

# **Treasury Management Strategy Statement**

## **Minimum Revenue Provision Policy Statement and Annual Investment Strategy**

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East Cambridgeshire District Council  
2025/26

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# 1 Key Considerations

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

CIPFA published the revised Codes on 20th December 2021 and stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Council, therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

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

#### **Treasury management**

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

#### **Service delivery**

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

#### **Commercial return**

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a Council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. A Council must not borrow to invest primarily for financial return.

### **The revised Treasury Management Code requires a Council to implement the following: -**

1. **Adopt a liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of 10 years, with material differences between the liability benchmark and actual loans to be explained;
2. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;
3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;
4. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each Council;
5. **Reporting to members is to be done quarterly**. Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report

performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the Council's integrated revenue, capital and balance sheet monitoring;

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

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

1. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;
2. A Council must not borrow to invest for the primary purpose of commercial return;
3. It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the Council, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
4. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;
6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

**A Council's Capital Strategy or Annual Investment Strategy should include: -**

1. The Council's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the Council's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;
2. An assessment of affordability, prudence and proportionality in respect of the Council's overall financial capacity (i.e., whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);
3. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;
4. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);
5. Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information

contained in them will need to be periodically re-evaluated to inform the Council's overall strategy);

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

As this TMSS and AIS deals solely with treasury management investments, the categories of service delivery and commercial investments (in our case the loan to East Cambs Trading Company) are addressed as part of the Capital Strategy section of the Budget Report.

## 1.1 Background

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

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

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

CIPFA defines treasury management as:

*“The management of the local Council's borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*

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

## 1.2 Reporting Requirements

### 1.2.1 Capital Strategy

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

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

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

### 1.2.2 Treasury Management Reporting

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

- a. **Prudential and treasury indicators and treasury strategy** (this report)
  - The first, and most important report is forward looking and covers: -
    - the capital plans, (including prudential indicators)
    - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
    - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
    - an Annual Investment Strategy, (the parameters on how investments are to be managed)
  
- b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Council will receive quarterly update reports.
  
- c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

#### Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Finance and Assets Committee.

**Quarterly reports** – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) has also been required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Finance and Assets Committee. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

### 1.3 Treasury Management Strategy for 2025/26

The strategy for 2025/26 covers two main areas:

#### Capital issues

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy

#### Treasury Management issues

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- the investment strategy

- creditworthiness policy; and
- the policy on use of external service providers

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

#### **1.4 Training**

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

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

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

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

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and Council members.
- Require treasury management officers and Council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and Council members, encouraging them to highlight training needs on an ongoing basis.”

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

Following the elections in May 2023, a Treasury Management training session was offered to all Members as part of the induction. This took place on the 5<sup>th</sup> October 2023 and was hosted by Fifield Training Limited.

The training needs of treasury management officers are periodically reviewed. Two members of the team, including the Director Finance, attended a training session on the 24<sup>th</sup> October 2024.



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

### **1.5 Treasury Management Consultants**

The Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

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

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.

## 2. The Capital Prudential Indicators 2025/26 – 2027/28

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

### 2.1 Capital Expenditure and Financing

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

| Capital expenditure £000 | 2023/24 Actual | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|--------------------------|----------------|------------------|------------------|------------------|------------------|
| Operational Services     | 2,862          | 2,912            | 11,716           | 2,032            | 1,232            |
| Finance & Assets         | 338            | 491              | 0                | 0                | 0                |
| F&A – Loan to ECTC       | 0              | 2,100            | 1,500            | 0                | 0                |
| <b>Total</b>             | <b>3,200</b>   | <b>5,503</b>     | <b>13,216</b>    | <b>2,032</b>     | <b>1,232</b>     |

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

| Financing of capital expenditure £000  | 2023/24 Actual | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate | 2027/28 Estimate |
|--|----------------|------------------|------------------|------------------|------------------|
| Capital Grant                          | 618            | 992              | 1,497            | 603              | 603              |
| Section 106 / CIL                      | 574            | 1,856            | 8,160            | 1,600            | 600              |
| Capital Reserves                       | 158            | 337              | 209              | 209              | 209              |
| Revenue                                | 5              | 0                | 0                | 0                | 0                |
| <b>Net financing need for the year</b> | <b>1,845</b>   | <b>2,318</b>     | <b>3,350</b>     | <b>(380)</b>     | <b>(180)</b>     |

### 2.2 The Council's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The Council is asked to approve the CFR projections below:

| £000                                 | 2023/24<br>Actual | 2024/25<br>Estimate | 2025/26<br>Estimate | 2026/27<br>Estimate | 2027/28<br>Estimate |
|--------------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| <b>Capital Financing Requirement</b> |                   |                     |                     |                     |                     |
| CFR Brought forward                  | 10,126            | 10,652              | 10,277              | 11,041              | 5,114               |
| Movement in CFR in year              | 526               | (375)               | 764                 | (3,377)             | (506)               |
| <b>Total CFR at yearend</b>          | <b>10,652</b>     | <b>10,277</b>       | <b>11,041</b>       | <b>5,114</b>        | <b>4,608</b>        |

| <b>Movement in CFR represented by</b>   |            |              |            |                |              |
|---|------------|--------------|------------|----------------|--------------|
| Net financing need for the year (above) | 1,845      | 2,318        | 3,350      | (380)          | (180)        |
| Less MRP                                | (319)      | (593)        | (686)      | (947)          | (326)        |
| Less Repayment of previous loan to ECTC | (1,000)    | (2,100)      | (1,900)    | (2,050)        | 0            |
| <b>Movement in CFR</b>                  | <b>526</b> | <b>(375)</b> | <b>764</b> | <b>(3,377)</b> | <b>(506)</b> |

| <b>Borrowing £000</b> | <b>2023/24<br/>Actual</b> | <b>2024/25<br/>Estimate</b> | <b>2025/26<br/>Estimate</b> | <b>2026/27<br/>Estimate</b> | <b>2027/28<br/>Estimate</b> |
|-----------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Service spend         | 3,200                     | 218                         | 1,850                       | (380)                       | (180)                       |
| Housing               | 0                         | 2,500                       | 500                         | 0                           | 0                           |
| <b>TOTAL</b>          | <b>3,200</b>              | <b>2,718</b>                | <b>2,350</b>                | <b>(380)</b>                | <b>(180)</b>                |

### 2.3 Liability Benchmark

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

There are four components to the LB: -

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

| <b>Liability Benchmark<br/>£000</b>                     | <b>2023/24<br/>Actual</b> | <b>2024/25<br/>Estimate</b> | <b>2025/26<br/>Estimate</b> | <b>2026/27<br/>Estimate</b> | <b>2027/28<br/>Estimate</b> |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| External Debt   | 0                         | 0                           | 0                           | 0                           | 0                           |
| Treasury Investments                                    | (31,579)                  | (24,960)                    | (14,403)                    | (13,398)                    | (13,530)                    |
| Internal Borrowing                                      | (10,652)                  | (10,277)                    | (11,041)                    | (5,114)                     | (4,608)                     |
| <b>Net Loan Requirement</b>                             | <b>(42,231)</b>           | <b>(35,237)</b>             | <b>(24,444)</b>             | <b>(18,512)</b>             | <b>(18,138)</b>             |
| Capital Financing Requirement                           | 10,652                    | 10,277                      | 11,041                      | 5,114                       | 4,608                       |
| Liquidity Allowance / Buffer                            | 3,000                     | 3,000                       | 3,000                       | 3,000                       | 3,000                       |
|   |                           |                             |                             |                             |                             |
| <b>Liability Benchmark /<br/>Gross Loan Requirement</b> | <b>(28,579)</b>           | <b>(21,960)</b>             | <b>(11,403)</b>             | <b>(10,398)</b>             | <b>(10,530)</b>             |

## 2.4 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 for each resource and anticipated day-to-day cash flow balances.

| <b>Year End Resources<br/>£m</b> | <b>2023/24<br/>Actual</b> | <b>2024/25<br/>Estimate</b> | <b>2025/26<br/>Estimate</b> | <b>2026/27<br/>Estimate</b> | <b>2027/28<br/>Estimate</b> |
|----------------------------------|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Revenue Reserves                 | 14,972                    | 13,555                      | 11,581                      | 5,909                       | 5,794                       |
| S106 / CIL                       | 16,169                    | 15,569                      | 7,909                       | 6,809                       | 6,709                       |
| Capital receipts                 | 1,786                     | 1,498                       | 1,339                       | 1,179                       | 1,020                       |
| Provisions                       | 1,066                     | 1,066                       | 1,066                       | 1,066                       | 1,066                       |
| Council Tax / NNDR Surplus       | 4,689                     |                             |                             |                             |                             |
| <b>Total core funds</b>          | <b>38,682</b>             | <b>31,688</b>               | <b>21,895</b>               | <b>14,963</b>               | <b>14,589</b>               |
| Working capital                  | 3,549                     | 3,549                       | 3,549                       | 3,549                       | 3,549                       |
| Internal Borrowing               | (10,652)                  | (10,277)                    | (11,041)                    | (5,115)                     | (4,608)                     |
| <b>Expected investments</b>      | <b>31,579</b>             | <b>24,960</b>               | <b>14,403</b>               | <b>13,398</b>               | <b>13,530</b>               |

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

## 2.5 Minimum Revenue Provision (MRP) Policy Statement

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

The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2024) provides four ready-made options for calculating MRP. A Council can use a mix of these options if it considers it appropriate to do so.

The Government considers that the methods of making prudent provision include the options set out in the statutory guidance. However, this does not rule out or otherwise preclude a Council from using an alternative method should it decide that is more appropriate. Any method used is subject to the conditions in paragraphs 61 to 65 of the guidance as far as these are relevant.

- The Council's policy to provide MRP, the major assumptions applied, and the methodologies used;
- Any changes to the policy or methodologies from the prior year with an explanation of the rationale and financial impact;
- How the Council has considered the requirements set out in statute and the guidance to ensure it is meeting its duty to make prudent provision;
- A description of any departures from the guidance and an explanation of why the approach adopted results in a more prudent charge;
- Details as to how capital receipts will be used to reduce indebtedness and the impact on the MRP charge;
- An explanation of where MRP is not being made with respect to any amount of CFR and the statutory basis for this; and
- The detail of any planned voluntary overpayment of MRP.

The MRP policy statement requires full council approval in advance of each financial year.

The Council is recommended to approve the following MRP Statement:

For all unsupported borrowing the Council's MRP policy will be **Asset life method (straight line)**

- |   |          |
|---|----------|
| • Waste Fleet purchased prior to 2023/24            | 9 years  |
| • Waste Fleet purchased in 2023/24 and future years | 7 years  |
| • Other Fleet                                       | 9 years  |
| • Leisure Centre                                    | 25 years |
| • Depot   | 25 years |
| • Waste Bins  | 25 years |

Regulation 27(3) allows a local Council to charge MRP in the financial year following the one in which capital expenditure finance by debt was incurred. Therefore, Capital expenditure financed by borrowing in 2024/25 will not be subject to an MRP charge until 2025/26, or in the financial year following the one which the asset first becomes available for use.

### **Capital loans**

Regulation 27(4) allows a local Council to exclude capital loans that are financed by debt from the requirement to make MRP, provided the loan is not a commercial loan. A commercial loan is defined in regulation 27(5) as a loan from the Council to another entity for a purpose which, if the Council were to undertake itself, would be primarily for financial return; or, where the loan is itself, capital expenditure undertaken primarily for financial return. Local authorities must make MRP with respect to any debt used to finance a commercial capital loan.

A local Council may choose not to charge MRP in respect of the financing by debt of a loan issued by a Council to any person or body, where —

(a) the loan is treated as capital expenditure in accordance with regulation 25(1)(b),  
(b) the loan is not a commercial loan, and  
(c) the local Council has not recognised, in accordance with proper practices(c), any expected or actual credit loss in respect of that loan.

- Loans to ECTC and ECCLT - For capital expenditure on loans to third parties where the principal will be repaid at the end of the loan period, this loan repayment will be used to reduce the CFR at the point of repayment and no MRP will be paid against the capital expenditure in the intervening period. This is consistent with the table in 2.2 above.

### **MRP Overpayments**

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

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

Cumulative VRP overpayments made to 31<sup>st</sup> March 2024 are £0.462 million.

### 3. Borrowing

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

#### 3.1 Current Portfolio Position

The overall treasury management portfolio as at 31<sup>st</sup> March 2024 and for the position as at 31<sup>st</sup> December 2024 are shown below for both borrowing and investments.

| <b>TREASURY PORTFOLIO</b>                     |                          |                          |                            |                            |
|---|--------------------------|--------------------------|----------------------------|----------------------------|
|   | actual<br><b>31.3.24</b> | actual<br><b>31.3.24</b> | current<br><b>31.12.24</b> | current<br><b>31.12.24</b> |
| <b>Treasury Investments</b>                   | £000                     | %                        | £000                       | %                          |
| Banks – main bank account                     | 579                      | 1.8                      | 1,404                      | 4.0                        |
| Bank – call accounts                          | 22,000                   | 69.7                     | 22,000                     | 62.3                       |
| Money Market Funds                            | 9,000                    | 28.5                     | 11,900                     | 33.7                       |
| <b>Total Treasury Investments</b>             | <b>31,579</b>            | <b>100</b>               | <b>35,304</b>              | <b>100</b>                 |
| <b>Total External Borrowing</b>               | <b>0</b>                 | <b>0</b>                 | <b>0</b>                   | <b>0</b>                   |
| <b>Net Treasury Investments / (Borrowing)</b> | <b>31,579</b>            | <b>100</b>               | <b>35,304</b>              | <b>100</b>                 |

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

| <b>£000</b>                            | <b>2023/24<br/>Actual</b> | <b>2024/25<br/>Estimate</b> | <b>2025/26<br/>Estimate</b> | <b>2026/27<br/>Estimate</b> | <b>2027/28<br/>Estimate</b> |
|--|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>External Debt</b>                   |                           |                             |                             |                             |                             |
| Debt at 1 April                        | 0                         | 0                           | 0                           | 0                           | 0                           |
| Expected change in Debt                | 0                         | 0                           | 0                           | 0                           | 0                           |
| Actual gross external debt at 31 March | <b>0</b>                  | <b>0</b>                    | <b>0</b>                    | <b>0</b>                    | <b>0</b>                    |
| The Capital Financing Requirement      | <b>10,652</b>             | <b>11,652</b>               | <b>8,491</b>                | <b>5,114</b>                | <b>4,608</b>                |
| Under / (over) borrowing               | <b>10,652</b>             | <b>11,652</b>               | <b>8,491</b>                | <b>5,114</b>                | <b>4,608</b>                |

Within the range of 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 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

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

### 3.2 Treasury Indicators: Limits to Borrowing Activity

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

| Operational Boundary<br>£000 | 2024/25<br>Estimate | 2025/26<br>Estimate | 2026/27<br>Estimate | 2027/28<br>Estimate |
|------------------------------|---------------------|---------------------|---------------------|---------------------|
| External Debt                | 0                   | 0                   | 0                   | 0                   |

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

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local Council 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:

| Authorised Limit £000 | 2024/25<br>Estimate | 2025/26<br>Estimate | 2026/27<br>Estimate | 2027/28<br>Estimate |
|-----------------------|---------------------|---------------------|---------------------|---------------------|
| Debt                  | 10,000              | 8,000               | 8,000               | 8,000               |

To note: In normal circumstances a Council's Authorised Limit for external debt is higher than its Capital Financing Requirement, however in our case, I have put this as a lower value on the basis that Borrowing will be from internal sources in the first instance, therefore reducing significantly the need to borrow from external sources.



### 3.3 Prospects for Interest Rates

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

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

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

- Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, we have significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.
- If we reflect on the 30 October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.
- The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.
- There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.
- Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

- Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.
- Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.
- So far, we have made little mention of the US President election. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.
- Our revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).

### Gilt yields and PWLB rates

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

| PWLB debt | Current borrowing rate as at 11.11.24 p.m. | Target borrowing rate now (end of Q3 2026) | Target borrowing rate 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%   |

**Borrowing advice:** Our long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA

to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

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

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

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

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

### 3.4 Borrowing Strategy

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.

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

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

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

### 3.5 Policy on Borrowing in Advance of Need

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

### 3.6 New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

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

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- UK National Wealth Fund

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

### 3.7 Approved Sources of Long and Short-term Borrowing

| On Balance Sheet                               | Fixed | Variable |
|--|-------|----------|
| PWLB   | ●     | ●        |
| Local Authorities                              | ●     | ●        |
| Banks  | ●     | ●        |
| Pension Funds                                  | ●     | ●        |
| Insurance Companies                            | ●     | ●        |
| UK National Wealth Fund                        | ●     | ●        |
| Internal (capital receipts & revenue balances) | ●     | ●        |

## 4 Annual Investment Strategy

### 4.1 Investment Policy – Management of Risk

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

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

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

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

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

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

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as “**credit default swaps**” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in

Appendix 5.3 under the categories of 'specified' and 'non-specified' investments.

**Specified investments** are those with a high level of credit quality and subject to a maturity limit of under one year.

**Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. The Council has determined that it will not invest in non-specified treasury management investments as part of this Strategy.

5. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
6. **Transaction limits** are set for each type of investment in 4.2.
7. This Council will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
9. This Council has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.
10. All investments will be denominated in **sterling**.
11. As a result of the change in accounting standards for 2023/24 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. Subsequently, a further extension to the over-ride to **31<sup>st</sup> March 2025** was agreed by Government.

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

#### **Changes in risk management policy from last year.**

The above criteria are unchanged from last year.

#### **4.2 Creditworthiness Policy**

This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

1. "watches" and "outlooks" from credit rating agencies;

2. CDS spreads that may give early warning of changes in credit ratings;
3. sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands:

- Yellow 5 years \*
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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

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

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

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in the downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, as well as information on any external support for banks to help its decision-making process.

| Y          | Pi1        | Pi2        | P          | B         | O         | R           | G             | N/C       |
|------------|------------|------------|------------|-----------|-----------|-------------|---------------|-----------|
| 1          | 1.25       | 1.5        | 2          | 3         | 4         | 5           | 6             | 7         |
| Up to 5yrs | Up to 5yrs | Up to 5yrs | Up to 2yrs | Up to 1yr | Up to 1yr | Up to 6mths | Up to 100days | No Colour |

The following counterparty limits were agreed in the 2021/22 Treasury Management Strategy and will remain in place during 2025/26.

- £6 million with counterparties rated up to six months (red or above on the scale) and above time duration limit on the approved weekly list.
- £5 million with Money Market Funds

#### **Creditworthiness.**

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

#### **CDS prices**

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government in the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

#### **Limits**

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

- Non-specified treasury management investment limit.** The Council has determined that it will not engage in non-specified treasury management investments.
- Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.4. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

**Other limits.** In addition: -

- no more than 5% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies/institutions;
- sector limits will be monitored regularly for appropriateness.

### **4.3 Investment Strategy**

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



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

#### **Investment returns expectations.**

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to fall to a low of 3.5%.

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

| <b>Average earnings in each year</b> |       |
|--------------------------------------|-------|
| 2024/25 (residual)                   | 4.60% |
| 2025/26                              | 4.10% |
| 2026/27                              | 3.70% |
| 2027/28                              | 3.50% |
| 2028/29                              | 3.50% |
| Years 6 to 10                        | 3.50% |
| Years 10+                            | 3.50% |

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

For its cashflow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits, (overnight to six months), in order to benefit from the compounding of interest.

#### **Changes of investment strategy**

There are no fundamental changes to the Investment Strategy when compared to the Strategy in place during 2024/25.

**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 Council is asked to approve the following treasury indicator and limit: -

| <b>Upper limit for principal sums invested for longer than 365 days</b>                            |                |                |                |
|--|----------------|----------------|----------------|
| <b>£000</b>  | <b>2025/26</b> | <b>2026/27</b> | <b>2027/28</b> |
| Principal sums invested for longer than 365 days   | £2,000         | £2,000         | £2,000         |
| Current investments as at 31 <sup>st</sup> December 2024 in excess of 1 year maturing in each year | 0              | 0              | 0              |

#### **4.4 Investment Performance / Risk Benchmarking**

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security - The Council's main priority is the security of its capital, and therefore security risk continues to be its main focus, with the process for securing this detailed in Section 4.1 of this report.

This is measured / benchmarked by the use of a Historic Risk of Default calculation provided to us by Link Asset Services. The calculation is a proxy for the average percentage risk for each investment based on over 30 years of data provided by Fitch, Moody's and S&P. It simply provides a calculation of the possibility of average default against the historical default rates, adjusted for the time period within each year according to the maturity of the investment. At the end of November 2024 our calculated Historic Risk of Default was 0.008% as our cash was in either Money Market Funds, deposits with appropriately rated banks and a liquid call account with NatWest. As this situation is not expected to change in 2025/26, then the risk remains very small.

Liquidity – in respect of this area the Council seeks to maintain:

- No Bank overdraft
- Liquid short-term deposits of at least £5 million available with a week's notice.

Yield - local measures of yield benchmarks are

- Investments – internal returns above the 7-day SONIA compounded rate

#### **4.5 End of Year Investment Report**

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

## **5 Appendices**

1. Prudential and treasury indicators
2. Economic background
3. Treasury management practice 1 – credit and counterparty risk management
4. Approved countries for investments
5. Treasury management scheme of delegation
6. The treasury management role of the Section 151 Officer

## 5.1 The Capital Prudential and Treasury Indicators 2025/26 – 2027/28

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

### 5.1.1 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. The Council is asked to approve the following indicators: -

### 5.1.2 Ratio of Financing Costs to Net Revenue Stream

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

| %             | 2023/24<br>Actual | 2024/25<br>Estimate | 2025/26<br>Estimate | 2026/27<br>Estimate | 2027/28<br>Estimate |
|---------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Annual Charge | (10.4%)           | 7.5%                | 4.5%                | 3.4%                | (3.2%)              |

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

## 5.2 Economic Background (to 12<sup>th</sup> December 2024)

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

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

Over the aforementioned period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession. However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.

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

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

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

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

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

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

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

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

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

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

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

The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8,304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any

further rally (or not) is likely to be the breadth of AI's impact on business growth and performance.

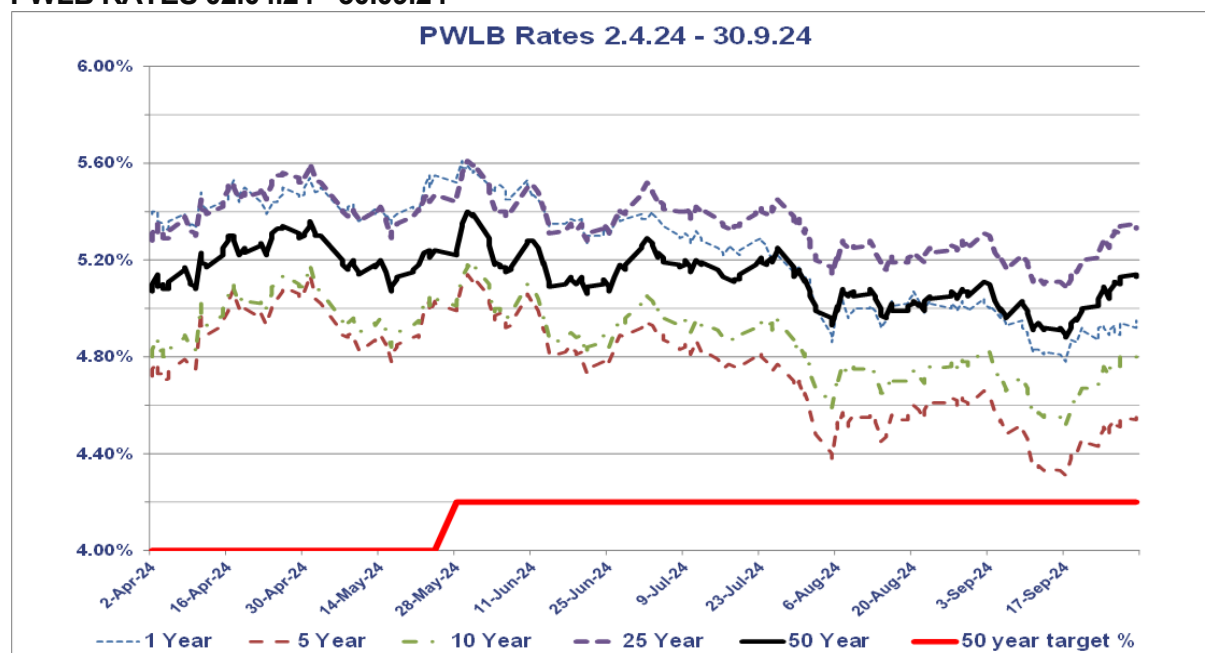
### MPC meetings: 9 May, 20 June, 1 August, 19 September, 7 November 2024

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20<sup>th</sup> 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.
- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut, but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

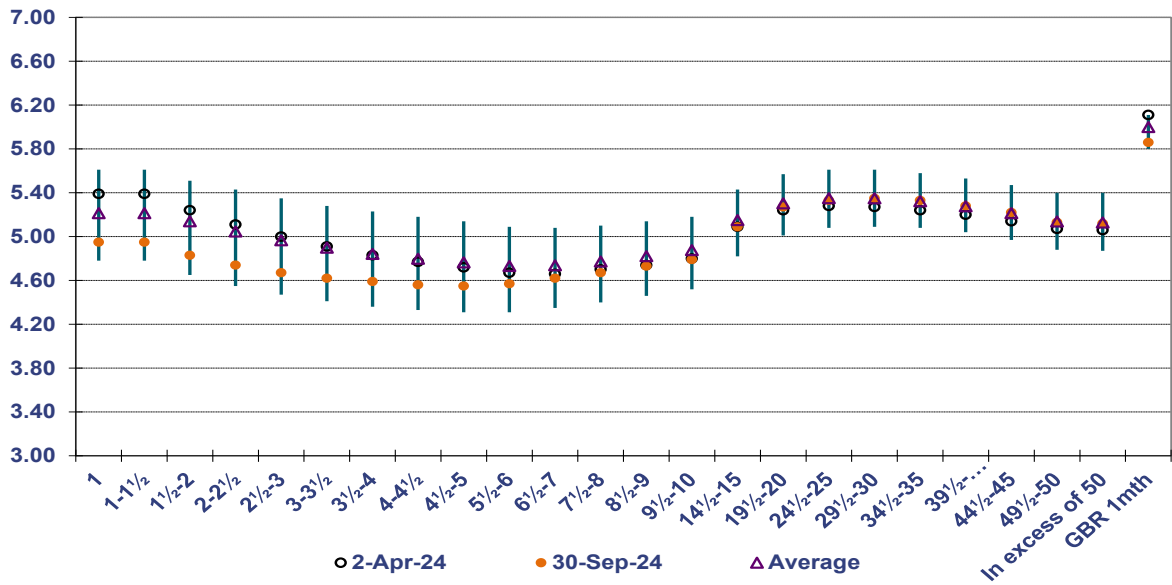
In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.

*(Please note these charts are updated quarterly and will next be updated early January.)*

### PWLB RATES 02.04.24 - 30.09.24



PWLB Certainty Rate Variations 2.4.24 to 30.9.24



HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

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



### 5.3 Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the specified investment criteria. The Council will not engage in any non-specific investments.

#### SPECIFIED INVESTMENTS

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

|  | Minimum credit criteria / colour band       | £ limit per institution                              | Max. maturity period   |
|--|---|--|--|
| DMADF – UK Government                                    | Yellow                                      | £6 million   | 6 months (max. is set by the DMO (Debt Management Officer of HM Treasury)) |
| UK Gilts   | Yellow                                      | £6 million   | 5 years  |
| Money Market Funds CNAV                                  | AAA   | £5 million   | Liquid   |
| Money Market Funds LNNAV                                 | AAA   | £5 million   | Liquid   |
| Money Market Funds VNAV                                  | AAA   | £5 million   | Liquid   |
| Ultra-Short Dated Bond Funds with a credit score of 1.25 | AAA   | £5 million   | Liquid   |
| Ultra-Short Dated Bond Funds with a credit score of 1.5  | AAA   | £5 million   | Liquid   |
| Local Authorities  | Yellow                                      | £5 million   | 6 months   |
| Term Deposits with Banks and Building Societies          | Blue<br>Orange<br>Red<br>Green<br>No Colour | £6 million<br>£6 million<br>£6 million<br>Nil<br>Nil | 12 months<br>12 months<br>6 months<br>100 days<br>Not for use              |

## 5.4 Approved Countries for Investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

### Based on lowest available rating (as at 25<sup>th</sup> November 2024)

#### AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

#### AA+

- Canada
- Finland
- U.S.A.

#### AA

- Abu Dhabi (UAE)
- Qatar

#### AA-

- Belgium
- France
- **U.K.**

## **5.5 Treasury Management Scheme of Delegation**

### **(i) Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

### **(ii) Finance and Assets Committee (as the responsible Committee)**

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

### **(iii) Director, Finance (as the person with responsibility for the treasury function)**

- reviewing the treasury management policy and procedures and making recommendations to the Committee.

## 5.6 The Treasury Management Role of the Section 151 Officer

### The Section 151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe (*say 20+ years – to be determined in accordance with local priorities.*)
- ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Council
- ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the Council
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
  - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
  - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
  - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*