Agenda Item No 8

Resources Board

11 March 2024

Report of the
Interim Corporate Director – Resources
(Section 151 Officer)

Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2024/25

1 Summary

1.1 This report outlines the Treasury Management Strategy, Minimum Revenue Provision Policy Statement and Investment Strategy for 2024/25.

> **Recommendation to the Council**
>
> **a To adopt the clauses set out in paragraph 3.5; and**
>
> **b To approve the the Treasury Management Statement (Appendix A) and the proposed strategies for 2024/25 as detailed in Appendix B Treasury Management Strategy and Appendix C Investment Strategy.**

2 Introduction and Background

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

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

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

2.4 The Chartered Institute of Public Finance and Accountancy (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.”

2.5 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.

2.6 ‘Investments’ in the definition above covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment property portfolios. This may therefore include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk management framework under the CIPFA code.

2.7 The 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 focus on their risk implications for the organisation, and any financial instruments entered into in order to manage these risks.

2.8 The 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 measurement techniques, within the context of effective risk management. These principles will be applied across all investment activities, including any more commercially based investments.

3 CIPFA Reporting / Other Requirements

3.1 The CIPFA Prudential and Treasury Management Codes require all Local Authorities to prepare a Capital Strategy report which provides:

- A high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how the associated risk is managed
- The implications of 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 requirement, governance procedures and risk appetite. The updated Capital Strategy will be reported to members in June 2024.

3.2 The Code also sets out requirements for Treasury Management. The Authority 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. These are:

- **Prudential and treasury indicators and treasury strategy** (this report) – to cover capital plans (including prudential indicators), a minimum revenue provision (MRP) policy, the Treasury Management Strategy (how investments and borrowings are organised) including treasury indicators and an Annual Investment Strategy
- **A mid-year treasury management report** – a progress report to update Members on the capital position, amending prudential indicators as necessary, and whether any policies require revision
- **An annual treasury report** – backward looking review of the year, which provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

3.3 The reports mentioned above are required to be scrutinised before being recommended to the Full Council for approval. This role is undertaken by the Resources Board.

3.4 In addition to the three major reports detailed above, quarterly reporting is also required. Monitoring reports on the position at the end of June and end of December will be brought to Resources Board but these two reports do not need to be reported to Full Council. The quarterly reports should include updated Treasury / Prudential Indicators.

3.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) recommends that the Council adopts the following four clauses:

3.5.1 This organisation will create and maintain, as the cornerstones for effective treasury and investment management:

- A treasury management policy statement stating the policies, objectives and approach to risk management of its treasury management activities;

- Suitable treasury management practices (TMPs) setting out the manner in which the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control these objective;

- Investment practices (IMPs) for investments that are not for treasury management purposes.

The content of the policy statement, TMPs and IMPs will follow the recommendations contained in Sections 6,7 and 8 of the Treasury Management Code, subject only to amendment where necessary to reflect the particular circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the TM Code's key principles.

3.5.2 This organisation will receive reports on its treasury and investment management policies, practices and activities, including as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after the close in the form prescribed in its TMPs and IMPs

3.5.3 This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Resources Board, and administration of treasury management to the Section 151 Officer, who will act in accordance with the organisations policy statement, TMPs and IMPs, and if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management

3.5.4 This organisation nominates the Full Council to be responsible for ensuring effective scrutiny of the treasury management strategy and practices.

3.6 The current version of the Treasury Management Policy Statement is attached at Appendix A.

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4 Treasury Management Strategy for 2024/25

. . . 4.1 The suggested strategy for 2024/25 is attached as Appendix B.

4.2 The strategy covers:

- the current treasury position
- treasury indicators which will limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the MRP strategy
- the investment strategy
- creditworthiness policy
- policy on use of external service providers.

5 Annual Investment Strategy

5.1 The Council's investment policy is attached at Appendix C. It has regard to the DLUHC's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

6 Report Implications

6.1 Finance and Value for Money Implications

6.1.1 There are no financial implications arising directly from this report. An Annual Report on Treasury Management, including investment activity will be presented to the Resources Board and Full Council by 30 September each year.

6.2 Environment, Climate Change and Health Implications

6.2.1 Having appropriate financial controls through the Treasury Management Strategy, Minimum Revenue Provision Policy Statement and Investment Strategy contributes towards the sustainable provision of services.

6.3 Risk Management Implications

6.3.1 The stringent controls in place for the treasury management function all help to minimise any risk. Establishing the credit quality of counter-parties reduces the risk of investments. Further risks have been identified for non-specified investments and are shown in Appendix C. In making any investment decision, whether it is an overnight investment or for a period of longer than one year, the risk attached is always taken into account.

6.4 Links to Council's Priorities

6.4.1 Making best use of our resources through achieving a balanced budget and developing our workforce.

The Contact Officer for this report is Alison Turner (719374).

Appendix A

Treasury Management Policy Statement 2024-25

1.1 The Council defines the policies and objectives of its treasury management as the management of the Council's investments and cash flows, its banking, money market and capital market transaction; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

1.2 The 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 organisation, and any financial instruments entered into to manage these risks.

1.3 The 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 best practice in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management. It is important, therefore, that the Council's investment framework should seek to safeguard the Council's funds rather than to maximise returns. Due consideration must, therefore, be given to:

- Security: the creditworthiness of the counterparty;
- Liquidity: how readily available to cash is; the term of the investment;
- Yield or the rate of return on the investment.

The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment. Security and liquidity will take priority over yield, but the highest yield possible may be sought once security and liquidity have been assured.

1.4 The Council will receive reports on its treasury management policies, practices and activities including an annual strategy and plan in advance of the year, an annual report after its close, and an update report at other intervals, so that Members are informed of activities at each Board cycle. These reports will be in the format prescribed in the Council's Treasury Management Practices (TMP).

1.5 The Council delegates responsibility for the implementation of its treasury management policies and practices to the Resources Board, and for the execution and administration of treasury management decisions to the Section 151Officer, who will act in accordance with the Council's statement and TMP's and if he/she is a CIPFA member, CIPFA's "Standard of Professional Practice on Treasury Management".

March 2024

TREASURY MANAGEMENT STRATEGY FOR 2024/25

The strategy for 2024/25 covers two main areas:

Capital Issues

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

Treasury management issues

- The current treasury position
- Treasury indicators which limit the treasury risk and activities of the Authority
- Prospects for interest rates
- The borrowing strategy
- Policy on borrowing in advance of need
- Debt rescheduling
- The investment strategy
- Creditworthiness policy; and
- The policy on use of external service providers.

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

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 code also states that “all organisations are expected to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making”.

The scale of this depends on the size and complexity of the organisation’s treasury management needs. However, consideration should be given to 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, the Council will 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 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.

It is some time since Members have undertaken Treasury Management training, so training will be organised during 2024. The training needs of officers involved in treasury management activity are reviewed annually as a minimum.

A formal record of training undertaken by both Officers and Members will be maintained by the Section 151 Officer.

Treasury Management Consultants

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

The Council recognises that responsibility for treasury management decisions remains with the Council and it will make decisions after taking into account advice or information given from Link, but the Council will not solely rely on this advice. It 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 are subject to regular review.

THE CAPITAL PRUDENTIAL INDICATORS 2024/25 – 2026/27

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

Capital Expenditure and Financing

This prudential indicator is a summary of the Authority’s capital expenditure plans, both those agreed previously, and those which were included in the recent budget cycle.

	Actual 2022/23 £'000	**Revised 2023/24 £'000**	**Original 2024/25 £'000**	**Forecast 2025/26 £'000**	**Forecast 2026/27 £'000**
HRA	9,518	8,871	4,090	4,175	4,262
HRA - New Build	729	1,511	1,332	1,359	1,386
General Fund	4,238	3,137	8,796	676	362
Total	**14,485**	**13,519**	**14,218**	**6,210**	**6,010**

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

Financing of Capital Expenditure £000	**2022/23 Actual**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Capital receipts	724	2,185	1,645	339	405
Capital grants	806	0	0	0	0
Capital reserves	5,621	4,734	7,930	4,571	4,305
Year End Creditors	825	0	0		0
Revenue	453	0	0		0
E M Revenue	1,356	0	0		0
Total	**9,785**	**6,919**	**9,575**	**4,910**	**4,710**

The Authority's Borrowing Need (the Capital Financing Requirement)

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

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

The Authority has approved the CFR projections below:

£000	**2022/23 Actual**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Non-HRA	12,188	11,947	14,710	14,356	14,006
HRA	46,453	51,201	50,274	49,048	47,671
Total CFR	**58,641**	**63,148**	**64,984**	**63,404**	**61,677**
Movement in CFR		**4,507**	**1,836**	**(1,580)**	**(1,727)**

Movement in CFR represented by					
Net financing need for the year (above)		6,600	4,643	1,300	1,300
Less MRP/VRP and other financing movements		(2,093)	(2,807)	(2,880)	(3,027)
Movement in CFR		**4,507**	**1,836**	**(1,580)**	**(1,727)**

Liability Benchmark

The Authority is required to estimate and measure the LB for the forthcoming years and the following two financial years, as a minimum.

There are 4 components to the LB:

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

	2022/23 £000	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**
Loan debt o/s	58,641	63,148	64,984	63,404	61,677
Loans CFR	58,641	63,148	64,984	63,404	61,677
Net loan Req't	33,991	35,828	34,248	32,521	30,571
Liability Benchmark	(19,650)	(22,320)	(25,736)	(25,883)	(31,106)

The liability benchmark indicates that the net loan requirement is less than the external borrowing held by the Council. This highlights the fixed term nature of the borrowing taken out for the HRA in 2014 and the expectation that the Councils treasury investments continue at similar levels in the future. This will change as reserves are used.

Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc). Detailed below are estimates of year end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Fund balances/ reserves	25,839	27,081	26,910	21,630	20,057
Capital Receipts	724	2,185	1,645	339	405
Provisions	2,929	5,428	5,808	5,808	5,808
Other	2,195	1,500	500	400	300
Total Core Funds	**31,687**	**36,194**	**34,863**	**28,177**	**26,570**
Working capital	(10,037)	(9,194)	(13,377)	(13,857)	(14,496)
Expected Investments	**21,650**	**27,000**	**21,486**	**14,320**	**12,074**

Minimum Revenue Provision (MRP) Policy Statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

The authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

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

For expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP Policy will be the 4% reducing balance (of the opening GF CFR balance less adjustment A), in accordance with the recommendations and intent of Option 1 and the discretion available under the Guidance.

From 1 April 2008 for all unsupported borrowing the MRP Policy will be the asset life method (straight line).

The Council will not charge MRP on capital expenditure incurred until the year after the scheme or asset to which it relates is completed and/or becomes operational. MRP will be spread over a period which reflects the life/beneficial use of the associated asset or item.

Estimated life periods will be taken under delegated powers. In the case of new capital expenditure in respect of land, it is considered that the recommended life period of 50 years contained within the Guidance does not adequately reflect a realistic life period, which is considered to be at least as great as would be the case if a building were to be placed upon it. The Council are aware when approving this that the Guidance recommends only that the life period should bear some relation to that over which the asset is estimated to provide a service.

To the extent that expenditures are not on the creation of an asset and are of a type that are subject to estimated life periods that are referred to in the Guidance, these periods will generally be adopted by the Council. However, in the case of long-term debtors arising from loans or other types of capital expenditure made by the Council which will be repaid under separate arrangements (such as long-term investments), the Authority will give separate consideration as to whether a Minimum Revenue Provision will be made. The Council are satisfied that a prudent provision can be achieved after exclusion of these capital expenditures from the MRP requirements.

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

For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan. Where a loan to a third party is spread over a period, and repayment of principal will only commence once the loan is fully given, no MRP will be made in the interim.

MRP Overpayments – Under the MRP Guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

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

No VRP overpayments have been made to date.

BORROWING

The capital expenditure plans reported to the Executive Board on 12 February 2024 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 cashflow 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.

Current Portfolio Position

The overall treasury management portfolio as at 31.03.23 and the position as at 31.1.24 are shown below for both borrowing and investments.

Treasury Investments	Actual 31.03.23 £000	Actual 31.03.23 %	Actual 31.1.24 £000	Actual 31.1.24 %
Banks	1,500	2.50	-	-
Money Market Funds	-	-	13,000	5.29
Certificates of Deposit	19,500	3.82	25,500	5.83
Total Managed In House	**21,000**	**3.75**	**38,500**	**5.65**
Property Funds	6,000	3.70	6,000	4.99
Total Managed Externally	**6,000**	**3.70**	**6,000**	**4.99**
Total Treasury investments	**27,000**	**3.74**	**44,500**	**5.61**
Treasury External Borrowing				
PWLB	41,979	3.23	41,979	3.23
Total External Borrowing	41,979	3.23	41,979	3.23
Net treasury investments / (borrowing)	(14,979)		2,521	

The authority's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital financing Requirement – CRF), highlighting any over or under borrowing.

£000	**2022/23 Actual**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
Debt at 1 April	44,239	46,679	50,929	50,079	48,929
Expected change in debt					
Repayment of Debt	(2,260)	(2,350)	(2,350)	(2,450)	(2,600)
New Debt	4,700	6,600	1,500	1,300	1,300
Actual gross debt at 31 March	46,679	50,929	50,079	48,929	47,629
The Capital financing Requirement	58,641	63,148	64,984	63,404	61,677
Under / (over) borrowing	**11,962**	**12,219**	**14,905**	**14,475**	**14,048**

Within the range of prudential indicators there are several key indicators to ensure that the Authority operates within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not exceed, except in the short-term, the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Section 151 officer reports that the Authority complied with this prudential indicator in the current financial year.

Treasury Indicators: Limits to Borrowing Activity

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

Operational Boundary £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Total	**69,235**	**71,152**	**69,656**	**68,016**

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

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.
- The Authority has approved the following authorised Limit:

Authorised Limit £000	Estimate 2023/24 £000	Estimate 2024/25 £000	Estimate 2025/26 £000	Estimate 2026/27 £000
Total	**76,323**	**78,320**	**76,907**	**75,354**

Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the council to formulate a view on interest rates. Link provided the following forecasts on 29 February 2024. These are forecasts for certainty rates, gilt yields plus 80 basis points.

	Mar 24	**Jun 24**	**Sep 24**	**Dec 24**	**Mar 25**	**Jun 25**	**Sep 25**	**Dec 25**
Bank rate	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%	3.00%
5 Yr PWLB	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.80%	3.70%
10 Yr PWLB	4.70%	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.90%

25 Yr PWLB	5.20%	5.10%	4.90%	4.80%	4.60%	4.40%	4.30%	4.20%
50 Yr PWLB	5.00%	4.90%	4.70%	4.60%	4.40%	4.20%	4.10%	4.00%

PWLB Rates

Yield curve movements have become less volatile under the Sunak / Hunt government. PWLB 5 to 50 years Certainty rates are, generally, in the range of 4.5% to 5.2%.

It is considered that the markets have already priced in nearly all the effects on gilt yields of the likely increases in Bank Rate and the poor inflation outlook but markets are volatile and further movements of gilt yields across the whole spectrum of the curve is possible.

The overall balance of risks to economic growth in the UK is to the downside, with the Bank of England projecting two years of negative growth.

Downside risks include labour and supply shortages, the Bank of England acting too quickly or too heavily in increasing bank rate impacting on economic growth, EU trade arrangements impact on trade flows and geopolitical risks abroad that impact on the UK. Upside risks include the Bank of England acting too slowly in increasing bank rate leading to inflationary pressures, the Government acts too slowly in managing public finances, a weak pound and foreign monetary policy impacts on the investment market.

Borrowing Advice is that better value is currently found at the shorter end of the curve and longer-term borrowing is better left until rates fall, if possible.

Borrowing Strategy

The authority is currently maintaining an under borrowed position. This means that the capital borrowing need has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed. The Section 151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely to profit from the investment of the extra funds borrowed. Any decision to borrow in advance will be within the forward Capital Financing Requirement estimates and will be considered carefully to ensure 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 through the mid-year or annual reporting mechanism.

Debt Rescheduling

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

If rescheduling is to be undertaken, it will be reported to the Resources Board at the earliest meeting following its action.

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

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

- Local authorities – shorter term borrowing is generally still cheaper than the Certainty Rate
- Financial institutions **-** primarily insurance companies and pension funds where the objective is to avoid a cost of carry.

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

Approved Sources of Long and Short-term Borrowing

On Balance Sheet

	Fixed	Variable
PWLB	•	•
UK Municipal Bond Agency	•	•
Local Authorities	•	•
Banks	•	•
Pension Funds	•	•
Insurance Companies	•	•
UK Infrastructure Bank	•	•
Market (long term)	•	•
Market (temporary)	•	•
Market (LOBOs)	•	•
Stock Issues	•	•
Local Temporary	•	•
Local Bonds	•	
Local Authority Bills	•	•
Overdraft		•
Negotiable Bonds	•	•
Internal (capital receipts & revenue balances)	•	•
Commercial Paper	•	

Medium Term Notes	●	
Finance Leases	●	●

INVESTMENT STRATEGY 2024/25

Investment Policy – Management of Risk

The Department of Levelling Up, Housing and Communities and CIPFA have extended the meaning of investments to include both financial and non-financial investments. This Investment Policy largely deals with treasury (financial) investments.

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

- DLUHC's Guidance on Local Governments Investments
- CIPFA Treasury Management in Public services Code of Practice and Cross Sectoral Guidance Notes 2021
- CIPFA Treasury Management Guidance Notes 2021

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

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

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

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

- **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 Authority will engage with its advisors to maintain a monitor on market pricing such as **"**credit default swaps" and overlay that information on top of the credit ratings.

- **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

This Authority has defined the list of types of investment instruments that the finance team are authorised to use. There are two lists in Appendix A under the categories of ‘specified’ and ‘non-specified’ investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally, they were classified as being no-specified investments solely due to the maturity period exceeding one year.

- **Non-specified investments** are those with less high level of 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.

Non-specified and loan investment limits. The Authority has determined that it will limit the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments.

Lending Limits, (amounts and maturity), for each counterparty will be set through applying the matrix table below:

Group Limit	Up to 30% of total investments
Other Limits	Up to 50% of investments may be invested for a period of more than 1 year
	Up to 100% of investments may be invested with UK institutions
	Up to 50% of investments may be invested in non-UK institutions
	Up to 100% of investments may be invested for a period of up to 1 year
	Up to 20% of investments portfolio in any one country outside of the UK
Ultra-Short Dated Bond Funds	As the funds are spread over a large number of institutions, these do not form part of any group limit.
Cash Funds	As the funds are spread over a large number of institutions, these do not form part of any group limit.
Property Funds	As the funds are spread over a range of properties, these do not form part of any group limit.

Transaction limits are set for each type of investment in the table below:

Fitch Ratings	Investment Duration	Investment Limit
AAA – Money Market Fund (MMF)	12 months and over	£5,000,000
AAA – Cash Fund (USDBF)	12 months and over	£3,000,000
AAA – Property Fund	12 months and over	£2,000,000
AAA – Supranational Bank	12 months and over	£2,500,000
AAA – Supranational Bank	Less than 12 months	£3,000,000
AA+	12 months and over	£2,000,000
AA+	Less than 12 months	£2,500,000
AA	12 months and over	£1,750,000
AA	Less than 12 months	£2,250,000
AA-	12 months and over	£1,500,000
AA-	Less than 12 months	£2,000,000
A+	12 months and over	£1,500,000
A+	Less than 6 months	£1,750,000
A	12 months and over	£1,000,000
A	Less than 6 months	£1,500,000
A-	12 months and over	£750,000
A-	Less than 6 months	£1,250,000
Nationalised/Part-Nationalised	12 months and over	£1,750,000
Nationalised/Part-Nationalised	Less than 12 months	£2,250,000

Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating,** as set out below:

Approved countries for investment
AAA Australia Denmark Germany Netherlands Norway Singapore Sweden Switzerland **AA+** Finland Canada United States of America **AA** Abu Dhabi (UAE)

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AA- Belgium France Qatar United Kingdom

This Authority has engaged external consultants 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.

All investments will be denominated in sterling.

As a result of the change in accounting standards, some investment instruments could result in an adverse movement in the value of the amount invested, which would result in charges at the end of the year to the General Fund. Any such investments will be kept under consideration.

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. Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year.

The above criteria are unchanged from last year.

Creditworthiness Policy

This Council uses the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's(S&P).

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

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

The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;

- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings; and
- sovereign ratings to select counterparties from only the most creditworthy countries.

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

If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

In addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its passport website, provided exclusively to it by Link Asset Services. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

Limits

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

- **Non-specified treasury management investment limit**. The Authority has determined that it will limit the maximum total exposure of treasury management investments to non-specified investments as detailed in Appendix A.
- **Country Limit.** The Authority will only use approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AA- from Fitch or equivalent. The list of countries that qualify using this criteria are shown in the table detailed earlier in the document. This list will be amended by officers should rating change, in accordance with the Policy.

Other limits. In addition:

- No more than 20% of investments will be place with any non-UK country at any time
- Limits in place will apply to a group of companies
- Sector limits will be monitored regularly for appropriateness.

Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (for periods up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, 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. Cash balances and money market funds are used to ensure short term cash flow.

Investment treasury indicator and limit – total principal funds invested for greater than 365 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need of early sale of an investment and are based on the availability of funds after each year end.

Investment Performance / Risk Benchmarking

The Council will use an investment benchmark to assess the investment performance of its investment portfolio. As the LIBID rate is no longer available, the SONIA rate will be used instead. This rate is 5.19% at the end of February 2024.

The Council is also part of a Warwickshire and West Midlands Investment Benchmarking Group, and also monitors its performance against other members of that group.

End of Year Investment Report

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

External Fund Managers

The Council makes only limited use of external fund managers. This use occurs due to the investments the Council currently holds with Money Market Funds (MMF's). all other investments are managed directly by Officers.

LOCAL GOVERNMENT INVESTMENTS (England)

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated, with maturities up to a maximum of 1 year.

Investment	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Circumstance of use	Maximum period
Money Market Funds (MMF) - Including USDBFs *These funds do not have any maturity date- structured as Open-Ended Investment Companies (OEICs)*	Yes	Yes AAA rated	In-house	the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements
Debt Management Agency Deposit Facility1	Yes	Yes AAA rated	In –house	365 days
Term Deposits- Local Authorities	Yes	N/A	In –house	365 days
Term Deposits- Banks and Building Societies	Yes	See Strategy	In –house	365 days
Banks nationalised by high credit rated countries (sovereign rating)	Yes	Sovereign rating	In -house	365 days
Government guarantee on ALL deposits by high credit rated countries (sovereign rating)	Yes	Sovereign rating	In -house	365 days
UK government support to the banking sector (implicit guarantee)	Yes	UK sovereign rating	In -house	365 days

Monitoring of credit ratings: All credit ratings will be monitored ***weekly or more frequently if needed.***

Forward Deposits: Forward deposits may be made. However, the forward period plus the deal period should not exceed one year in aggregate.

Support: Banks eligible for support under the UK bail-out package and which have debt guaranteed by the Government are eligible for a continuing guarantee when debts mature and are refinanced. The banks which have used this explicit guarantee are:

Bank of Scotland; Barclays; Clydesdale; Coventry Building Society; Investec Bank; Nationwide Building Society; Rothschild Continuation Finance plc; Standard Life Bank; Royal Bank of Scotland; Tesco Personal Finance plc; West Bromwich Building Society; Yorkshire Building Society.

LOCAL GOVERNMENT INVESTMENT (England)

NON-SPECIFIED INVESTMENTS - A maximum of 50% may be held in non-specified investments

Maturities in excess of 1 year **Investment**	**(A) Why use it?** **(B) Associated risks?**	**Repayable/** **Redeemable within 12 months?**	**Security /** **Minimum credit rating ****	**Circumstance of use**	**Max % of overall investments**	**Maximum maturity of investment**
Term deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	Period and amount will be dependent on credit ratings, as shown on authorised list	In-house		*Suggested limit :* *5 years*
Callable deposits with credit rated deposit takers (banks and building societies) with maturities greater than 1 year	(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity. (B) (i) Illiquid – only borrower has the right to pay back deposit; the lender does not have a similar call. (ii) period over which investment will actually be held is not known at the outset. (iii) Interest rate risk : borrower will not pay back deposit if interest rates rise after deposit is made.	No	Period and amount will be dependent on credit ratings, as shown on authorised list	To be used in-house after consultation/ advice from Link		*Suggested limit :* *5 years*

Term deposits- local authorities	Going concern	No	N/A	In house		*Suggested limit :* *5 years*
Property Funds	(A) (i) Enhanced income ~ Potentially higher return than using a term deposit with similar maturity (average 5% yield since 1970). (ii) Reduces Portfolio Risk through a diversified portfolio (B) (i) Illiquid – Property is an illiquid asset class and it is not always possible to sell units immediately. (ii) High Cost of Dealing (iii) high market risk as the property value and performance will fluctuate based on condition of Real Estate market.	No	N/A	To be used in-house after consultation/ advice from Link		*Suggested limit :* *10 years*
UK Gilt Government	A) Enhanced income – potentially higher return than using a term deposit with similar maturity B) Interest rate risk. However, if held to maturity, both principal and interest will be paid. Price will move throughout the life of the gilt		AAA	To be used in-house after consultation/advice from Link		*Suggested limit 10 years*
Bonds issued by a financial institution guaranteed by the UK Government	A) Enhanced income – potentially higher return than using a term deposit with similar maturity B) Interest rate risk. However, if held to maturity, both principal and interest will be paid. Price will move throughout the life of the bond		AAA	To be used in-house after consultation/advice from Link		*Suggested limit 10 years*

Bond Funds **Gilt Funds** **(Collective Investment Schemes structured as Open-Ended Investment Companies)**	A) Enhanced income – potentially higher return than using a term deposit with similar maturity B) Interest rate risk. However, if held to maturity, both principal and interest will be paid. Price will move throughout the life of the bond		AAA	To be used in-house after consultation/advice from Link		*Suggested limit 10 years*
Sovereign Bonds (i.e. other than the UK Government)	A) Enhanced income – potentially higher return than using a term deposit with similar maturity B) Interest rate risk. However, if held to maturity, both principal and interest will be paid. Price will move throughout the life of the bond		AAA	To be used in-house after consultation/advice from Link		*Suggested limit 10 years*
Bonds issued by Multilateral Development Banks	(A) (i) Excellent credit quality. (ii) relatively liquid. (although not as liquid as gilts) (iii) If held to maturity, known yield (rate of return) per annum, which would be higher than that on comparable gilt ~ aids forward planning, enhanced return compared to gilts. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss. (ii) Spread versus gilts could widen	No	AAA or government guaranteed	Buy and hold to maturity : to be used in-house after consultation/ advice from Link		*Suggested limit 10 years*

Sub- Regional Materials Recycling Facility	(A) Enhanced income - Investment opportunity to provide good returns. (B) (i) Limited market if there is a wish to sell shares. (ii) Commercial risks have been taken into account in the business case modelling.		N/A	8 local authorities are in partnership to develop a wholly local authority owned/operated Materials Recycling Facility.		*Limit 25 years*

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