European Investment Bank which is supported by all of the EU member states.
Treasury Bills (also known as Gilts)	Tradable debt securities issued by the UK Government with a short term maturity (3 months to 1 year) issued at a discount. The income from these is in the form of a capital gain rather than interest income.
TMP – Treasury Management Practices	Schedule of treasury management functions and how those functions will be carried out.
TMS – Treasury Management Schedules	More detailed schedules supporting the TMP at a detailed operational level specifying the systems and routines to be employed and the records to be maintained in fulfilling the Council's treasury functions
VRP - Voluntary Revenue Provision	A voluntary amount charged to an authority's revenue account and set aside towards repaying borrowing.
Working Capital	Timing differences between income and expenditure (debtors and creditors).

CAPITAL & AFFORDABILITY RELATED INDICATORS

The Council's capital expenditure plans are one of the key drivers of treasury management activity. The Capital Programme is set out in detail in the Capital Strategy. 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.

1. Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, and financing requirements which have been updated in line with the phased borrowing requirements of the new property investment plans. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure	2023/24 Actual £000s	2024/25 Revised £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s
HRA	9,176	15,122	22,763	12,279	12,728
General Fund	7,439	6,604	7,986	6,758	9,421
Leased assets (IFRS16)**	0	1,000	1,000	1,000	1,000
Non-Financial Investments*	0	0	0	0	0
Total	16,615	22,726	31,749	20,037	23,149
Financed by:					
Capital Receipts	6,068	3,897	2,670	2,020	3,540
Earmarked Reserves	6,309	13,026	16,642	13,115	15,357
Capital Grants & Contributions	3,298	2,533	6,307	1,235	1,269
Revenue	940	2,270	5,130	2,667	1,983
Total	16,615	21,726	30,749	19,037	22,149
Net financing need for the year**	0	1,000	1,000	1,000	1,000

* Non-financial Investments relate to areas such as capital expenditure on Investment Properties, Loans to third parties etc. The net financing need for non-financial investments included in the above table against expenditure is shown in the table below.

** The borrowing relates solely to the inclusion of leased assets being brought onto the balance sheet to ensure compliance with International Financial Reporting Standards. This is an estimated sum to cover all eventualities.

Capital Expenditure – Non-Financial Investments	2023/24 Actual £000s	2024/25 Revised £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s
Capital expenditure	0	0	0	0	0
Financing costs met	0	0	0	0	0
Net financing need for the year	0	0	0	0	0
Percentage of total net financing need	0%	0%	0%	0%	0%

2. The Council's borrowing need (the Capital Financing Requirement)

The Council's Capital Financing Requirement (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 Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life and so charges the economic consumption of capital assets as they are used.

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

The Council is asked to approve the CFR projections below:

Capital Financing Requirement	2023/24 Actual £000s	2024/25 Revised £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s
HRA	100,000	100,000	100,000	97,500	97,500
General Fund	162,037	160,167	170,529	187,238	173,574
Non-Financial Investments	445,415	441,390	419,954	396,508	392,197
CFR at 1 April	707,464	701,557	690,483	681,246	663,271
Net financing need for the year	0	1,000	1,000	1,000	1,000
Less: Capital receipts used to repay debt	0	(6,500)	(4,500)	(13,140)	0
Less: MRP	(4,907)	(5,004)	(5,167)	(5,265)	(5,475)
Less: VRP	(1,000)	(570)	(570)	(570)	(570)
CFR at 31 March	701,557	690,483	681,246	663,271	658,226

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in section 1 and the details above demonstrate the scope of this activity and, by approving these figures, members consider the scale proportionate to the Authority's remaining activity.

3. Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum and should ideally cover the full debt maturity profile of a local authority. The liability benchmark model only includes the approved capital expenditure (as per the CIPFA Treasury Management Code) and so does not reflect the financing of future capital ambitions

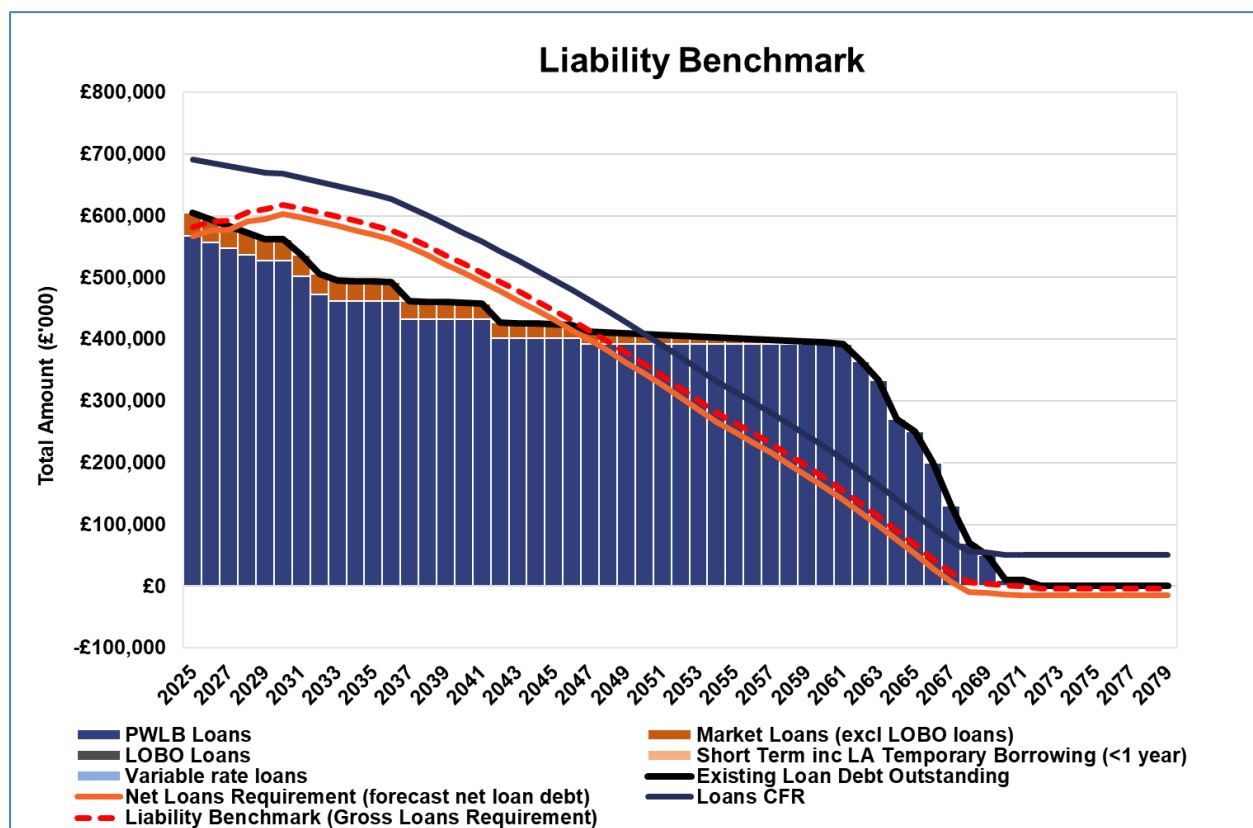
There are four components to the Liability Benchmark: -

- **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding.
- **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.
- **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.
- **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

The Treasury Management Code states that: *"The liability benchmark should be analysed as part of the annual treasury management strategy, and any substantial mismatches between actual loan debt*

outstanding and the liability benchmark should be explained. Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment."

The liability benchmark starting position is based on a snapshot at the last Balance Sheet date. It is not unusual or necessarily an issue to be under / over the benchmark, the liability benchmark is intended to be used as a tool along with other factors used to feed into the authorities ongoing borrowing decisions.

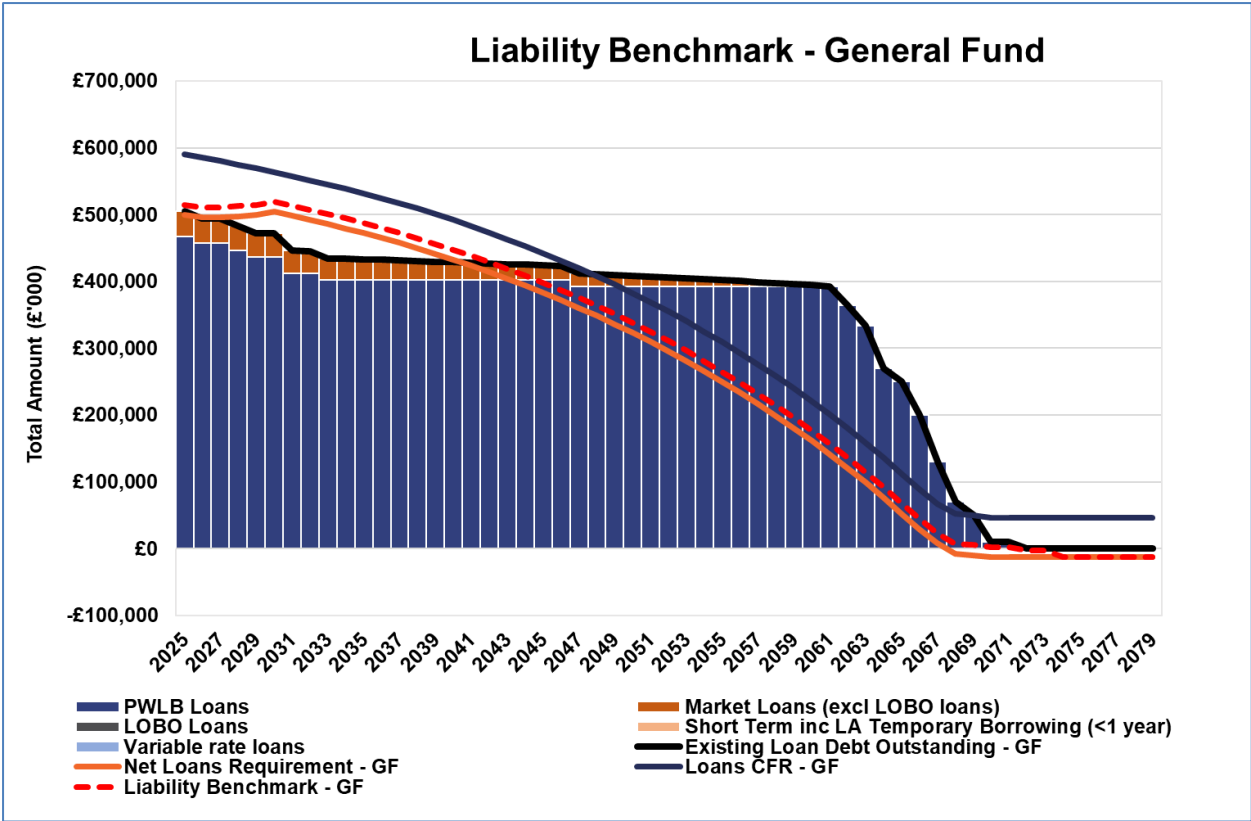


The above chart shows the overall Council position taking both HRA and General Fund debt together. The overall position starts initially as being over the liability benchmark and by 2027 shows a forecast net loans requirement which then increases each year as the PWLB loans mature (the model assumes loans are repaid without replacement).

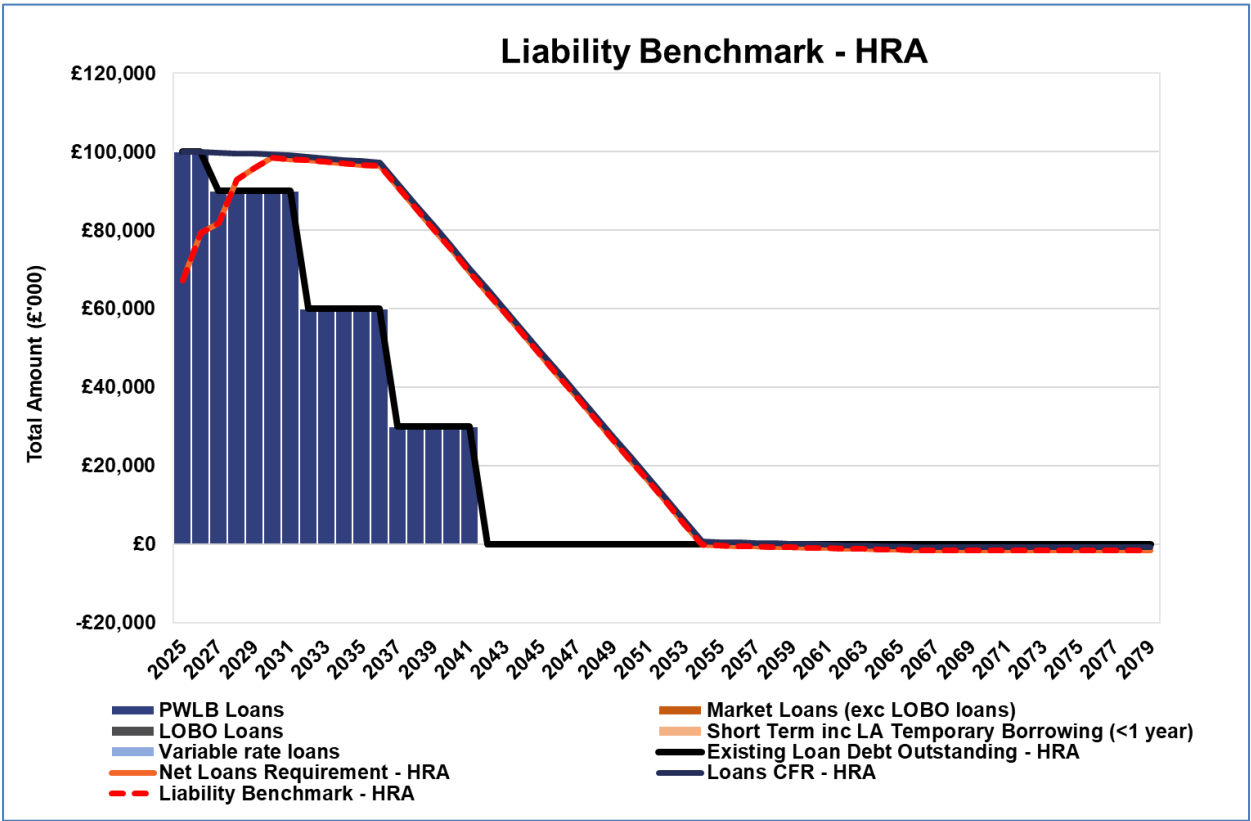
The overall position has a liquidity allowance of £15m, which sets the liability benchmark meaning the authority plans (as per liability benchmark model only) to utilise all but £15m of internal borrowing capacity (i.e. defer borrowing by utilising Balance Sheet cash resources such as reserves & working capital) to finance the CFR before taking on further PWLB or other external loan debt.

Where the actual loans outstanding exceed the benchmark, this represents an overborrowed position, which will result in excess cash requiring investment. Officers will keep an eye on this and may look to repay some loans early if it is prudent to do so.

Breaking the Benchmark down into separate HRA and General Fund graphs produces the following results:



The GF forecast liability benchmark shows that by 2027 there will be a need to temporarily borrow to repay some loans as they mature due to the running down of balances and reserves. The liability benchmark by 2040 shows outstanding borrowing that is over the forecast liability benchmark. By 2070 all debt has been repaid.



The HRA has been financed with PWLB debt that is relatively short dated with regular maturities from 2027 (year 2) onwards. The HRA is not required to make MRP. The 30 year HRA Business plan agreed by Committee in March 2023 starts to make a voluntary set aside of £250,000 a year from 2031 increasing to £5m from 2037 to repay debt. Although the HRA starts off over the Liability Benchmark indicator due to investment balances held, by 2029 the model shows a forecast borrowing requirement (the gap between the actual loans and the net loans required) that increases each year as the PWLB loans mature so have exposure to potentially higher interest rates when refinancing the maturing debt

4. Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances based on assumed cash movements in the MTFS and Capital Programme.

Expected Investment Balances	2023/24 Actual £000s	2024/25 Revised £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s
General Fund Reserves	63,386	61,854	59,893	55,358	48,081
HRA Reserves	39,506	36,376	25,492	17,978	6,871
Capital Reserves	17,614	13,604	11,374	7,362	7,327
Total Core Funds	120,506	111,834	96,759	80,698	62,279
Working Capital*	4,303	14,590	9,452	21,723	26,313
Under/Over Borrowing**	(73,517)	(83,638)	(68,500)	(65,781)	(60,371)
Expected Investments at year end	51,292	42,786	37,711	36,640	28,221

* Working capital balances shown are estimated year-end; these may be higher mid-year

** Under/Over Borrowing is set out in 6.1 below

5. 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 Council's overall finances.

5.1. 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 net of investment income) against the net revenue stream. The net revenue stream is a term used to describe the amount in the General Fund to be met from Government grant and local taxpayers. For the HRA it is the total HRA income shown in the accounts i.e. rent and other income.

Ratio of financing costs to net revenue stream	2023/24 Actual %	2024/25 Revised %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %
Ratio of Net Financing Costs to Net Revenue Stream	36.46	40.03	41.19	45.73	49.47
General Fund	93.22	126.68	112.35	139.31	151.12
Housing Revenue Account	(4.12)	(3.16)	(0.51)	1.19	2.38

The General Fund percentage is high due to past borrowing to fund the former Property Investment Strategy and regeneration schemes. These costs are fully met by additional revenue income rather than Government grant and local taxpayers, however this income is not allowed to be included in this calculation. Including the income generated by the Investment Strategy in the calculations turns the General Fund figure into a negative figure (a net contributor).

5.2. Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The upper limit for principal sums invested for longer than 365 days is set at:

Investment Limit	2023/24 Actual £000s	2024/25 Revised £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s
Upper limits on Principal sums invested for over 365 days	0	3,000	3,000	3,000	3,000

5.3. Investment risk benchmarking

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7 day, 90 day and 365 day backward looking SONIA (Sterling Overnight Index Average rate).

6. Borrowing

The capital expenditure plans set out in the Capital Programme and Capital & Investment Strategy approved by the Council in February each year provide details of the service activity of the Authority

The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. 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.

6.1. Current portfolio position

The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (Capital Financing Requirement – CFR), highlighting any over or under borrowing.

Current Portfolio position	2023/24 Actual £000s	2024/25 Revised £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s
External Debt at 1 April	643,572	628,028	606,845	612,746	597,490
Expected change in Debt	(15,544)	(21,183)	5,901	(15,256)	365
Actual gross debt at 31 March	628,028	606,845	612,746	597,490	597,855
Capital Financing Requirement	701,557	690,483	681,246	663,271	658,226
Under / (over) borrowing	73,529	83,638	68,500	65,781	60,371

The positive balances show that the Council is under borrowing (i.e. borrowing internally using cash balances).

Within the above figures the level of debt relating to non-financial investment is:

Current Portfolio position – Non-Financial Investments	2023/24 Actual £000s	2024/25 Revised £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s
Overall Debt at 31 March	628,039	606,845	612,746	597,490	597,855
Outstanding Non-Financial Instrument Debt	441,428	419,954	396,508	392,197	387,713
Percentage of total external debt	70%	69%	65%	66%	65%

Within the prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council 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 2023/24 and the following three financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

The Assistant Chief Executive reports that the Council has so far complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

6.2. 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.

The Operational Boundary	2023/24 Actual £000s	2024/25 Revised £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s
General Fund	-	589,483	578,246	583,551	564,366
Housing Revenue Account	-	100,000	100,000	97,500	97,500
IFRS16: Existing leases	-	1,000	1,000	1,000	1,000
IFRS16: Provision for new leases	-	0	1,000	1,000	1,000
Total Operational Boundary	675,613	690,483	680,246	683,051	663,866

Two new sections have been added to both the Operational Boundary and Authorised Limit indicators from 2024/25 to account for the introduction of International Financial reporting Standard 16: Leases (IFRS16). As set out in the main report, this brings all leases onto the Balance Sheet from 1 April. These figures are shown in the CFR elsewhere in this report but have been extracted in these figures for transparency. These figures also do not take account of potential debt repayments from sale of investment properties shown in other indicators in case there is a delay in their receipt.

6.3. The authorised limit for external debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by 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.

- 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 councils' plans, or those of a specific council, although this power has not yet been exercised.
- The Council is asked to approve the following authorised limit:

The Authorised Limit	2023/24 Actual £000s	2024/25 Revised £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s
General Fund	-	589,483	578,246	583,551	564,366
Housing Revenue Account	-	110,000	110,000	107,250	107,250
IFRS16: Existing Leases	-	1,000	1,000	1,000	1,000
IFRS16: Provision for new Leases	-	0	1,000	1,000	1,000
Other (Temporary borrowing etc)	-	15,000	15,000	15,000	15,000
Total Authorised Limit	700,613	715,483	705,246	707,801	688,616

This limit includes a “cushion” to allow for the non repayment of any borrowing at the required time and headroom for rescheduling of debts (i.e. borrowing new money in advance of repayment of existing).

6.4. Treasury Management Limits on Activity

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

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates; and
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

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

Interest Rate exposure	2023/24 Actual £000s	2024/25 Revised £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s
Upper limits on fixed interest rates based on net debt	657,928	687,242	678,632	673,701	676,183
Upper limits on variable interest rates based on net debt	-	-	-	-	-

The Upper Limit on fixed interest rates is calculated using the maximum allowed debt (The Authorised Borrowing Limit) less Fixed Term investments. The Council heavily uses Money Market Funds whose rates change daily therefore it has been assumed that of the Expected Investments balance shown above, £10m will be invested at variable rates, the rest as fixed term investments.

As the Council does not borrow at variable interest rates, the upper limit on this type of debt will always be nil.

6.5. Maturity structure of borrowing (Upper Limit)

This indicator is set to control the Council's net exposure (taking borrowings and investments together) to interest rate risk. Its intention is to ensure that the Council is not exposed to interest rate rises which could adversely impact the revenue budget. The upper limits proposed on fixed and variable rate interest rate exposures, expressed as the principal sums outstanding in respect of borrowing.

Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate. If it is not clear whether an instrument should be treated as fixed or variable rate, then it is treated as variable rate.

Maturity structure borrowing 2025/26	FIXED RATE Lower Limit	FIXED RATE Upper Limit	FIXED RATE Lower Limit	FIXED RATE Upper Limit
Under 12 months	0%	25%	0%	0%
12 months to 2 years	0%	25%	0%	0%
2 years to 5 years	0%	25%	0%	0%
5 years to 10 years	0%	50%	0%	0%
10 years and above	0%	100%	0%	0%
20 years to 30 years	0%	100%	0%	0%
30 years to 40 years	0%	100%	0%	0%
40 years to 50 years	0%	100%	0%	0%

The variable rate upper limit of zero means that the Council is minimizing its exposure to uncertain future interest rates on its debt. This will still allow a proportion of the debt to be taken as variable as fixed term investments maturing within one year are classified as variable for the purposes of this indicator.

7. Proportionality

The concept of proportionality was introduced to ensure that the level of debt and aggregate risk are proportionate to the size of the authority.

The Council has therefore created a prudential indicator to measure the proportion of the income from commercial and/or service investments to the revenue stream (or in other words a % of non-financial investment income as a contribution to the revenue budget). This takes account of General Fund income only and includes all taxation, grants and other income that goes to pay for General Fund services.

Proportionality	2023/24 Actual £000s	2024/25 Revised £000s	2025/26 Estimate £000s	2026/27 Estimate £000s	2027/28 Estimate £000s
Total Non-Financial Investments Income	27,642	26,718	27,293	27,319	27,340
Total Revenue	72,658	71,108	72,772	71,145	71,217
Non-financial investments as a percentage of total income	38%	38%	38%	38%	38%

This shows that nearly 40% of all the Council's General Fund income comes from Non -Financial Investment income. Ensuring that these types of investments are managed effectively and addressing the risks associated with them is key to the authority. For this reason the key risks and additional reporting and monitoring of data is set out in both the Investment Management Practices (IMP) in the Capital & Investment Strategy and the Asset Management Strategy.

Economic Background

(as provided by MUFG Capital Markets)

The first half of 2024/25 (to 30 September 2024) saw:

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

The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.

The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.

The Government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.

The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.

Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising

furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.

The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.

Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.

Our forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.

Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.

The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

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

On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.

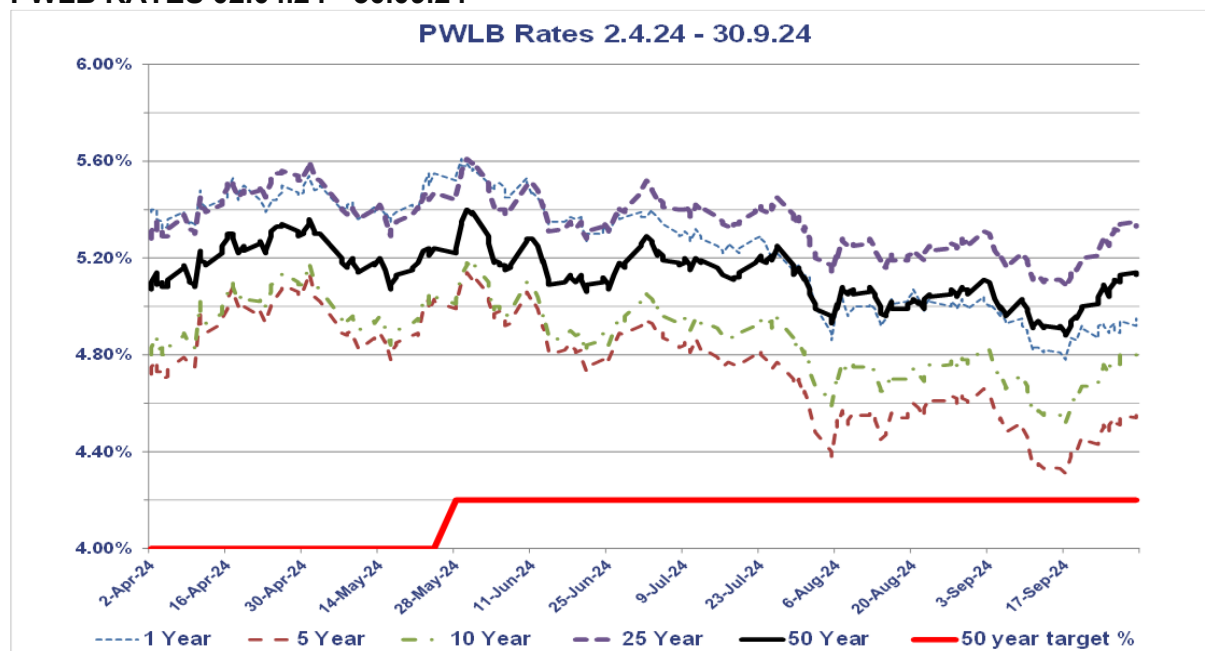
However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.

Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.

Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

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

PWLB RATES 02.04.24 - 30.09.24



HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

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

Introduction

1. The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments (3rd Edition) ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (2021 Edition) ("the TM Code"). The Council's investment priorities will be security first, liquidity second, then return.
2. This strategy applies to both in-house and externally managed funds. Where used, managers of External funds must confirm the acceptability of a counterparty before an investment is made.
3. The Council approved the Annual Investment Strategy for 2024/25 on 08 February 2024.

Investment Policy

4. In accordance with the above guidance from the MHCLG and CIPFA, and to minimise the risk exposure to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of these reflected in the eyes of each agency. Using our treasury advisers ratings service, potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.
5. Further, the Council's Officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisers to maintain and monitor market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
6. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
7. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration of risk.
8. The intention of the strategy is to provide security of investment and minimisation of risk.

Creditworthiness Policy

9. The primary principle governing the Council'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 Council will ensure that:
 - It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security; 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 Council's prudential indicators covering the maximum principal sums invested.

10. The Assistant Chief Executive will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties that are considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.
11. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies and one meets the Council's criteria, and the other does not, the institution will fall outside the lending criteria. Credit rating information is supplied by MUFG Capital Markets, the Council's treasury advisers, 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. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to Officers almost immediately after they occur and this information is considered before dealing.
12. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for Officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Investment criteria and limits

13. The Guidance defines specified investments as those expected to offer relatively high security and liquidity and can be entered into with the minimum of formalities. The Guidance defines specified investments as those:
 - denominated in pounds sterling,
 - due to be repaid within 12 months of arrangement,
 - not defined as capital expenditure by legislation, and
 - invested with one of:
 - the UK Government,
 - a UK local authority, parish council or community council, or
 - a body or investment scheme of "high credit quality".

The Council defines the following as being of "high credit quality" (as per the Guidance), subject to the monetary and time limits shown.

Specified investments				
	Paragraph (where applicable)	Fitch Long term Rating (or equivalent)	£ Limit	Duration

UK Banks 1	16	AA- or higher A+ A A-	£7.5m £6.0m £5.0m £4.0m	365 days 365 days 189 days 100 days
Non-UK Banks 1	16	AA- or higher A+ A A-	£3.0m £2.0m £1.0m £1.0m	365 days 365 days 189 days 100 days
Banks 2 (Part nationalised)	17	N/A	£3.0m	365 days
Banks 3 (Council's own bankers)	18	N/A	£1.0m	1 business day
Building Societies	19	A+ A A-	£5.0m £4.0m £3.0m	365 days 189 days 100 days
UK Central Government (DMADF – Debt Management Agency Deposit Facility)		UK sovereign rating	Unlimited	189 days
Local, Police, Fire, Civil Defence & Transport Authorities		N/A	£5.0m	365 days
Money Market Funds (CNAV / LVNAV)	20	AAA	£10.0m	Liquid
Government bonds (gilts) and treasury bills	21	N/A	No limit	365 days
Multinational Development Banks		AAA	£1.0m	365 days

14. Investments in any parent and its wholly owned subsidiaries are to be aggregated for the purpose of calculating the limit of investment to that parent or its subsidiaries.
15. With the exception of investments with the UK Government, no investment with any one provider/organisation will exceed £7.5m in total.

Banks

16. **Banks 1** – Banks will be regarded as having high credit quality if they meet the following criteria:

- i) are UK banks (no country limit will apply to investments in the UK, irrespective of the sovereign credit rating); and/or
- ii) are non-UK and domiciled in a country which has a minimum sovereign long term rating of AA

and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

- i) Short term – F1 / P-1 / A-1
- ii) Long term – A- / A3 / A-

17. **Banks 2** – Part nationalised UK banks. These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
18. **Banks 3** – The Council's own banker for transactional purposes if the bank falls below the above criteria. This is because it is needed to facilitate short term liquidity requirements (overnight and weekend) and to provide business continuity.

Building societies

19. The Council will use all building societies with assets in excess of £1bn which meet the ratings for banks outlined above.

Money market funds

20. Money market funds are pooled investment vehicles consisting of instruments similar to those used by the Council. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager. Fees of between 0.10% and 0.20% per annum are deducted from the interest paid to the Council. The Council will only use Money Market Funds with a Constant or Low Volatility Net Asset Value (CNAV / LVNAV).

Government bonds (gilts) and treasury bills (T-bills)

21. Conventional gilt is a liability of the Government which guarantees to pay the holder of the gilt a fixed cash payment (coupon) every six months until the maturity date, at which point the holder receives the final coupon payment and the return of the principal.
22. T-Bills are short term securities issued by HM Treasury on a discount basis. For example, a £100 coupon will be issued below its value to the investor and on maturity the investor will receive £100. The difference will be the capital gain received. The security can also be cashed before maturity in the active secondary market giving the lending party more freedom to cash in the T-bill before maturity date.

Foreign countries

23. The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). This list will be added to, or deducted from, by Officers should ratings change in accordance with this policy.
24. Due care will be taken to consider the country, group and sector exposure of the Council's investments. In part, the country selection will be chosen by the credit rating of the sovereign state in Banks 1 (paragraph 17) above and will be limited to a maximum of £3 million to be placed with any non-UK country at any time;
25. Sovereign credit rating criteria and foreign country limits will not apply to investments in multilateral development banks (e.g. the European Investment Bank and the World Bank) or other supranational organisations (e.g. the European Union).

Non-specified investments

26. Any investment not meeting the definition of a specified investment (see paragraph 13) is classed as non-specified. The Council does not intend to make any investments denominated in foreign currencies, nor any with sub-investment credit quality bodies. Non-

specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement.

27. The limit on the amount that may be held in non-specified investments, these being long-term investments only, at any time in the financial year is £3 million (excluding any accrued interest).
28. The advice of our treasury management consultants will be sought prior to making any long-term investment as to the appropriateness of the investment.

Non Specified investments				
	Paragraph (where applicable)	Fitch Long term Rating (or equivalent)	£ Limit	Duration
Any bank or building society (including forward deals in excess of one year from inception to repayment).	37	AAA	£1.0m	3 years
		AA+	£1.0m	3 years
		AA	£1.0m	3 years
		AA-	£1.0m	2 years
Gilt edged securities.	37	N/A	£1.0m	3 years
Supranational bonds greater than 1 year to maturity a) Multilateral development bank bonds b) A financial institution that is guaranteed by the United Kingdom Government	30, 37	AAA	£1.0m	3 years
		N/A	£1.0m	3 years
Short Dated Bond Funds / Enhanced Cash Funds	30, 37	N/A	£2.0m per fund £6m in total	2 years
Pooled Funds and Collective Investment Schemes	31	N/A	£2.0m per fund £6m in total	N/A
UK Small & Medium Sized Enterprises via the Funding Circle	32	N/A	£5,000 per organisation (subject to an overall limit of £0.5m)	N/A

Investment in Property	33	Subject to the limits set out in the Capital Strategy
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Supranational bonds

29. The Council will invest in two types of bonds:

- a) **Multilateral development bank bonds** are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Investment Bank etc.).
- b) **A financial institution that is guaranteed by the United Kingdom Government** (e.g. The Guaranteed Export Finance Company {GEFCO}). The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.

Short Dated Bond Funds / Enhanced Cash Funds

30. Short dated Bond Funds / Enhanced Cash Funds are pooled investment vehicles with an average duration of between 3 months and 2 years with a variable net asset value (NAV) meaning their values can go down as well as up. They have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager and should be looked at as short to medium term investments.

Pooled Funds and Collective Investment Schemes

31. The Council will use pooled funds, for example pooled bond, equity and property funds that offer enhanced returns over the longer term but are potentially more volatile over the shorter term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued stability in meeting the Council's investment objectives will be monitored regularly.

UK Small & Medium Sized Enterprises via the Funding Circle

32. The Council has in the past made loans for periods of up to three years to small and medium sized enterprises (SME) in the UK that have been independently assessed as being of suitable credit quality. This will be done via the Funding Circle peer-to-peer lending platform. The Funding Circle have now ceased allowing further retail investments and as such the Council can no longer re-invest maturities in the Fund. These investments are now winding down but will remain in the investment Strategy until all the outstanding loans have been repaid.

Non-Treasury Investments

33. In addition to traditional treasury investments, the Council may also invest in property and make loans and investments for financial return and/or for service or policy purposes. Such investments will be subject to the Council's normal approval processes for revenue and capital expenditure and controls around their use are included in the Council's Capital & Investment Strategy and therefore do not comply with this Treasury Management Strategy.

Liquidity Management

34. Liquidity is defined by the CIPFA Treasury Code of Practice as “having adequate, though not excessive, cash resources, borrowing arrangements, overdrafts or standby facilities to enable the Council at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives”
35. The proportion of the in-house portfolio that may be held in short-term and long-term investments will vary at any one time dependant on the cash flow position of the Council. The Council uses a manual cash book and spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a pessimistic basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments.
36. Limits on long-term investments are set by reference to the Council's medium term financial plan and cash flow forecast.
37. The amount of investments (both managed in house and externally) that may be held in long-term investments will be, measured on a rolling basis, at any point in time:
- No more than £3 million of outstanding investments are to be over 3 years until maturity, and
 - No more than £3 million of outstanding investments are to be over 1 year until maturity.
38. The maximum term of any one investment is 3 years with the exception of those loans invested via the Funding Circle (see paragraph 32).

Planned Investment Strategy for 2025/26

39. 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). The cash flow forecast will be used to divide surplus funds into three categories:
- Short-term – cash required to meet known cash outflows in the next month, plus a contingency to cover unexpected cash flows over the same period.
 - Medium-term – cash required to manage the annual seasonal cash flow cycle, including amounts to cover forecast shortages, planned uses of reserves, and a longer-term contingency.
 - Long-term – cash not required to meet cash flows and therefore liquidity is of lesser concern and a greater yield can be achieved.
40. Short-term funds are required to meet cash flows occurring in the next month or so, and the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although it should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash.
41. Medium-term funds which may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A wide spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks; this may be achieved by the use of suitable medium-term money market funds. Deposits with lower credit quality names will be made for shorter periods only, while deposits with higher quality names can be made for longer durations.

42. Cash that is not required to meet any liquidity need can be invested for the longer term with a greater emphasis on achieving returns that will support spending on local authority services. Security remains important, as any losses from defaults will impact on the total return, but fluctuations in price and even occasional losses can be managed over the long term within a diversified portfolio. Liquidity is of lesser concern, although it should still be possible to sell investments, with due notice, if large spending commitments arise unexpectedly. A wider range of instruments, including structured deposits, certificates of deposit, gilts and corporate bonds will be used to diversify the portfolio. The Council will consider employing external fund managers that have the skills and resources to manage the risks inherent in a portfolio of long-term investments.

Forward deals up to one year

43. Forward deals may be entered into with banks and building societies that meet the appropriate credit rating criteria for specified investments where the total period of the investment (i.e. negotiated deal period plus period of deposit) is less than one year.

Markets in Financial Instruments Directive (MiFID)

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

Annex A**Credit ratings and definitions**

The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings Ltd, Moody's Investors Service Inc and Standard & Poor's Financial Services LLC to assess the risk of investment default.

Table A: Comparison of long-term credit ratings		
Moody's	S&P	Fitch
Investment grade		
Aaa	AAA	AAA
Aa1	AA+	AA+
Aa2	AA	AA
Aa3	AA-	AA-
A1	A+	A+
A2	A	A
A3	A-	A-
Baa1	BBB+	BBB+
Baa2	BBB	BBB
Baa3	BBB-	BBB-
Speculative grade		
Ba1	BB+	BB+
Ba2	BB	BB
Ba3 and below	BB- and below	BB- and below

(Negative) Rating Watch – Fitch Ratings

Rating Watches indicate that there is a heightened probability of a rating change and the likely direction of such a change. These are designated as "Positive", indicating a potential upgrade, "Negative", for a potential downgrade, or "Evolving", if ratings may be raised, lowered or affirmed. However, ratings that are not on Rating Watch can be raised or lowered without being placed on Rating Watch first, if circumstances warrant such an action.

Review for possible downgrade – Moody's (Standard & Poor's is very similar)

Moody's uses the 'Watchlist' to indicate that a rating is under review for possible change in the short-term. A rating can be placed on review for possible upgrade (UPG), on review for possible downgrade (DNG), or more rarely with direction uncertain (UNC). A credit is removed from the Watchlist when the rating is upgraded, downgraded or confirmed.

(Negative) Rating Outlook – Fitch Ratings (Moody's and Standard & Poor's are similar)

Rating Outlooks indicate the direction a rating is likely to move over a one- to two-year period. They reflect financial or other trends that have not yet reached the level that would trigger a rating action, but which may do so if such trends continue. The majority of Outlooks are generally Stable, which is consistent with the historical migration experience of ratings over a one- to two-year period. Positive or Negative rating Outlooks do not imply that a rating change is inevitable and, similarly, ratings with Stable Outlooks can be raised or lowered without a prior revision to the Outlook, if circumstances warrant such an action. Occasionally, where the fundamental trend has strong, conflicting elements of both positive and negative, the Rating Outlook may be described as Evolving.