TREASURY MANAGEMENT POLICY AND STRATEGY 2024/25

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1 INTRODUCTION

1.1 *Background*

The council is required to set a balanced budget, which broadly means that cash raised and received 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. Cash can often be set aside (e.g. reserves) or received ahead of when it is required, for example, government capital grant funding, and therefore cash balances are invested in counterparties or instruments commensurate with the council's risk appetite, and always prioritising adequate liquidity before considering investment return.

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

The contribution that the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either on day-to-day revenue spending 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 holding 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 direct loss to the General Fund.

CIPFA defines treasury management as:

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

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, to 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 risks are managed;
- the implications for future financial sustainability.

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

This Capital Strategy is reported separately from the Treasury Management Strategy Statement with non-treasury investments being reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy-driven and commercial investments usually driven by expenditure on an asset.

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 investment 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 Authority will receive quarterly update reports.

c. **An annual treasury management 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.

This Council delegates responsibility for implementation and monitoring of treasury management to the Strategy, Finance & City Regeneration Committee (SFCR) and responsibility for the execution and administration of treasury management decisions to the Section 151 Officer. SFCR therefore receives the mid-year report in December and the annual report in July each year.

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

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting is also required. However, these additional reports do not have to be reported to Full Council but are required to be adequately scrutinised. This role is undertaken by the SFCR Committee and reporting will be

incorporated into relevant Targeted Budget Management (TBM) budget monitoring reports at month 5 (August) and month 9 (December) presented in October and February of each year, with the other quarters already being fulfilled by the mid-year and annual end of year reports.

1.3 *Treasury Management Strategy for 2024/25*

The strategy for 2024/25 covers two main areas:

1.3.1 Capital issues:

- the capital expenditure plans (section 2) and the associated prudential indicators (Annex C);
- the Minimum Revenue Provision (MRP) policy (Section 3).

1.3.2 Treasury management issues:

- the current treasury position (section 1.5);
- treasury indicators which limit the treasury risk and activities of the council (Annex C);
- prospects for interest rates (Annex B);
- the borrowing strategy (section 2);
- policy on borrowing in advance of need (section 2.5);
- debt rescheduling (section 2.6);
- the investment strategy (section 4);
- creditworthiness policy (section 4.4); and
- the policy on the use of external service providers (section 5.3).

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

1.4 *Treasury Management Policy Statement*

The policies and objectives of the council's treasury management activities are as follows:

i) This council defines its treasury management activities as:

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

ii) This council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the council, and any financial instruments entered into to manage these risks.

iii) This council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury

management, and to employing suitable comprehensive performance management techniques, within the context of effective risk management.

1.5 *Current Treasury Portfolio Position*

A summary of the council's borrowing & investment portfolios as at 31 December 2023 and forecast at the end of the financial year is shown in **Table 1** below:

Table 1	Actual at 31 December 2023			Forecast to 31 March 2024		
	£'000	% of portfolio	Average Rate*	£'000	% of portfolio	Average Rate
Treasury Investments						
UK Banks	55.324	41.0%	5.55%	34.324	34.6%	5.65%
Non-UK Banks	30,000	22.2%	5.36%	30,000	30.2%	5.36%
Building Societies	0	0	0	0	0	0
Local Authorities	15,000	11.1%	2.55%	5,000	5.0%	2.05%
Money Market Funds (Including VNAV)	24,676	18.3%	5.34%	20,000	20.1%	5.30%
Royal London Funds**	10,000	7.4%	-0.72%	10,000	10.1%	-0.72%
Total Investments	**135,000**	**100.0%**	**4.67%**	**99.324**	**100%**	**4.67%**
Borrowing						
PWLB loans	334,617	90.5%	2.78%	334,617	90.5%	2.78%
Market loans	35,000	9.5%	4.33%	35,000	9.5%	4.33%
Local Authorities	0	0	0	0	0	0
Total external Borrowing	**369,617**	**100.0%**	**2.92%**	**369,617**	**100.0%**	**2.92%**

* *Average rate is taken as a snapshot as at 31 December 2023*

** *The Royal London Funds show a negative return as a result in a decline in capital value because fixed income funds such as these reduce in value in a rising interest rate market. The council is still receiving an appropriate level of revenue income from these funds, and the decline in capital value is expected to be short term and therefore not expected to result in an actual capital loss.*

2 BORROWING STRATEGY

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

Any capital investment that is not funded from new and/or existing resources (e.g. capital grants, receipts from asset sales, revenue contributions or earmarked reserves) potentially increases the council's need to borrow, represented by the council's Capital Financing Requirement (CFR). However, external borrowing does not have to take place immediately to finance its related capital expenditure: the council can utilise cash being held for other purposes (such as earmarked reserves and working capital balances) to temporarily defer the need for external borrowing. This is known as 'internal borrowing' or 'under-borrowing'.

The council's primary objective is to strike an appropriate balance between securing cost certainty and securing low interest rates.

The council operates a two-pool approach for borrowing following the introduction of the HRA Self-Financing regime in March 2012.

2.1 *Capital Prudential Indicators*

The Authority's capital expenditure plans are a key driver for 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.

Tables 2, 3 and 4 show the capital expenditure plans of the Authority, and the implications of these on the Capital Financing Requirement over the 3-year period to 2026/27. These indicators have been included in the Treasury Management Strategy for a number of years to demonstrate the affordability and sustainability of the Authority's capital activity.

A further prudential indicator now required is the Liability Benchmark. This benchmark measures the Authority's external debt levels net of the external investments, with the inclusion of a liquidity buffer against the Authority's CFR projection. This measure assumes that the authority will internally borrow almost all its available cash held in reserves and balances, with an allowance ensure it is able to meet is cash obligations.

There are four components to the Liability Benchmark:

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.

2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

The Liability Benchmark has been produced for both the General Fund and HRA separately, and are shown below in sections 2.2.2 and 2.3.2 with notes to explain each element and the Authority's assumption and forward view.

2.2 *General Fund Borrowing Position and Strategy*

The General Fund has been carrying an internal borrowing position (i.e. where the General Fund borrows cash from its own reserves) for a number of years. The General Fund entered into planned borrowing from the PWLB to reduce the internal borrowing position during 2021/22 and 2022/23 in preparation for it increasing again

during the current period of high interest rates, to reduce the need to enter into borrowing at higher rates.

Table 2 below demonstrates that the General Fund has a borrowing need of £34m to support the 2023/24 capital programme. No new external borrowing has been undertaken for the General Fund during the year, and no new external borrowing is expected to be undertaken during the remainder of 2023/24.

2.2.1 General Fund Borrowing Strategy for 2024/25

The General Fund (GF) capital programme 2024/25 to 2026/27 forecasts a total of £242m capital investment, £128m of which will be met from existing or new resources. The GF borrowing need over this period is therefore £114m as shown in **Table 2** below.

2023/24 Projected £m	Table 2 – Borrowing Requirement	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	Total £m
89	GF Capital Expenditure	122	90	30	242
	Financed by:				
(55)	New & existing resources	(72)	(36)	(20)	(128)
-	Financing not yet identified	-	-	-	-
34	**GF Borrowing Need**	**50**	**54**	**10**	**114**

Of the £114m borrowing need shown, £35m is for projects that are awaiting approval or detailed analysis. Therefore, the timing of borrowing is uncertain, and borrowing decisions for these projects will form part of the viability and due diligence process.

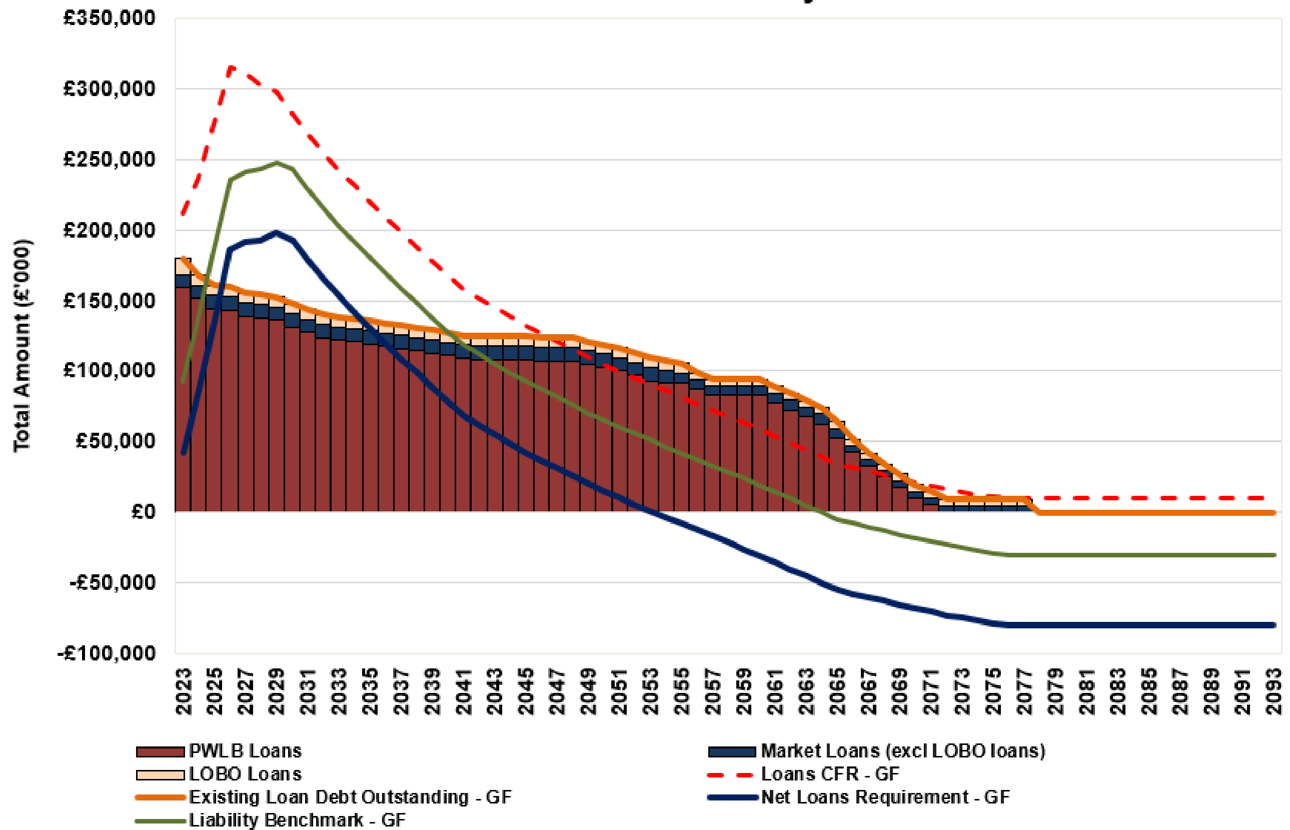
For the remaining borrowing need, the strategy will initially focus on meeting this borrowing need from internal borrowing. i.e. avoiding external borrowing by utilising the council's own cash balances, or by short-term borrowing where required.

Officers continually review the level of internal borrowing that the General Fund is able to support in the context of prevailing and forecast interest rates, economic outlook and the expected movement in reserves. Modelling of the movement of reserves and the council's capital expenditure plans demonstrates that the General Fund's long-term reserves and balances can support a level of approximately £75m of internal borrowing in the medium term. This will mitigate the increase in the cost of borrowing and reduce counterparty risk within the council's investment portfolio by reducing the portfolio size.

The internal borrowing position needs to be carefully and continually reviewed to avoid incurring higher borrowing costs in the future at a time when the authority may not be able to avoid new borrowing to finance capital expenditure or refinance maturing debt.

2.2.2 General Fund Liability benchmark

The Liability Benchmark graph for the General Fund is shown below:



1) **External Debt –** The maturity profile of the current portfolio of general fund external debt is shown by the bars which show how this is currently made up of PWLB, LOBO and Market Loans. The debt has a fairly gradual maturity profile which means that there are no requirements to pay back exceptionally large amounts of debt in any one year.

2) **Loans CFR –** This is the projections of the General Fund's underlying borrowing requirement (or CFR) based on the current capital plans, and is shown by the dotted line. The 2023/24 opening Loans CFR was £211m, and it is expected to peak at £316m in 2025/26. This only shows the Loans CFR projection based on the current 5-year capital programme of the council, therefore if ongoing borrowing is required beyond 2028/29 then the CFR would rise further and for longer.

3) **Net Loans Requirement –** This is the expected net treasury position as shown by the bottom blue line. This shows a projection of the loans requirements measured by opening external debt for 2023/24 less the opening external investments for 2023/24. The projections are then based on the expected borrowing within the capital programme and the expected movement in reserves and balances and shows the borrowing requirement if the council were to utilise all of its reserves and balances for internal borrowing. This shows that the General Fund had more external debt than external investments as at 31/03/23. Based on the current forecast, the net loans requirement peaks at £198m in 2028/29. This suggests that if reserves and balances are fully utilised for internal borrowing, the general fund requires an additional maximum of £46m of external borrowing to sustain the current capital plans.

4) **Liability Benchmark –** The liability benchmark shows the Net Loan Requirement, but with a buffer of £50m incorporated to ensure the General Fund has sufficient cash to meet its cash obligations. This measure shows the level to which the council can internally borrow based on the projection of the capital programme, movement of reserves and allowing for a liquidity buffer. Where the liability benchmark rises above the current debt portfolio, this

shows a need for external borrowing, and where the benchmark reduces back below the current portfolio, it shows that the council will be over-borrowed based on current plans.

This graph demonstrates that the General Fund may not need to externally borrow until 2024/25, and that the external borrowing requirement will peak at £248m in 2028/29, before falling. The graph also shows that based on current plans, new borrowing will be required until 2039/40, a shorter period than the council historically borrows over.

Whilst the Liability Benchmark is a good indicator of the General Fund's direction of travel in terms of borrowing need, it assumes that capital borrowing stops after the current capital planning period and ignores future borrowing beyond the planning period. Therefore, it should not be used in isolation when making long term decisions, but as part of a range of factors.

2.3 *Housing Revenue Account (HRA) Borrowing Position and Strategy*

The Housing Revenue Account (HRA) carries a fully funded borrowing position (i.e. the HRA does not borrow from its own reserves, but instead undertakes borrowing for its entire borrowing requirement). Table 3 demonstrates that the HRA has a borrowing need of £35m to support the capital programme in 2023/24. At the end of 2022/23, the HRA was temporarily over-borrowed by £10m as a result of borrowing in advance of need during 2022/23 in order to take advantage of attractive interest rates in a rising interest rate environment. No further external borrowing has been undertaken for the HRA during the year. Therefore, up to £25m of new borrowing is expected to be required for the remainder of 2023/24, either borrowed externally, or temporarily from the General Fund.

2.3.1 HRA Borrowing Strategy for 2024/25

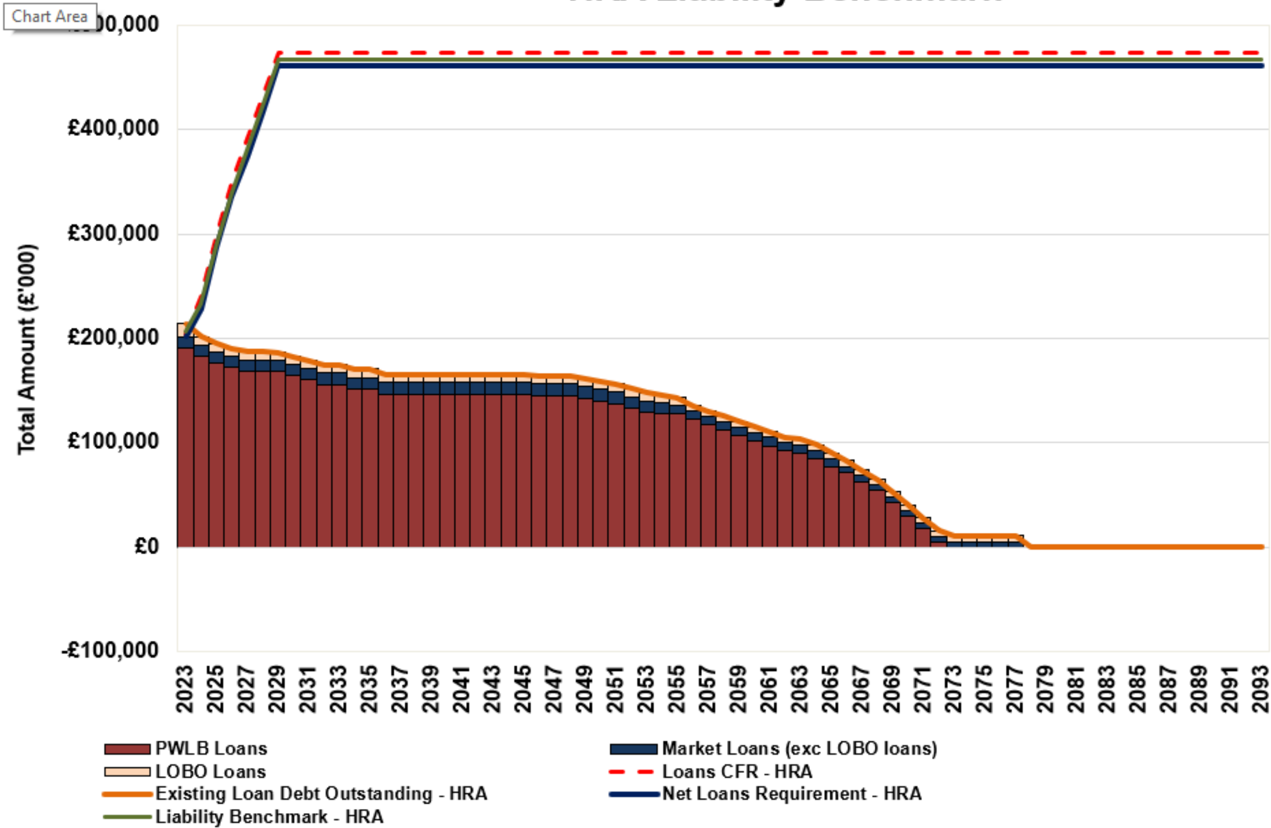
The HRA Capital Programme 2024/25 to 2026/27 forecasts a total £220m of capital investment over the next three years with £68m met from existing or new resources. The increase in the HRA's borrowing need over this period is therefore £152m as shown in **Table 3** below. It is expected that this borrowing need will be met from a combination of borrowing externally and from the General Fund. The extent to which the HRA can borrow from the General Fund is dependent on the level of liquid resources the General Fund has available to lend to the HRA and additionally will depend on the view of interest rate prospects:

- If it is considered that there is a significant likelihood of reducing long term interest rates, long term borrowing should be postponed;
- If it is considered that there is a significant risk of sharply increasing long term interest rates, long term borrowing should be considered.

2023/24 Projected £m	Table 3 – HRA Borrowing Requirement	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	Total £m
69	HRA Capital Expenditure	89	71	60	220
	Financed by:				
(34)	New & existing resources	(27)	(21)	(20)	(68)
35	**HRA Borrowing Need**	**62**	**50**	**40**	**152**

2.3.2 HRA Liability Benchmark

The Liability Benchmark graph for the HRA is shown below:



5) **External Debt –** The maturity profile of the current portfolio of HRA external debt is shown by the bars which show how this is currently made up of PWLB, LOBO and Market Loans. The debt has a fairly gradual maturity profile which means that there are no requirements to pay back large amounts of debt in any one year.

6) **Loans CFR –** This is the projection of the HRA's underlying borrowing requirement (or CFR) based on the current capital plans, and is shown by the dotted line. The 2023/24 opening Loans CFR was £204m, and it is expected to peak at £473m in 2028/29. This only shows the Loans CFR projection based on the current capital programme of the council, therefore if ongoing borrowing is required beyond 2028/29 then the CFR would rise further. The CFR is maintained at £473m as the HRA is not required to set aside MRP, and the current assumption is that the HRA will re-finance maturing debt. This strategy is subject to review, depending on the expectation of the long-term borrowing need in the HRA capital programme.

7) **Net Loans Requirement –** The expected net treasury position is shown by the bottom blue line. This shows a projection of the loans requirements measured by opening external debt for 2023/24 less the opening HRA reserves for 2023/24. The projections are then based on the expected borrowing within the capital programme and the expected movement in reserves and balances and shows the borrowing requirement if the HRA were to utilise all of its reserves for internal borrowing. This line tracks very closely to the Loans CFR due to the borrowing requirement being proportionality high compared to the HRA reserves.

8) **Liability Benchmark –** The liability benchmark shows the Net Loan Requirement, but with a buffer of £5m incorporated to ensure the HRA has sufficient cash to meet its cash obligations. This measure shows the level to which the HRA can internally borrow based on the projection of the capital programme, movement of reserves and allowing for a liquidity buffer. The HRA liability benchmark demonstrates that the HRA needs to externally borrow for nearly all of its borrowing requirement, which is the current strategy.

The graph demonstrates that the HRA has an ongoing external borrowing requirement to the extent of its CFR.

2.4 *Capital Financing Requirement*

Table 4 below shows the actual expected external debt compared to the capital financing requirement over the next 3 years for both the General Fund and the HRA. This demonstrates that the HRA CFR is expected to be fully funded to 2026/27, and the General Fund is expected to maintain an under-borrowed position:

2023/24 Estimate £m	Table 4	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
General Fund				
180	GF Debt at 1 April	168	200	241
(12)	Expected change in Debt	32	41	(4)
168	**GF Debt at 31 March**	**200**	**241**	**237**
212	GF CFR* at 1 April	237	276	317
34	Borrowing need (Table 2)	50	54	10
(9)	MRP	(11)	(13)	(14)
237	**GF CFR* at 31 March**	**276**	**317**	**313**
69	**Under / (Over) borrowing**	**76**	**76**	**76**
29.1%	**% Under-borrowed**	**27.5%**	**24.0%**	**24.3%**
Housing Revenue Account				
214	HRA Debt at 1 April**	239	301	351
25	Expected change in Debt	62	50	40
239	**HRA Debt at 31 March**	**301**	**351**	**391**
204	HRA CFR at 1 April	239	301	351
35	Borrowing need (Table 3)	62	50	40
0	MRP	0	0	0
239	**HRA CFR at 31 March**	**301**	**351**	**391**
-	**Under / (Over) borrowing**	**-**	**-**	**-**

* *GF CFR in Table 4 is the underlying need to borrow and excludes PFI and lease arrangements, which are included in the CFR figure in the Prudential Indicators in Annex C.*

2.5 *Policy on Borrowing in Advance of Need*

The council will not borrow purely in order to profit from investment of sums borrowed in advance of need. Any decision to borrow in advance will be within 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. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting.

2.6 *Debt Rescheduling*

Officers continue to regularly review opportunities for debt rescheduling but there has been a considerable widening of the difference between new borrowing and repayment rates, which has resulted in far fewer opportunities to realise any savings or benefits from rescheduling PWLB debt.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil long term treasury strategy aims;
- enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

The strategy is to continue to seek opportunity to reduce the overall level of the council's debt where prudent to do so, thus providing in future years cost reduction in terms of lower debt repayment costs, and potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt. All rescheduling will be agreed by the S151 Officer.

2.7 *Interest Rate Risk & Continual Review*

The council's total borrowing need of £266m is identified in **Tables 2 & 3.** This borrowing need, together with the debt at risk of maturity shown in **Table 5**, is the extent to which the council is subject to interest rate risk over the next three years.

Table 5	2024/25	2025/26	2026/27
	£m	£m	£m
Maturing Debt	14	5	8
Debt Subject to early repayments options	5	5	10
Total debt at risk of maturity	**19**	**10**	**18**

Officers continue to review the need to borrow taking into consideration the potential increases in borrrowing costs, the need to finance new capital expenditure, the need to refinance maturing debt, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns.

Against this background and the risks within the economic forecast, caution needs to be exercised. The S151 Chief Finance Officer will therefore continue to monitor interest rates in financial markets and adopt a proactive approach to changing circumstances as follows:

- if it was considered that there was a significant risk of a forthcoming sharp fall in long and short-term rates (e.g. due to a marked increase in the risk of a relapse into recession or increasing risk of deflation), then long term borrowing will be postponed and potential rescheduling from fixed rate funding into short-term borrowing will be considered;
- if it was considered that there was a significant risk of a much sharper rise in long and short-term rates than currently forecast, then the portfolio position will be re-appraised with the likely action that borrowing would be undertaken and fixed rate funding drawn on whilst interest rates are still lower than they are expected to be in the next few years.

3 MINIMUM REVENUE PROVISION POLICY STATEMENT

The council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement - CFR) through a revenue charge (the Minimum Revenue Provision - MRP). Department of Levelling Up, Housing and Communities (DLUHC) regulations require the full Council to

approve an MRP Statement in advance of each year. A variety of options are available to councils, so long as the principle of any option selected ensures a prudent provision to redeem its debt liability over a period which is commensurate with the period over which capital assets are estimated to provide benefits (i.e. the estimated useful life of the asset being financed).

The Council is recommended to approve the following MRP Statement for 2024/25:

For all debt where the government has provided revenue support (supported capital expenditure), the MRP policy will be:

- Provision on a straight-line basis over 50 years.

For all debt where the government does not provide revenue support:

- Where the debt relates to an asset, the council will set aside a sum equivalent to repaying the debt over the life of the asset either in equal instalments or on an annuity basis over a maximum life of 50 years. The method to be adopted will be determined according to which is the most financially beneficial to the council over the life of the asset.

- Where the debt relates to expenditure which is subject to a capitalisation direction issued by the government, the council will set aside a sum equivalent to repaying the debt over a period consistent with the nature of the expenditure on an annuity basis.

- In the case of assets under construction, MRP will be delayed until the relevant asset becomes operational.

Where the debt relates to capital loans to a third party:

- The repayments of principal will be set aside as capital receipts to finance the initial capital advance in lieu of making a MRP.

- Where the debt relates to the i360 Limited, the council will set aside MRP on an annuity basis over the shorter of the remaining asset life or remaining loan period.

Where the debt relates to the Living Wage Joint Venture:

- Where the Living Wage Joint Venture develops housing but disposes of these assets on completion, the council will set aside the capital receipt at the point of transfer in lieu of making an MRP payment.

- Where the Living Wage Joint Venture develops or acquires housing and retains these assets and future rental streams, the council will set aside, in equal instalments, a sum which is equivalent to repaying the debt at the end of year 40 within the 60 year business plan. Set aside will commence, at the latest, in the year in which net surpluses are modelled for each individual tranche of borrowing.

For on-balance sheet PFI schemes and leases, the MRP policy will be:

- Asset Life Method (annuity method) - the MRP will be calculated according to the flow of benefits from the asset, and where the principal repayments increase over the life of the asset. Any related MRP will be equivalent to the "capital repayment element" of the annual charge payable.

There is the option to charge more than the prudential provision of MRP each year through a Voluntary Revenue Provision (VRP).

4 ANNUAL INVESTMENT STRATEGY

DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals with financial investments. Non-financial investments are covered in the Capital Strategy (Appendix 2 of the budget report).

The council's investment policy has regard to the following:

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

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

4.1 *Annual Investment Strategy for 2024/25*

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. However, based on the forecast of Bank Rate below, it is recommended that an "agile" investment strategy is adopted as an appropriate way of optimising returns.

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

- If it is predicted that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments on short term or variable terms.

- Conversely, if it is predicted that Bank Rate is likely to fall within that time period, consideration will be given to locking in the higher rates currently obtainable, for longer periods.

It is currently expected that the Bank Rate will remain at the current level (expected to be the peak) during the remainder of 2023/24, with the prospect for Bank Rate to fall in the second half of 2024/25, and gradually reducing into 2025/26. Link Asset Service's (LAS) Bank Rate forecasts for financial year ends (March) are:

Year	2023/24	2024/25	2025/26	2026/27
Bank Rate	5.25%	3.75%	3.00%	3.00%

Link Asset Service's (LAS) view on the prospect for interest rates, including their forecast for short term investment rates is appended at Annex B.

The primary principle governing the council's investment criteria is the security of its investments but return on investment is also important. After this main principle, the council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in and the criteria for choosing investment counterparties with adequate security, and monitoring their security;
- It has sufficient liquidity in its investments.

4.1.1 Approach for 2024/25

Investment balances had been inflated between 2019/20 and 2022/23 as a result of a number of factors, but primarily due to support measures taken by central government during the pandemic to ensure Local Authorities had the necessary resources to deliver a response to the pandemic. As expected, this support was removed during 2022/23. Additionally, increased planned internal borrowing and repayment of one of the authority's LOBO loans has reduced the investment balances further still during 2023/24.

The environment for investment has been more attractive during 2023/24 as a result of sharp increases in the Bank of England Base Rate as a reaction to inflationary pressures. The returns on investments have gradually been increasing over the year as maturing investments are rolled into new investments that reflect the increases in investment rates. The council's treasury advisors have provided their forecast for investment rates in Annex B. Interest rates are thought to have peaked at 5.25%, with expectations of interest rate reductions during the calendar year of 2024.

Investment balances are expected to reduce further in 2024/25. This is primarily due to the expectation of further increases in internal borrowing to avoid as far as possible, entering into long-term borrowing at a time where interest rates are expected to be at their highest. Investment income will fall as a result of the combination of reducing interest rates and reducing balances. Work is therefore being undertaken to try and maximise cash to ensure investment income is protected as far as possible. This work includes measures to improve the working capital (that is, the timing differences between the council paying its suppliers and receiving money from its customers), and a review of the timing of capital projects, undertaken by the officer led Capital Programme Board. The Financing Costs budget for the medium term has been prepared on the basis of these measures.

In February 2021, £10.0m was invested across two short term bond funds managed by Royal London Asset Management. There has been a fall in the capital value as a result of the increase in interest rates. However, there is no impact on the council's income from these funds, and the current statutory override means that there is no impact on the council's budget as a result of this change in value. The investment time horizon is expected to be at least 3 years, and therefore it is expected that the capital value will recover before divesting from the funds.

4.1.2 Changes from 2023/24 Strategy

There are no changes proposed to the 2024/25 Annual Investment Strategy.

4.2 *Investment Policy – Management of risk*

The guidance from DLUHC and CIPFA outlined in 4 places a high priority on the management of risk. The Council has a prudent approach to managing risk and defines its risk appetite by the following means:

i) Minimum acceptable credit criteria are applied in order to generate a list of high creditworthy counterparties. This also enables diversification and thus avoids a concentration of risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

ii) 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 monitor market pricing such as “credit default swaps” (CDS) and overlay that information on credit ratings.

iii) Other information sources used will include the financial press, share prices 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.

iv) Where there is a significant or sudden deterioration in one or more indicators (such as CDS prices), officers will undertake a review and, where necessary take action. This action may take the form of temporary suspension of a counterparty from the council’s approved lending list, or a restriction of the maximum period and investment limits.

v) This authority has defined the list of types of investment instruments that the treasury management team are authorised to use.

   a. **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year. The limits and permitted instruments for specified investments are listed within Table 6.

   b. **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. The limits and permitted instruments for non-specified investments are listed within Table 7.

vi) Lending limits (amounts and maturity) for each counterparty will be set through applying the credit criteria matrix (within Table 7).

vii) This authority will set limits for the amount of its investments:

   a. which are invested for longer than 365 days, detailed in the Treasury Indicators in Annex C;

   b. which are invested in any one sector (paragraph 4.5);

c. which are invested in any one counterparty within its relevant sector (paragraph 4.5).

viii) Investments in Non-UK Banks will only be placed with counterparties from countries with a specified minimum sovereign rating of AA (paragraph 4.3).

ix) Investments in UK banks will only be placed with counterparties with a minimum credit rating of BBB.

x) This authority has engaged external consultants, (see paragraph 5.3), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

xi) All investments will be denominated in sterling.

xii) As a result of the change in accounting standards under IFRS 9, this Authority 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 (see paragraph 5.6).

xiii) The application of a risk benchmark (paragraph 4.7) to monitor the expected potential loss within the investment portfolio on an ongoing basis.

However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance (see paragraph 4.78). Regular monitoring of investment performance will be carried out during the year.

4.3 *Sovereign Credit Ratings*

For 2024/25 it is recommended to maintain the policy of lending to sovereign nations and their banks which hold at least an AA- credit rating. The list of countries that qualify using this credit criteria (as at the date of this report) are shown below:

AAA Australia, Denmark, Germany, Netherlands, Singapore, Sweden & Switzerland
AA+ Finland, Canada & United States,
AA France & United Arab Emirates

4.4 *Creditworthiness Policy*

Each counterparty included on the council's approved lending list must meet the criteria set out below. Without the prior approval of the Council, no investment will be made in an instrument that falls outside the list below.

Table 6 below summarises the types of specified investment counterparties available to the council, and the maximum amount and maturity periods placed on each of these. A full list of the council's counterparties and the current limits for 2024/25 are appended at Annex A.

When assessing credit ratings to ascertain limits for each counterparty, the lowest short and long-term ratings from each of the three ratings agencies is applied. For simplicity, the ratings for Standard & Poor's are used in the tables below.

4.4.1 *Criteria for Specified Investments*

All specified investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' rating criteria where applicable:

Table 6	Country/ Domicile	Minimum Capital Require-ments	Min. Credit Criteria (L/term / S/term)	Max Amount	Max. maturity period
Debt Management and Deposit Facilities (DMADF)	UK	N/A	N/A	unlimited	6 months
UK Local Authorities	UK	N/A	UK Sovereign Rating	£20m per LA	12 months
UK Banks – part nationalised*	UK	UK government must own majority shareholding	N/A	£30m	12 months
UK Banks & credit rated Building Societies	UK	Must meet minimum credit criteria	AA- / A-1+	£30m	12 months
			A / A-1	£20m	12 months
			BBB / A-2	£15m	6 months
Banks – Non-UK	Those with sovereign rating of at least AA*	Must meet minimum credit criteria	AA- / A-1+	£30m	12 months
Non-rated Building Societies	UK	Must have an asset base of at least £5bn at the time of investment	N/A	£5m	6 months
Money Market Funds (CNAV and LVNAV)	UK / Ireland / EU domiciled	Must meet minimum credit criteria	AAA	£20m per fund	Liquid
Ultra Short Dated Bond Funds	UK / Ireland / EU domiciled	Must meet minimum credit criteria	AA	£20m per fund	Liquid

*See Paragraph 4.3 for full list of countries that meet these criteria

4.4.2 *Lending to the council's operational banking service provider*

An additional operating limit of £2m and an additional investment limit of £5m will be provided for the council's provider of transactional banking services (currently Lloyds Bank plc). It is unavoidable that the £2m operational limit will be breached

from time to time, however, officers will endeavour to keep this to an absolute minimum.

4.4.3 Part-Nationalised Banks

The council can lend up to £30m for up to 12 months to any bank in which the UK Government holds a majority shareholding regardless of the credit rating due to the implied government support of those entities. The Royal Bank of Scotland PLC & National Westminster Bank PLC are the two entities currently treated as part-nationalised.

4.4.4 Non-Specified investments

These are any other types of investment that are not defined as specified.

Table 7	Instrument Type	Minimum credit criteria (L/term / S/term)	Maxixum Amount 2024/25	Period (Years)
UK Local Authorities	N/A	N/A	£20m per LA	5
UK Banks & Non UK Banks	Fixed Deposits	AA+ / A-1+	£30m	3
		AA- / A-1+	£30m	2
	Negotiable Instruments	AA- / A-1+	£30m	5
Short Dated Bond Funds	UK / Ireland / EU domiciled	Short Dated bond funds are not rated. A selection process will evaluate relative risks & returns. Security of the council's money and fund volatility will be key measures of suitability	£15m per fund	Liquid

A full list of counterparties that meet the council's criteria for both specified and non-specified investments are listed in Annex A.

4.5 *Other Limits*

In order to mitigate concentration risk, there are a number of other limits imposed within the investment strategy. **Table 8** sets out the maximum permitted investment for each sector at the time of investment:

Table 8 – Other Limits	
Sector	**Max total of portfolio**
Banking sector	100%
Building Society Sector	75%
Local Authority Sector	100%
Money Market Funds (MMF)	100%
Short Dated & Ultra Short Dated Bond Funds	50%
Debt Management Account Deposit Facility (DMADF)	100%

In addition to these limits:

- no more than 25% of the portfolio can be invested for more than 1 year; and
- with the exception of MMF & the DMADF, no one counterparty may have more than 25% of the relevant sector maximum at the time the investment is made.

4.6 *Approved Methodology for adding and removing counterparties*

A counterparty shall be removed from the council's list where a change in their credit rating results in a failure to meet the criteria set out above.

A new counterparty may only be added to the list with the written prior approval of the Chief Finance Officer and only where the counterparty meets the minimum criteria set out above.

A counterparty's exposure limit will be reviewed (and changed where necessary) following notification of a change in that counterparty's credit rating or a view expressed by the credit rating agency warrants a change.

A counterparty's exposure limit will also be reviewed where information contained in the financial press or other similar publications indicates a possible worsening in credit worth of a counterparty. The review may lead to the suspension of any counterparty where it is considered appropriate to do so by the Chief Finance Officer.

4.7 *Investment Risk Benchmarking*

The weighted average benchmark risk factor for 2024/25 is recommended to be 0.05%. This is unchanged from 2023/24. This is a measure of the percentage of the portfolio deemed to be at risk of loss by reference to the maturity date, value of investment, and credit rating of the individual investments within the portfolio compared to the historic default data for those credit ratings.

This benchmark is a simple target (not limit) to measure investment risk and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that the in-house treasury team can monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the mid-year or end-of-year reviews.

This matrix will only cover internally managed investments, excluding externally managed cash that has been subject to an individual selection process. It also excludes funds lend to other Local Authorities, consistent with the CIPFA Accounting Code.

For any investment where there is a direct and legal offset against an existing financial liability, the investment will be assumed to have a benchmark risk of 0.00%.

4.8 *Investment Performance Benchmarking*

The performance of the Council's investment portfolio will be measured against the overnight SONIA Rate, an industry standard benchmark.

5 OTHER TREASURY MATTERS

5.1 *Banking Services*

Lloyds Bank plc currently provides banking services for the council.

5.2 *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.

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

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

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

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

Training was last provided and offered to all members on 19 January 2024.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function and members who are responsible for decision making and scrutiny of the Treasury function is maintained by the Principal Accountant -Treasury.

A monthly Treasury Management Bulletin is provided to lead Finance members of the main political groups.

5.3 *Policy on the use of External Service Providers*

The council uses Link Asset Services as its external treasury management advisors.

The council recognises that responsibility for treasury management decisions remains with the council at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

5.4 *Lending to Third Parties*

The council has the power to lend monies to third parties subject to a number of criteria. These are not treasury investments, rather they are policy investments. Any activity will only take place after relevant due diligence has been undertaken, as described in the Capital Strategy (Appendix 2 to the budget report).

5.5 *Updates to the Codes of Practice 2021*

CIPFA published the revised Treasury and Prudential codes in 2021. Full adoption of the new Codes was fully incorporated within the strategy from 2023/24.

5.6 *Updates to Accounting Requirements*

IFRS 9 – local authority override – English local authorities

The MHCLG (DLUHC) initially enacted a statutory over-ride from 1 April 2018 for a five-year period until 31 March 2023 following the introduction of International Financial Reporting Standard (IFRS) 9 in respect of the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year. This has now been 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 until 31 March 2025: this is intended to allow authorities to initiate an orderly withdrawal of funds if required. In addition, IFRS 9 impacts on the write-down in the valuation of impaired loans.

IFRS 16 – Leasing

The CIPFA LAASAC Local Authority Accounting Code Board has deferred implementation of IFRS 16 until 1 April 2024, the 2024/25 financial year. Once implemented, this has the following impact on the Treasury Management Strategy:

- The MRP Policy sets out how MRP will be applied for leases bought onto the balance sheet;
- The Council's Capital Financing Requirement authorised limit and operational boundary expectations for 2024/25 onwards have been increased to reflect the estimated effect of this change.

ANNEX A - Approved List of Counterparties 2024/25

Counterparty	Specified /Non-specified	Short-term			Long-term			Lending Limit	Fixed deposit duration limit (months)
		F=Fitch M=Moody's SP=Standard & Poor's							
		F	M	SP	F	M	SP		
(1) UK Banks									
Lloyds Banking Group:									
Bank of Scotland PLC (RFB)	Specified	F1	P-1	A-1	A+	A1	A+	£25m	12
Lloyds Bank PLC (RFB)	Specified	F1	P-1	A-1	A+	A1	A+	£25m	12
Lloyds Bank Corporate Markets PLC (NRFB)	Specified	F1	P-1	A-1	A+	A1	A	£25m	12
Total Max. exposure to Lloyds Banking Group								£25m	12
Barclays Banking Group:									
Barclays Bank PLC (NRFB)	Specified	F1	P-1	A-1	A+	A1	A+	£20m	12
Barclays Bank UK PLC (RFB)	Specified	F1	P-1	A-1	A+	A1	A+	£20m	12
Total Max. exposure to Barclays Banking Group**								£20m	12
HSBC Group:									
HSBC Bank PLC (NRFB)	Specified	F1+	P-1	A-1	AA-	A1	A+	£20m	12
HSBC UK Bank PLC (RFB)	Specified	F1+	P-1	A-1	AA-	A1	A+	£20m	12
Total Max. exposure to HSBC Group**								£20m	12
RBS/Natwest Group:									
Natwest Markets PLC (NRFB)	Specified	F1	P-1	A-1	A+	A1	A	£20m	12
National Westminster Bank PLC (RFB)	Specified	F1	P-1	A-1	A+	A1	A	£30m	12
The Royal Bank of Scotland PLC (RFB)	Specified	F1	P-1	A-1	A+	A1	A	£30m	12
Total Max. exposure to RBS/Natwest Group**								£30m	12
Close Brothers Ltd	Specified	F2	P-1		A-	Aa3		£15m	6
Clydesdale Bank PLC	Specified	F2	P-2	A-2	A-	A3	A-	£15m	6
Goldman Sachs International Bank	Specified	F1	P-1	A-1	A+	A1	A+	£20m	12
Handelsbanken PLC	Both	F1+		A-1+	AA		AA-	£30m	24
Santander UK PLC	Specified	F1	P-1	A-1	A+	A1	A	£20m	12
Standard Chartered Bank	Specified	F1	P-1	A-1	A+	A1	A+	£20m	12
SMBC Bank International Plc	Specified	F1	P-1	A-1	A-	A1	A	£15m	6
(2) Building Societies+									
Coventry (2)	Specified	F1	P-1		A-	A2		£15m	6
Leeds (5)	Specified	F1	P-2		A-	A3		£15m	6
Nationwide (1)	Specified	F1	P-1	A-1	A	A1	A+	£20m	12
Principality (6)	Specified	F2	P-2		BBB+	Baa1		£15m	6
Skipton (4)	Specified	F1	P-1		A-	A2		£15m	6
Yorkshire (3)	Specified	F1	P-2		A-	A3		£15m	6

Counterparty	Specified /Non-specified	Short-term F=Fitch M=Moody's SP=Standard & Poor's			Long-term			Lending Limit	Fixed deposit duration limit (months)
		F	M	SP	F	M	SP		
(3) Non-UK Banks									
Toronto Dominion (Canada)	Both	F1+	P-1	A-1+	AA-	Aa1	AA-	£30m	24
Nordea Bank Abp (Finland)	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£30m	24
Landwirtschaftliche Renenbank (Germany)	Both	F1+	P-1	A-1+	AAA	Aaa	AAA	£30m	36
NRW.BANK (Germany)	Both	F1+	P-1	A-1+	AAA	Aa1	AA	£30m	24
Bank Nederlandse Gemeenten (The Netherlands)	Both	F1+	P-1	A-1+	AAA	Aaa	AAA	£30m	36
Nederlandse Waterschapsbank N. V. (The Netherlands)	Both		P-1	A-1+		Aaa	AAA	£30m	36
DBS Bank Ltd (Singapore)	Both	F1+	P-1	A-1+	AA-	Aa1	AA-	£30m	24
Overseas Chinese Banking Corporation Limits (Singapore)	Both	F1+	P-1	A-1+	AA-	Aa1	AA-	£30m	24
United Overseas Bank Limited (Singapore)	Both	F1+	P-1	A-1+	AA-	Aa1	AA-	£30m	24
Svenska HandelsBanken AB (Sweden)	Both	F1+	P-1	A-1+	AA	Aa2	AA-	£30m	24
First Abu Dhabi Bank PJSC	Both	F1+	P-1	A-1+	AA-	Aa3	AA-	£30m	24
Bank of New York Mellon (USA)	Both	F1+	P-1	A-1+	AA	Aa1	AA-	£30m	24

Ratings as advised by Link Asset Services 19 January 2024

[+] UK Building Societies ranking based on Total Asset size – Source: Building Societies Association Jan 2023

** Where there are multiple counterparties within a banking group, exposure to the overall group will be the largest limit, but exposure to individual counterparties within the group will be based on the individual counterparty limit. E.g., exposure to RBS Banking Group can be up to £30m, but max exposure to Natwest Markets PLC will be £20m.

ANNEX B - ECONOMIC OVERVIEW & INTEREST RATE VIEW

Provided by Link Asset Services January 2024

- The third quarter of 2023/24 saw:
  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%;
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
  - Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;
  - The Bank of England holding Bank Rate at 5.25% in November and December;
  - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with the Halifax house price index recently pointing to a 1.7% year on year increase whilst Nationwide's

December data pointed to a -1.8% year on year decrease. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.

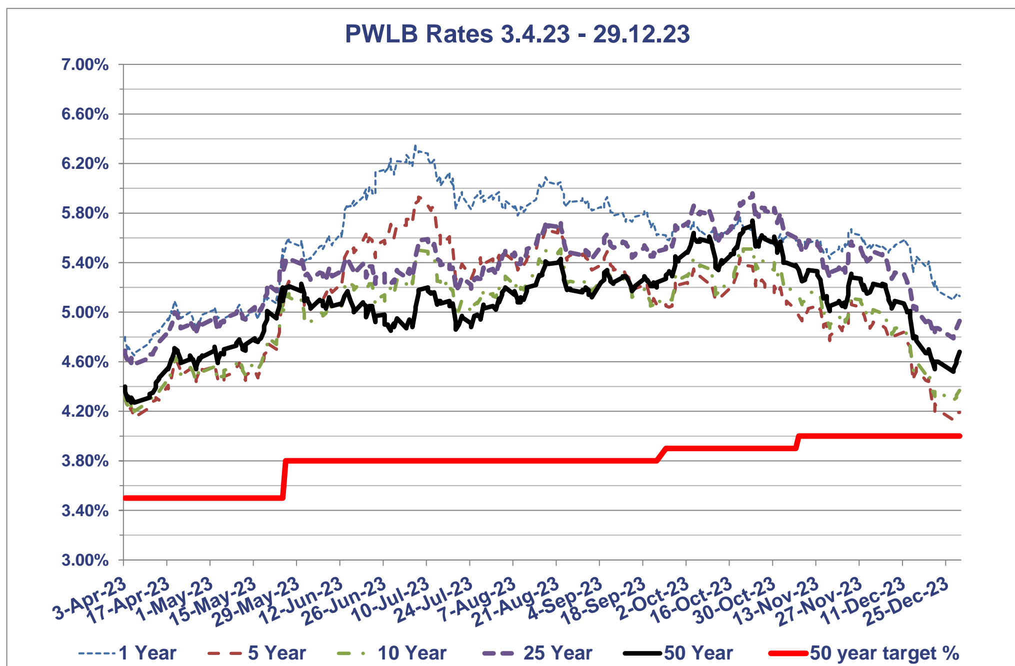
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is

that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.

- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

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

PWLB RATES APRIL TO DECEMBER 2023



Prospect for Interest Rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 08 January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates (gilt yields plus 80 bps).

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

Additional notes by Link on this forecast table: -

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

PWLB RATES

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

The balance of risks to the UK economy: -

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

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

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

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

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

LINK GROUP FORECASTS

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

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation continues to fall through 2024.

Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

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

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

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

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

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

Our interest rate forecast for Bank Rate is in steps of 25 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

ANNEX C - PRUDENTIAL AND TREASURY INDICATORS 2024/25 to 2026/27

The council's capital expenditure plans are a key driver of treasury management activities. The output of the capital expenditure plans are reflected in prudential indicators. Local authorities are required to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the council's capital investment plans are affordable, prudent and sustainable. The Code sets out the indicators that must be used but does not suggest limits or ratios as these are for the authority to set itself.

The Prudential Indicators for 2024/25 to 2026/27are set out in **Table A** below:

Table A	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund (GF) Prudential Indicators			
GF Capital Expenditure £m (gross) General Fund capital expenditure plans	£122m	£90m	£30m
GF Capital Financing Requirement £m* Measures the underlying need to borrow for capital purposes (including PFI & Leases)	£319m	£356m	£347m
GF Ratio of financing costs to net revenue stream** Identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against net revenue stream	7.03%	7.76%	8.36%
Housing Revenue Account (HRA) Prudential Indicators			
HRA Capital Expenditure £m (gross) HRA capital expenditure plans	£89m	£71m	£60m
HRA Capital Financing Requirement £m* Measures the underlying need to borrow for capital purposes	£301m	£351m	£391m
HRA Ratio of financing costs to net revenue stream** Identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against net revenue stream	12.08%	14.67%	16.22%

* *From 2024/25, the CFR includes an estimate for leases that will be bought onto the balance sheet under a change in leasing accounting regulations.*

** *The ratio of financing costs to net revenue stream illustrates the percentage of the Council's net revenue budget being used to finance the council's borrowing. This includes interest costs relating to the council's borrowing portfolio and MRP. Previously this was shown net of the investment income from the council's investment portfolio, but this has been removed following changes to the Treasury Management Code.*

The Treasury Management Code requires that Local Authorities set a number of indicators for treasury performance in addition to the Prudential Indicators which fall under the Prudential Code. The Treasury Indicators for 2024/25 to 2026/27 are set out in **Tables B &**

C below. These have been calculated and determined by Officers in compliance with the Treasury Management Code of Practice:

Table B – Prudential Indicators	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Authorised Limit for External Debt £m* The council is expected to set a maximum authorised limit for external debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council.	£680m	£766m	£798m
Operational boundary for external debt £m* The council is required to set an operational boundary for external debt. This is the limit which external debt is not normally expected to exceed. This indicator may be breached temporarily for operational reasons.	£630m	£716m	£748m
Principal Sums invested for longer than 365 days	£40m	£40m	£40m

**From 2024/25 The Authorised Limit and Operational Boundary includes an estimate for leases that will be bought onto the balance sheet under a change in leasing accounting regulations.*

Table C – Prudential Indicators		
Maturity Structure of fixed interest rate borrowing* The council needs to set upper and lower limits with respect to the maturity structure of its borrowing.		
	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	50%
5 years to 10 years	0%	75%
Over 10 years	40%	100%

ANNEX D - SCHEME OF DELEGATION

1. Full Council

- Approval of Annual Investment Strategy, Treasury Management Strategy Statement, Capital Strategy, Treasury Management Policy Statement;
- Approval of the Minimum Revenue Provision Policy;
- Approval of the Prudential and Treasury indicators, including the Affordable borrowing limits;
- Approval of the annual revenue budget for financing costs.

The requirements are all contained within this appendix (TMSS incorporating the AIS) and Appendix 2 (Capital Strategy) of the budget report.

- Any changes to the Annual Investment Strategy during the year require approval by full Council.
- Full Council are able to delegate the implementation and monitoring of the treasury management function. This function is delegated to the Strategy, Finance & City Regeneration Committee.

2. Strategy, Finance & City Regeneration Committee

- Approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices;
- Budget development, consideration and approval;
- Approval of the division of responsibilities;
- Receiving and reviewing regular monitoring reports and acting on recommendations.

SFCR Committee receives the following reports in order to fulfil these requirements:

- A **Mid-Year Review Report** – an update on progress of the treasury and investment strategy against budget and the treasury & prudential indicators for the first six months of the year. Any amendments to the indicators or investment strategy require SFCR committee to recommend that full Council approve the changes.
- **End of Year Review report** – an update regarding the actual outturn of the treasury position provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- **Regular TBM reports** - includes the revenue impact of the financing cost budget.

SFCR Committee is the body held responsible for the scrutiny of the actual performance of the treasury activities against the strategy.

3. Role of the Section 151 Officer

The council’s appointed Section 151 Chief Financial Officer is responsible for:

- 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.

There are further responsibilities for the S151 Officer identified within the 2021 Code in respect of non-financial investments. They are identified and listed in the Capital Strategy where relevant.