Appendix 6

TREASURY MANAGEMENT POLICY AND STRATEGY 2025/26

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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 Cabinet and responsibility for the execution and administration of treasury management decisions to the Section 151 Chief Financial Officer. Cabinet 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 Cabinet.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting 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 Cabinet and reports are therefore incorporated into TBM month's 5 (August) and 9 (December) monitoring reports presented in October and February of each year, with the other quarters being fulfilled by the mid-year and annual end of year reports.

1.3 Treasury Management Strategy for 2025/26

The strategy for 2025/26 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 2.3);
- debt rescheduling (section 2.4);
- 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, MHCLG (previously DHLUC) MRP Guidance, the CIPFA Treasury Management Code and MHCLG 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 2024 and forecast at the end of the financial year is shown in **Table 1** below:

Table 1	Actual at 31 December 2024			Forecast to 31 March 2025		
	£'000	% of portfolio	Average Rate*	£'000	% of portfolio	Average Rate
Treasury Investments						
UK Banks	5,538	23.2%	4.89%	5,538	25.5%	4.64%
Non-UK Banks	5,000	21.0%	5.35%	5,000	23.0%	5.10%
Building Societies	0	0.0%	0	0	0.0%	0
Local Authorities	0	0.0%	0	5,000	0.0%	0
Money Market Funds (Including VNAV)	3,296	13.8%	4.77%	1,200	5.5%	4.50%
Royal London Funds**	10,000	42.0%	5.87%	10,000	46.0%	5.87%
Total Investments	**23,834**	**100.0%**	**5.38%**	**21,738**	**100.0%**	**5.34%**
Borrowing						
PWLB loans	345,473	88.9%	2.02%	399,473	91.9%	2.38%
Market loans	35,000	9.0%	4.33%	35,000	8.1%	4.33%
Local Authorities	8,203	2.1%	5.40%	0	0	0
Total external Borrowing	**388,676**	**100.0%**	**2.28%**	**434,473**	**100.0%**	**2.57%**

* *Average rate is taken as a snapshot as at 31 December 2024.*

** *The Royal London Funds combined valuation remains below the initial £10.000m investment 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) 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 HRA Self Financing regime introduced 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 2027/28. 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 to 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 the General Fund and HRA separately and are shown below in sections 2.2.2 & 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 last entered into planned borrowing from the PWLB to reduce the internal borrowing position during 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 those higher rates.

Table 2 below demonstrates that the General Fund has a borrowing need of £38m to support the 2024/25 capital programme. However, no new external borrowing has been undertaken for the General Fund during the year to date.

Based on latest capital programme projections, it is anticipated that new general fund borrowing of up to £25m will be required during the remainder of 2024/25 to ensure that the internal borrowing position remains at an appropriate level. Any decision on undertaking new borrowing will be taken in the context of the council's overall treasury management position, with regards to limits, indicators, economic environment and available balances, particularly during an environment where interest rates are expected to fall. Given the expected interest rate forecasts over the next 12 months it may be beneficial for the council to take short term borrowing and refinance when rates are expected to fall or have fallen.

2.2.1 General Fund Borrowing Strategy for 2025/26

The General Fund (GF) capital programme 2025/26 to 2027/28 forecasts a total of £221m capital investment, £124m of which will be met from existing or new resources. The GF borrowing need over this period is therefore £97m as shown in **Table 2** below. The capital programme position reflects latest forecasts and the outcome of a wider review by the officer led Capital Programme Board to present a more realistic profile and to reduce the borrowing need as much as possible.

2024/25 Projected £m	Table 2 – Borrowing Requirement	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	Total £m
93	GF Capital Expenditure	136	55	30	221
	Financed by:				
(55)	New & existing resources	(70)	(33)	(21)	(124)
-	Financing not yet identified	-	-	-	-
38	**GF Borrowing Need**	**66**	**22**	**9**	**97**

Of the £97m 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.

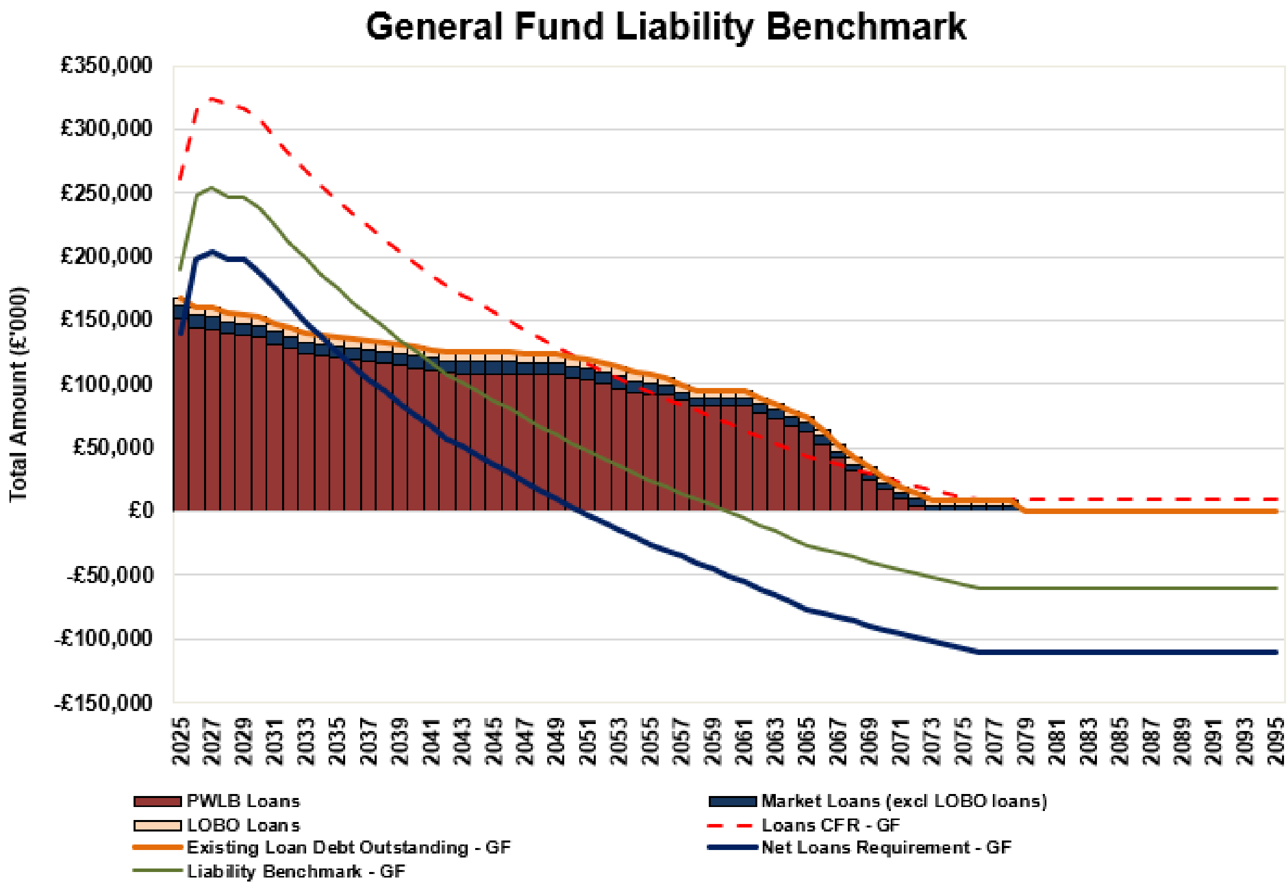
For the remaining borrowing need, the strategy will initially focus on meeting this borrowing need from internal borrowing. i.e. avoiding external borrowing by utilising the council's own available cash flows, or by short-term borrowing where required.

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. 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.

2) **Loans CFR –** This is the projection of the General Fund's underlying borrowing requirement (or CFR) based on the current capital plans, and is shown by the top, red line. The 2024/25 opening Loans CFR was £234m, and it is expected to peak at £324m in 2026/27. 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 2029/30 then the CFR would rise further and for longer.

3) **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 2024/25 less the opening external investments for 2024/25. 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 March 2024. Based on the current forecast, the net loans requirement peaks at £204m in 2026/27. 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 will need to externally borrow during 2025/26, and that the external borrowing requirement will peak at £253m in 2026/27, before falling. The graph also shows that based on current plans, new borrowing will be required until 2038/39, so 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). At the end of 2023/24, the HRA was temporarily under-borrowed from the General Fund by £40m in order to mitigate against undertaking external borrowing during a period of high interest rates. Table 3 demonstrates that the HRA has a borrowing need of £50m to support the capital programme in 2024/25. External borrowing of £25m 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 2024/25, either borrowed externally, or temporarily from the General Fund.

2.3.1 HRA Borrowing Strategy for 2025/26

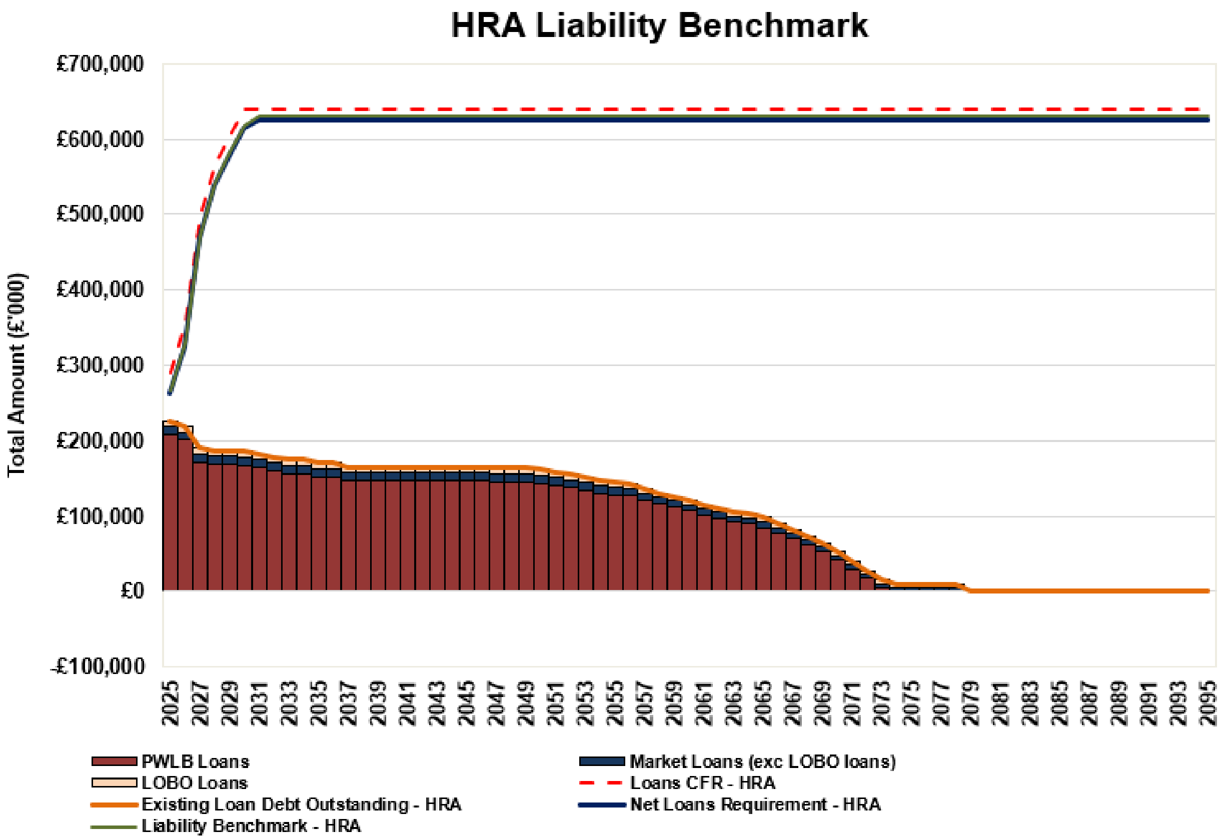
The HRA Capital Programme 2025/26 to 2027/28 forecasts a total £368m of capital investment over the next three years with £93m met from existing or new resources. The increase in the HRA's borrowing need over this period is therefore £275m as shown in **Table 3** below. It is expected that this borrowing 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.

2024/25 Projected £m	Table 3 – HRA Borrowing Requirement	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	Total £m
76	HRA Capital Expenditure	111	169	88	368
	Financed by:				
(26)	New & existing resources	(47)	(26)	(20)	(93)
50	**HRA Borrowing Need**	**64**	**143**	**68**	**275**

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. 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 top, red line. The 2024/25 opening Loans CFR was £242m, and it is expected to peak at £640m in 2029/30. This only shows the Loans CFR projection based on the current capital programme of the council, therefore if ongoing borrowing is required beyond 2029/30 then the CFR would rise further. The CFR is maintained at £640m 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 2024/25 less the opening HRA reserves for 2024/25. 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 2027/28, and the General Fund is expected to maintain an under-borrowed position:

2024/25 Estimate £m	Table 4	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
General Fund				
168 18	GF Debt at 1 April Expected change in Debt	186 54	240 9	249 (1)
186	**GF Debt at 31 March**	**240**	**249**	**248**
234 38 (11)	GF CFR* at 1 April Borrowing need (Table 2) MRP	261 66 (12)	315 22 (13)	324 9 (14)
261	**GF CFR* at 31 March**	**315**	**324**	**319**
75	**Under / (Over) borrowing**	**75**	**75**	**71**
28.7%	**% Under-borrowed**	**23.8%**	**23.1%**	**22.3%**
Housing Revenue Account				
242 50	HRA Debt at 1 April** Expected change in Debt	292 64	356 143	499 68
292	**HRA Debt** at 31 March**	**356**	**499**	**567**
242 50 0	HRA CFR at 1 April Borrowing need (Table 3) MRP	292 64 0	356 143 0	499 68 0
292	**HRA CFR at 31 March**	**356**	**499**	**567**
-	**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.*

** *Includes both external debt and sums borrowed temporarily from the General Fund .*

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 Chief Financial Officer.

2.7 Interest Rate Risk & Continual Review

The council’s total General Fund and HRA borrowing need of £372m for 2025/26 to 2027/28 is identified in **Tables 2 & 4.** 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	2025/26 £m	2026/27 £m	2027/28 £m
Maturing Debt	30	8	1
Debt Subject to early repayments options	15	5	5
Total debt at risk of maturity	**45**	**13**	**6**

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 Financial 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 relapse into recession or increasing risk of deflation), then long term borrowings 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 that 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

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) regulation 2023, where the council has financed capital expenditure by borrowing, it 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). 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.

Ministry of Housing, Communities and Local Government (MHCLG) 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 2025/26:

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.

- Capital expenditure financed by borrowing will not be subject to an MRP charge until the financial year after the expenditure has been incurred, or 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, 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:

- MRP will be measured as being equal to the element of the principal repayment that goes to write down the equivalent balance sheet liability.

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

The MHCLG 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:

- 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 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 2025/26

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 widely believed that the Bank Rate peaked at the high of 5.25% in August 2023, with the expectation of continuing gradual interest rate reductions. There is prospect for a further fall in the final quarter of 2024/25 from its current rate of 4.75% to 4.50%, with further reductions anticipated during 2025/26. Link Asset Service's (LAS) Bank Rate forecasts for financial year ends (March) are:

Year	2024/25	2025/26	2026/27	2027/28
Bank Rate	4.50%	3.75%	3.50%	3.50%

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 2025/26

The council's investment balances have been in steady decline since 2022/23 as a result of a number of factors, such as repayment of temporary central government support received during the Covid-19 pandemic, planned use of reserves, debt maturities and the council's ongoing Targeted Budget Monitoring position. Treasury management activity during 2024/25 has focused on keeping cash liquid as opposed to reinvesting maturing investments into longer term, higher yielding deals, to ensure cash is available when required and avoid the need for long term borrowing in a falling interest rate environment.

Investment returns are expected to reduce further in 2025/26 due to a combination of reducing interest rates and reducing reserve 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 to include these measures.

The environment for borrowing has not been attractive during 2024/25 due to interest rates remaining high. The council has therefore continued with a policy of internal borrowing to avoid, as far as possible, entering into long-term borrowing in a falling interest rate environment. An exception has been the entering into £25m PWLB borrowing to replace HRA internal borrowing from the general fund for the term of 1 year, when it is expected to be refinanced at lower interest rates. Further borrowing may be required in the final quarter of 2024/25 and into 2025/26 to replace internal borrowing, although this will only be done based on an assessment of cash flow requirements and the interest rate outlook.

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 a current statutory override means that there is no impact on the council's budget as a result of this change in value. It is anticipated that the statutory override will come to an end after 31 March 2026, although we are expecting the capital value to recover during 2025/26 before considering diversifying from the funds. The council is still receiving an appropriate level of revenue income from these funds.

4.1.2 Changes from 2024/25 Strategy

There are no changes proposed to the 2025/26 Annual Investment Strategy.

4.2 Investment Policy – Management of risk

The guidance from MHCLG and CIPFA outlines 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 section 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 2025/26 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, Norway, Singapore, Sweden & Switzerland
AA+ Canada, Finland & United States,
AA Abu Dhabi (United Arab Emirates) & Qatar
AA- Belgium & France

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 2025/26 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

Table 6	**Country/ Domicile**	**Minimum Capital Require-ments**	**Min. Credit Criteria (L/term / S/term)**	**Max Amount**	**Max. maturity period**
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.

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)**	**Max. Amount 2025/26**	**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 the concentration of 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 S151 Chief Financial 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 the 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 S151 Chief Financial Officer.

4.7 Investment Risk Benchmarking

The weighted average benchmark risk factor for 2025/26 is recommended to be 0.05%. This is unchanged from 2024/25. 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 lent 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; a standard industry 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. A virtual recording of this training session is available on the Members section of the council’s learning platform. Further training sessions will be arranged as required.

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 type 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 5 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 for 2023/24.

5.6 Updates to Accounting Requirements

IFRS 9 – local authority override – English local authorities

The MHCLG (previously DLUHC) initially enacted a statutory override from 1 April 2018 for a five-year period until 31 March 2023 following the introduction of IFRS 9 in respect of the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year. This override was 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 this date: this is intended to allow authorities to initiate an orderly withdrawal of funds if required. In addition, IFRS9 impacts the write-down in the valuation of impaired loans. The ending of the statutory override is currently subject to government consultation. The 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 as part of the overall investment strategy.

IFRS 16 – Leasing

The CIPFA LAASAC Local Authority Accounting Code Board introduced implementation of IFRS 16 from 1 April 2024, the 2024/25 financial year. This has had the following impact to the Treasury Management Strategy:

- The MRP Policy sets out how MRP will be applied for leases bought onto the balance sheet. Where a lease (or part of a lease) is brought onto the balance sheet, having previously been accounted for off-balance sheet, the MRP requirement is regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement;
- 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 2025/26

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	AA-	A1	A+	£20m	12
Lloyds Bank PLC (RFB)	Specified	F1+	P-1	A-1	AA-	A1	A+	£20m	12
Lloyds Bank Corporate Markets PLC (NRFB)	Specified	F1+	P-1	A-1	AA-	A1	A	£20m	12
Total Max. exposure to Lloyds Banking Group								£20m	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+	£20m	12
The Royal Bank of Scotland PLC (RFB)	Specified	F1	P-1	A-1	A+	A1	A+	£20m	12
Total Max. exposure to RBS/Natwest Group**								£20m	12
Clydesdale Bank PLC	Specified	F1	P-1	A-1	A-	A1	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-2		A-	A3		£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+	bbb+		£15m	6
Skipton (4)	Specified	F1	P-1		A-	A2		£15m	6
Yorkshire (3)	Specified	F1	P-1		A-	A2		£15m	6

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		
(3) Non-UK Banks									
Toronto Dominion (Canada)	Both	F1+	P-1	A-1+	AA-	Aa2	A+	£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 January 2025

+ UK Building Societies ranking based on Total Asset size – Source: Building Societies Association Jan 2025

** 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.

ANNEX B - ECONOMIC OVERVIEW & INTEREST RATE VIEW

Provided by Link Asset Services December 2024

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

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

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

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

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

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

Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the

Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.

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

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

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

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

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

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

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

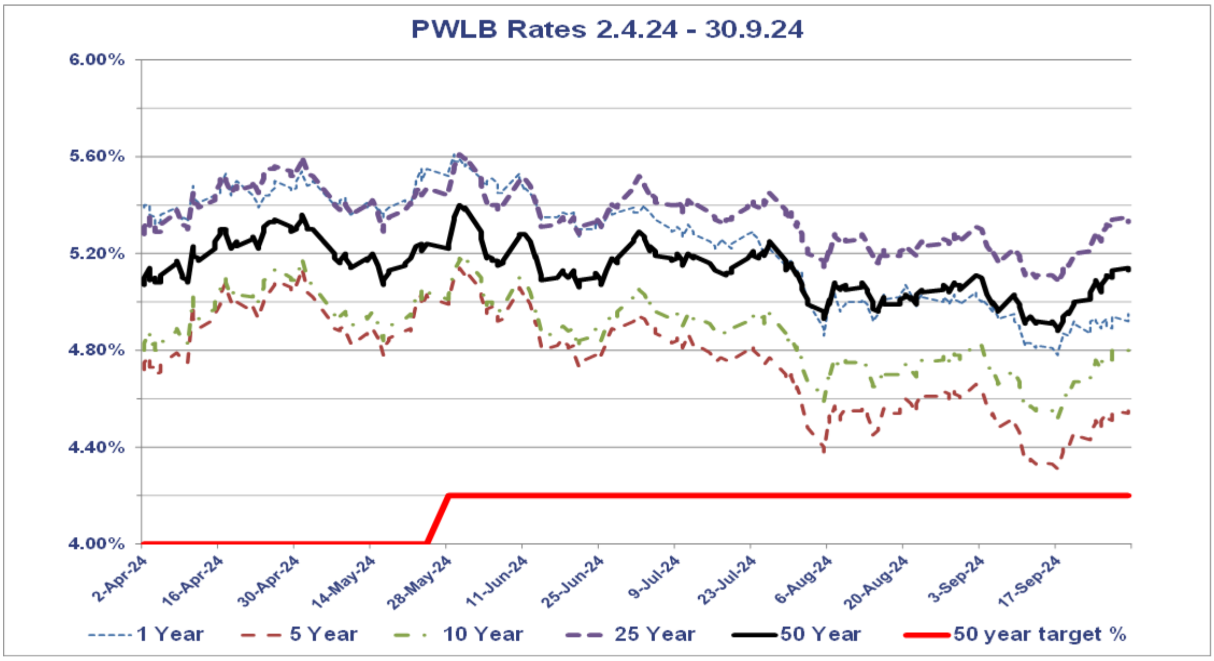
The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8.304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any further rally (or not) is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

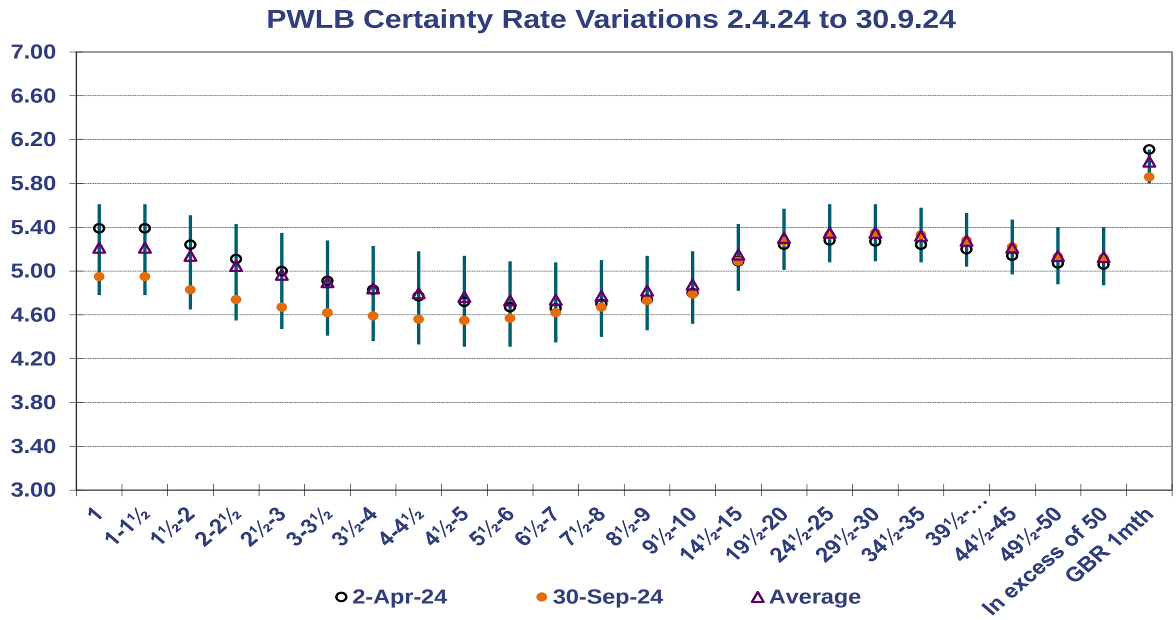
MPC meetings: 9 May, 20 June, 1 August, 19 September, 7 November 2024

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the 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





HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

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

ANNEX C - PRUDENTIAL AND TREASURY INDICATORS 2025/26 to 2027/28

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 2025/26 to 2027/28 are set out in **Table A** below:

Table A	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund (GF) Prudential Indicators			
GF Capital Expenditure £m (gross) General Fund capital expenditure plans	£136m	£55m	£30m
GF Capital Financing Requirement £m* Measures the underlying need to borrow for capital purposes (including PFI & Leases)	£380m	£385m	£375m
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	7.37%	8.14%	8.18%
Housing Revenue Account (HRA) Prudential Indicators			
HRA Capital Expenditure £m (gross) HRA capital expenditure plans	£111m	£169m	£88m
HRA Capital Financing Requirement £m* Measures the underlying need to borrow for capital purposes	£356m	£499m	£567m
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	10.38%	16.83%	20.08%

** The CFR includes an estimate for leases that will be bought onto the balance sheet under a change in leasing accounting regulations. Where it may not be currently possible to be precise about such adjustment figures until detailed data gathering has been substantially completed at the end of the 2024/25 financial year, the impact on the Capital Financing Requirement includes initial estimates of the likely effect of this change, and these indicators may need to be amended mid-year once the detailed impact is known.*

*** 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 2025/26 to 2027/28 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	2025/26 Estimate	2026/27 Estimate	2027/28 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.	£795m	£942m	£1,002m
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.	£745m	£892m	£952m
Principal Sums invested for longer than 365 days	£40m	£40m	£40m

** 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. Where it may not be currently possible to be precise about such adjustment figures until detailed data gathering has been substantially completed at the end of the 2024/25 financial year, the impact on the Authority Limit and Operational Boundary includes initial estimates of the likely effect of this change, and these indicators may need to be amended mid-year once the detailed impact is known.*

Table C		
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 5 (Capital Strategy) of the budget report.

- Any substantive 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 Cabinet.

2. Cabinet

- 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.

Cabinet 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 Cabinet to recommend that full Council approve the changes. This report is now embedded as part of the TBM month 7 Budget Monitoring report.
- **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. This report is now embedded as part of the Outturn TBM Budget Monitoring report.
- **Regular TBM reports** - includes the revenue impact of the financing cost budget.

Cabinet 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 Chief Financial 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 Chief Financial Officer identified within the 2021 Code in respect of non-financial investments. They are identified and listed in the Capital Strategy where relevant.