Appendix 1

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2025/26

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1. BACKGROUND AND REPORTING REQUIREMENTS

1.1 Background

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

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

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

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, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

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

1.2 Reporting Requirements

1.2.1 Capital Strategy

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

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

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

1.2.2 Treasury Management Reporting

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

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers: -
    - the capital plans, (including prudential indicators)
    - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
    - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
    - an Annual Investment Strategy, (the parameters on how investments are to be managed)

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, Council will receive quarterly update reports (see below).

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Governance Scrutiny Panel and the Audit Committee.

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

1.3 Treasury Management Strategy for 2025/26

The strategy for 2025/26 covers two main areas:

Capital issues

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

Treasury management issues

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- 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, Department of Levelling up Housing and Communities, (DLUHC) (now Ministry of Housing Communities and Local Government, (MHCLG)) Investment Guidance, DLUHC (now MHCLG) MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. In addition, the Code expects organisations to have a formal and comprehensive knowledge and skills (or training policy) for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

An annual assessment is to be undertaken to assess whether treasury management staff and elected 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. This includes 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 (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/council members, encouraging them to highlight training needs on an ongoing basis.

Treasury Management Training, conducted by Link Treasury Services Ltd, has been undertaken by Audit Committee members on 20th November 2024 and further training will be arranged as required.

The training needs of treasury management officers will be periodically reviewed going forward supported by a self-assessment template provided by CIPFA.

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

1.5 Treasury Management Consultants

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

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

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

2. THE CAPITAL PRUDENTIAL INDICATORS 2025/26 – 2027/28

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

2.1 Capital Expenditure and Financing

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

Capital expenditure £m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Expenditure	46.5	51.6	66.2	34.1	21.9
Leases	7.5	1.0	1.0	1.0	1.0
Total	**54.0**	**52.6**	**67.2**	**35.1**	**22.9**

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

Financing of capital expenditure £m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital receipts	0.3	0.5	0.5	0.5	0.5
External Financing	34.3	36.6	50.8	23.5	13.9
Revenue	7.5	1.0	1.0	1.0	1.0
Leases	0.3	0.5	0.5	0.5	0.5
Net financing need for the year	**11.4**	**14.3**	**14.9**	**10.1**	**7.5**

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

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

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

The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has calculating the amount of such schemes within the CFR and a figure will be included within the final strategy.

The Council is asked to approve the CFR projections below:

£m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Financing Requirement					
Opening CFR	247.7	256.6	263.9	271.0	272.5
Movement in CFR	8.9	7.3	7.1	1.5	(1.5)
Closing CFR	**256.6**	**263.9**	**271.0**	**272.5**	**271.0**

Movement in CFR represented by					
Net financing need for the year (above)	11.4	14.3	14.9	10.1	7.5
Less MRP/VRP and other financing movements	(2.5)	(7.0)	(7.8)	(8.6)	(9.0)
Movement in CFR	**8.9**	**7.3**	**7.1**	**1.5**	**(1.5)**

Note the table above includes CFR for capital expenditure, calculations for leasing will be included in the final TMSS presented to Council 20th February 2025

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

External borrowing £m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Treasury Management	144.3	143.9	142.2	168.6	170.0
Capital Financing Requirement	256.6	263.9	271.0	272.5	271.0
Under/(Over) Borrowing	**112.3**	**120.0**	**128.8**	**103.9**	**101.0**

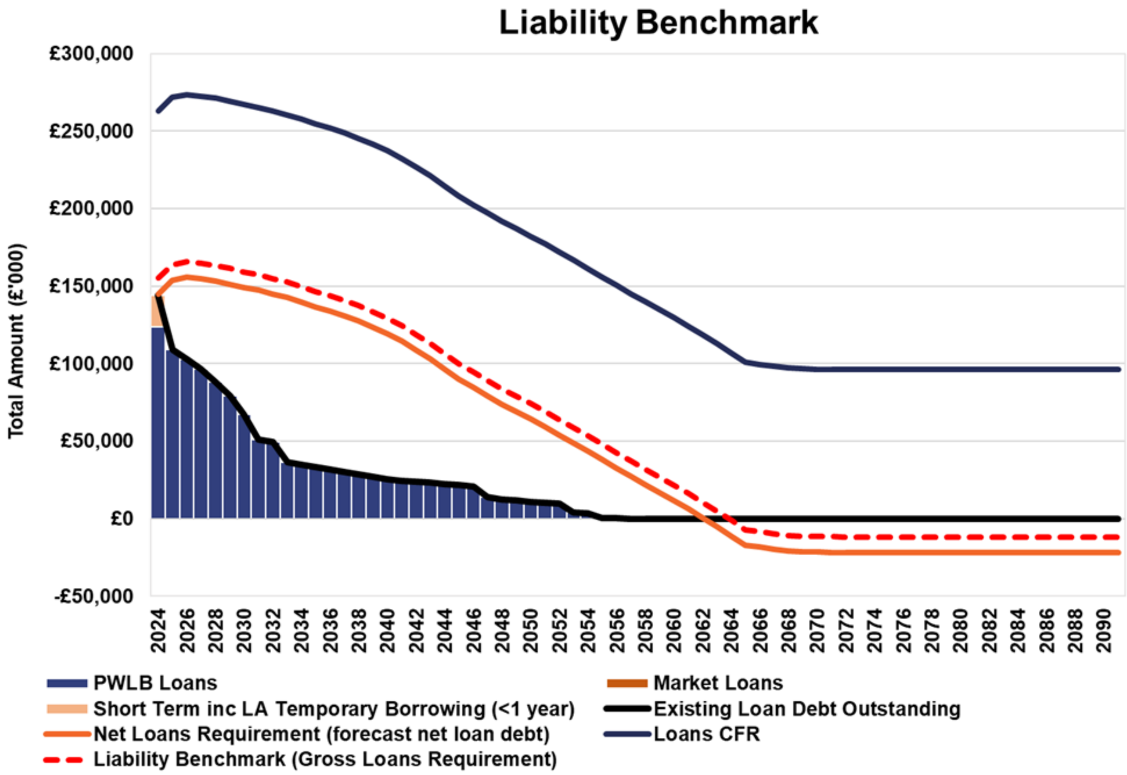
2.3 Liability Benchmark

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

There are four components to the LB: -

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

Council's current LB is as per below:



2.4 Core Funds and Expected Investment Balances

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

Year End Resources £m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Fund balances / reserves	104.8	105.7	112.9	88.8	84.3
Capital receipts	3.1	2.6	2.1	1.6	1.1
Provisions	5.0	5.0	5.0	5.0	5.0
Total core funds	**112.9**	**113.4**	**120.0**	**95.5**	**90.4**
Working capital	11.7	12.0	12.0	12.0	12.0
Under/over borrowing**	(112.3)	(120.0)	(128.8)	(103.9)	(101.0)
Expected investments	**12.2**	**5.3**	**3.2**	**3.5**	**1.3**

2.5 Financing Costs

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. This includes the ratio of financing costs to net revenue stream. This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs), against the net revenue stream.

%	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Estimate of Borrowing	6.5%	7.2%	7.6%	8.4%	8.4%
Target	7.50%	7.50%	7.50%	7.50%	7.50%
Maximum Level	10%	10%	10%	10%	10%

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

2.6 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to set aside an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Position- MRP), although it is allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision- VRP).

MHCLG regulations have been issued which requires full council to approve an MRP statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP statement:

- For expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be:
    - Annuity method with an assumed asset life of 50 years.
- From 1 April 2008 for all unsupported borrowing the MRP policy will be:
    - Asset life method (annuity) - MRP will be based on the estimated life of the assets, in accordance with the regulations using the annuity method. This option provides for a reduction in the borrowing need over approximately the asset's life.

Leases

Repayments included in leases are applied as MRP over the life of the contract. The annual MRP charge will be the amount that has been taken to the balance sheet to reduce the liability, including the retrospective element in the first year of IFRS16 implementation.

Investment Properties

MRP on investment properties will be charged in line with the Council's MRP policy.

Capital Loans

The Authority will apply MRP on capital loans on a straight-line basis over the life of the loan

Capital Receipts

For capital expenditure on loans to third parties where the principal element of the loan has been 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 in line with the principal loan repayment schedule.

Share Capital

Where an Authority incurs expenditure that is capitalised on or after April 2008, which is financed by borrowing for the acquisition of share capital, Regulation 25(1)(d) Acquisition of share capital sets out the maximum period for an authority to provide MRP of 20 years. MRP will be charged on a straight-line basis over a maximum of 20 years

Capitalisation Directive

The Council will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

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

MRP Overpayments

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

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

There are no VRP overpayments as of 31st March 2024.

3 BORROWING

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

3.1 Current Portfolio Position

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

TREASURY PORTFOLIO				
	actual	actual	current	current
	31/03/2024	**31/03/2024**	**31/12/2024**	**31/12/2024**
Treasury investments	£000	%	£000	%
Banks	2,246	18%	4,271	31%
Building societies - unrated		0%		0%
Building societies - rated		0%		0%
Local authorities		0%		0%
DMADF (H.M.Treasury)		0%	4,300	31%
Money Market Funds	10,000	82%	5,150	38%
Certificates of Deposit		0%		0%
Total managed in house	**12,246**	**100%**	**13,721**	**100%**
Bond Funds		0%		0%
Property Funds		0%		0%
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**12,246**	**100%**	**13,721**	**100%**
Treasury external borrowing				
Local Authorities	10,000	7%		0%
PWLB	134,304	93%	130,925	100%
LOBOs		0%		0%
Total external borrowing	**144,304**	**100%**	**130,925**	**100%**
Net treasury investments / (borrowing)	**-132,058**	**0**	**-117,204**	**0**

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

£m	**2023/24 Actual**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
External Debt					
Debt at 1 April	144.6	144.3	143.9	142.2	168.6
Expected change in Debt	(0.3)	(0.4)	(1.7)	26.5	1.4
Actual gross debt at 31 March	144.3	143.9	142.2	168.6	170.0

The Capital Financing Requirement	256.6	263.9	271.0	272.5	271.0
Under / (over) borrowing	**112.3**	**120.0**	**128.8**	**103.9**	**101.0**

Note the table above includes external debt for treasury and capital purposes. IFRS16 Leasing figures will be included in the final TMSS presented to Council 20th February 2025

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

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

3.2 Treasury Indicators: Limits to Borrowing Activity

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

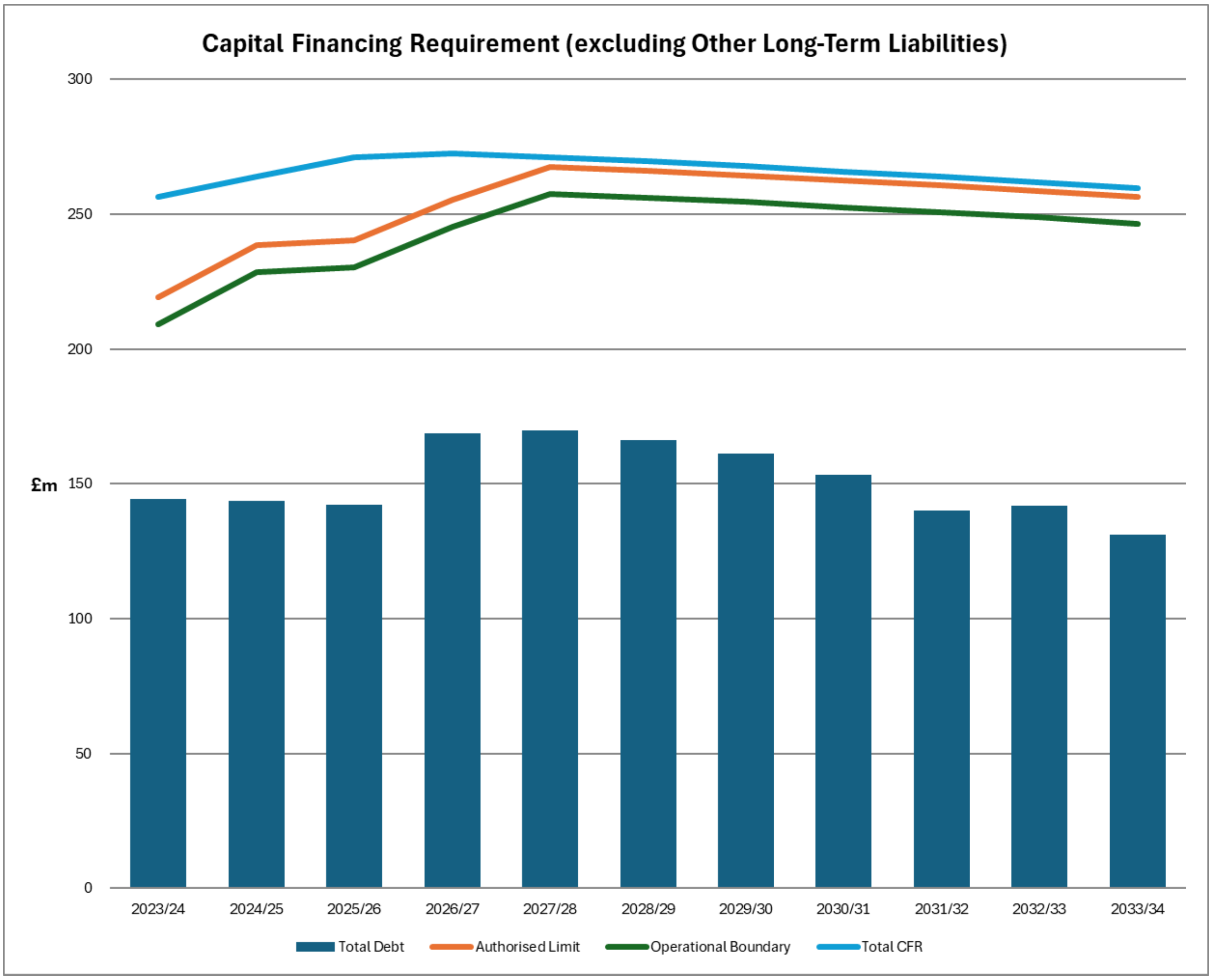
Operational Boundary £m	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	228.4	230.3	245.3	257.5
Other long-term liabilities	10	10	10	10
Total	**238.4**	**240.3**	**255.3**	**267.5**

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 Council is asked to approve the following Authorised Limit:

Authorised Limit £m	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	238.4	240.3	255.3	267.5
Other long-term liabilities	20	20	20	20
Total	**258.4**	**260.3**	**275.3**	**287.5**



Note the chart above includes CFR for capital expenditure, calculations for leasing will be included in the final TMSS presented to Council 20th February 2025

3.3 Prospects for Interest Rates

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

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

Gilt yields and PWLB rates

As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady decline over the forecast period. As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Investment and borrowing rates

- Investment returns and Borrowing interest rates are forecast to have peaked and are likely to reduce during 2025/26. The policy of avoiding new borrowing by running down spare cash balances has served the Council well over the last few years.
- Borrowing for capital expenditure. Our long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.
- The council will continue to borrow when cash balances are forecast to fall below £10m. While the council will not be able to avoid borrowing to finance new capital expenditure and to replace maturing debt, there will be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new borrowing that causes a temporary increase in cash balances.

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

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

3.4 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Chief Finance Officer/Head of Financial Services will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances. The current strategy remains to only borrow to meet cashflow requirements.

Any decisions will be reported to the Audit Committee at the next available opportunity.

3.5 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs and will also not borrow primarily for yield.

3.6 Rescheduling

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

If rescheduling is to be undertaken, it will be reported to the Council, at the earliest meeting following its implementation.

3.7 Approved Sources of Long and Short-term Borrowing

The PWLB remains the primary source of borrowing for the council. Consideration may be given to any other suitable source of borrowing. Other such sources include:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).

- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

- Municipal Bond Agency and UK Infrastructure Bank where circumstances make their use value for money.

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

On Balance Sheet Borrowing Sources	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Finance Leases	●	●

Lender Option, Borrower Option (L.O.B.O.) loans will not be used

3.8 Maturity Structure of Borrowing

These gross limits are set to reduce the Council’s exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

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

Maturity structure of fixed interest rate borrowing 2025/26		
	Lower	**Upper**
Under 12 months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	40%
5 years to 10 years	0%	45%
10 years to 20 years	0%	50%
20 years to 30 years	0%	75%
30 years to 40 years	0%	60%
40 years to 50 years	0%	25%
Maturity structure of variable interest rate borrowing 2025/26		
	Lower	Upper
Under 12 months	0%	100%
12 months to 2 years	0%	90%
2 years to 5 years	0%	90%
5 years to 10 years	0%	90%
10 years to 20 years	0%	50%
20 years to 30 years	0%	20%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy – Management of Risk

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

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

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

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

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

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

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

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

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

4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 5.4 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 non-specified investments solely due to the maturity period exceeding one year.

   Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will not invest in Non-specified investments except if explicitly approved by the relevant cabinet member.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the table in paragraph 4.2.

7. **Transaction limits** are set for each type of investment in 4.2.

8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

9. This Council has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.

10. All investments will be denominated in **sterling**.

11. As a result of the change in accounting standards for 2023/24 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31/3/23. Subsequently, a further extension to the over-ride to **31/3/25** was agreed by Government.

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

Changes in risk management policy from last year.
The above criteria are unchanged from last year.

4.2 Creditworthiness Policy

The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that: -

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

The Chief Finance Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to full Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
    - i. are UK banks; and/or
    - ii. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of AA-

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

    - i. Short Term – BBB; Baa2, BBB

    ii. Long Term – F-3, P-3, A-3

- Banks 2 – Part nationalised UK bank. These can be included provided they continue to be part nationalised or meet the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Bank subsidiary and treasury operation. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
    i. Building societies. The Council will use all societies which meet the ratings for banks outlined above.
- Money Market Funds (MMFs) – *AAAmmf* denominated in sterling and domiciled in a country with a minimum sovereign credit rating of AA-.
- UK Government (including gilts, Treasury Bills and the Debt Management and Deposit Account (DMADF))
- Local authorities, parish councils etc.

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments): -

	Fitch long term rating	The higher of Value	% of portfolio	Time Limit
Banks 1 higher quality	AAA-	5.00	12.5%	1 year
Banks 1 medium quality	AA-	5.00	7.5%	1 year
Banks 1 lower quality	BBB	1.00	2.5%	1 year
Banks 2 – part nationalised	BBB	3.00	7.5%	1 year
Limit 3 category – Council's banker	BBB	5.00	20.0%	60 days
Building Societies	BBB	1.00	2.5%	1 year
Debt Management Account Deposit Facility	UK sovereign rating	Unlimited		1 year
Local authorities	N/A	5.00	10.0%	1year
	Fund rating**	**Value**	**% of portfolio**	**Time Limit**
Money Market Funds - per fund	AAAmmf	5.00	10.0%	liquid

Creditworthiness
The UK Sovereign rating by Fitch remains at AA- with a Stable Outlook.

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

4.3 Other Limits

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

a. **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of *AA-*** from Fitch or equivalent.

b. **Other limits.** In addition: -

- no more than 5% or £2m will be placed with any non-UK country at any time except for non UK domiciled MMFs.
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

4.4 Limits on Commercial Income

A council that is heavily reliant on Commercial Income is subject to a wider range of financial risk than other councils. It is therefore appropriate to place a limit on the level of Commercial Income as a percentage of the net revenue stream. For North Lincolnshire Council this limit is 5%.

Commercial income/net revenue stream/£m	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Rental income	5.39	5.57	5.61	5.61
As a percentage of Net Revenue Stream	3.0%	3.0%	2.9%	2.8%

4.5 Investment Strategy

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

Accordingly, while most cash balances are required in order to manage the ups and downs of 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.

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

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

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

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

4.6 Investment Performance / Risk Benchmarking

This Council will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA as best compares to investment durations.

4.7 End of Year Investment Report

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

4.8 External Fund Managers

The Council does not currently use external fund managers. However, it will keep this decision under review and if it is proposed to engage external fund managers this will be reported to the Audit Committee.