Treasury Management Strategy Statement 2024/25

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Introduction

1. The Local Government Act 2003 (the Act) and supporting regulations require the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent, and sustainable.
2. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. There is also the requirement to produce a Capital Strategy – also for determination by full Council.
3. The Treasury Management strategy covers two main areas:
   (i) Capital issues:
   - the capital plans (in summarised form) and the prudential indicators,
   - the Minimum Revenue Provision (MRP) policy.

   (ii) 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
   - policy on use of external service providers.
4. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.
5. It should be noted that DLUHC is proposing to tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme. The CIPFA codes have adopted a similar outlook to discourage further capital expenditure on commercial investments for yield.
6. DLUHC is also finalising a consultation on amending MRP regulations/guidance for England, it is likely that any changes will take effect from 2024/25 at the earliest.
7. The strategy for 2024/25 in respect of the following aspects of the treasury management function is based upon the Council officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Link Group.

Revisions to the Prudential Code and Treasury Management Code

8. CIPFA published the revised Codes on 20th December 2021 and has stated that revisions

need to be included in the reporting framework from the 2023/24 financial year. The Council, therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to full Council for approval.

9. The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes:

    Treasury Management

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

    Service Delivery

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

    Commercial Return

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

10. The revised Treasury Management Code requires an authority to implement the following:

    1. **Adopt a new liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.
    2. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case.
    3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year.
    4. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority.
    5. **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to full Council and should be reported as part of the authority's integrated revenue, capital, and balance sheet monitoring.
    6. **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

11. The main requirements of the Prudential Code relating to service and commercial investments are:

    1. The risks associated with service and commercial investments should be proportionate to their financial capacity, i.e., that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.

2. An authority must not borrow to invest for the primary purpose of commercial return.
3. It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
4. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.
5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream.
6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

12. The authority's Capital Strategy or Annual Investment Strategy should include:

    1. The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence.
    2. An assessment of affordability, prudence, and proportionality in respect of the authority's overall financial capacity (i.e., whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).
    3. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed.
    4. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments).
    5. Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy).
    6. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

13. This Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments are addressed as part of the Capital Strategy.

14. However, as investments in commercial property have implications for cash balances managed by the treasury team, a high-level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three-year time horizon of this report.

Background

15. The Council 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 Council's low risk appetite, providing adequate liquidity initially before considering investment return.

16. 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

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economic, any debt previously drawn may be restructured to meet risk or cost objectives.

17. 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.

18. 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."*

19. 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.

Reporting Requirements

Capital Strategy

20. 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 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.

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

Treasury Management Reporting

22. 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, the Council will report performance against all forward-looking prudential indicators quarterly as part of the quarterly budget monitoring process.

    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.

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Scrutiny

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

Quarterly reports

24. In addition to the three major reports detailed above, from 2024/25 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to full Council but do require to be adequately scrutinised. The Overview & Scrutiny Committee undertake this role.

Treasury Management Strategy for 2024/25

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.

26. 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

27. 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.

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

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

    - Record attendance at training and ensure action is taken where poor attendance is identified.
    - Prepare tailored learning plans for treasury management officers and board/council members.
    - Require treasury management officers and board/council members to undertake self-assessment against the required competencies (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."

30. The training needs of treasury management officers are periodically reviewed.

31. A formal record of the training received by officers central to the Treasury function will be maintained by People and Places. Similarly, a formal record of the treasury

management/capital finance training received by members will also be maintained by the Chief Finance Officer.

32. Treasury Management Training was offered to all members on 11th January 2023 with further training arranged, as required.

Treasury Management Consultants

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

34. The Authority 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.

35. It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority 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.

PRUDENTIAL INDICATORS AND TREASURY LIMITS FOR 2023/24 TO 2025/26

36. 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.

The Council's Capital Position (Prudential Indicators)

37. The prudential code requires the local authority to identify prudential indicators that enable members, officers, and the public to make a meaningful judgement on the Council's total exposure from borrowing and investment decisions. The indicators are required to cover both the Council's current position and the expected position assuming all planned investments in the forthcoming years are completed.

Capital Expenditure and Financing

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

	Actual 2022/23 £'000s	**Budget 2023/24 £'000s**	**Forecast 2023/24 £'000s**	**Budget 2024/25 £'000s**	**Budget 2025/26 £'000s**	**Budget 2026/27 £'000s**
Capital Expenditure	**9,661**	**22,194**	**17,144**	**12,652**	**6,090**	**3,799**
Financed by:						
Capital receipts	3,778	952	2,579	5,130	300	50
Capital grants	5,883	3,533	8,907	4,861	2,433	2,064
Reserves	0	0	271	0	0	0
Revenue	0	0	0	0	0	0
Net financing need for the year	**0**	**17,709**	**5,387**	**2,661**	**3,357**	**1,685**

39. Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

40. The schemes in the capital programme which may require additional financing (at least in part) in 2024/25 are:

- Housing Acquisition Programme 50 units of Temporary Accommodation (£4.7m)

- Energy generation - Unallocated (£1m)
- Roof Refurbishment programme (£700k)
- Energy – Solar Panels (£500k)
- Priory Meadow Contribution to Capital Works (£250k)
- Restoration of Pelham Crescent / Pelham Arcade (£340k)
- Groyne Refurbishment (£35k)

Borrowing Needs (the Capital Financing Requirement)

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

42. 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.

43. The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Authority currently has no such schemes within the CFR.

44. The Council is asked to approve the CFR projections below, the table provides an estimate of the Council's Capital Financing Requirement (CFR) for the current and next 3 years.

Table 1 - Capital Financing Requirement (CFR)

CFR	2022/23 (Unaudited) £'000s	2023/24 (Estimate) £'000s	2024/25 (Estimate) £'000s	2025/26 (Estimate) £'000s	2026/27 (Estimate) £'000s
CFR-Opening	71,970	71,099	70,195	69,229	68,208
Less MRP	(870)	(904)	(966)	(1,021)	(1,125)
Plus, New Borrowing	-	-	-	-	-
CFR Closing	71,099	70,195	69,229	68,208	67,083

45. The Council has at the time of writing, c£64.9m of PWLB debt. To borrow for the remainder of the 2023/24 capital programme i.e., up to the projected level of the CFR (£70.1m) it would need to fund a further £5.3m by the end of March 2024. The Capital Financing Requirement will gradually decrease over the next few years. It is expected to reach £68.7m by 2026/27 (based on the capital programme).

46. As a key indicator the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2024/25 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.

47. The total CFR can also be reduced by:

    (i) the application of additional capital financing resources (such as unapplied capital receipts), or

    (ii) charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

48. The Council had achieved a near fully funded position at the start of 2022/23. This means that the capital borrowing need (the Capital Financing Requirement), has been fully funded

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with loan debt. This strategy had been considered prudent as borrowing costs had been increasing. However, there is a cost of doing this as investment returns albeit currently higher than in previous years are unlikely to remain at current levels.

49. During 2021/22 and much of 2022/23, interest rates on were on the rise, thus there was a strong case to not borrow externally. until we really had to, i.e., temporarily. This was the strategy that was proposed for 2023/24 (as far as practical) and has saved on borrowing costs and assisted the Council's revenue account. There is however only a limited ability to do this given the depletion of Council reserves, and funds already invested for longer periods.

50. For 2023/24 the Council started the year with internal borrowing of £5.4m - cash supporting the Council's reserves balances and cash flow has been used as a temporary measure to fund Capital expenditure. With recent interest rate increases, and forecast that they will remain static, or fall slightly in the short to medium term, the Council will need to continue to minimise external borrowing.

51. To finance the future Capital program, it is envisaged that no new long-term external borrowing will be required by the Council. The key consideration is the level of internal borrowing. The Chief Finance Officer will make these decisions in conjunction with advice and guidance from our treasury advisors. Current guidance suggest that interest rates have peaked, and will remain at current levels, the short, so the strategy will be to utilise internal borrowing as much as possible to see us through until an expected lower rate environment. Where borrowing is required the option of borrowing short-term will be considered rather than locking into to higher rates for a prolonged period. Some longer-term borrowing might be required and will be advantageous where affordable as it reduces the risk of future adverse movements in interest rates.

52. The table below highlights the Council's projected gross borrowing position against the CFR (showing the level that is financed from internal borrowing).

Table 2 - Council's Projected Gross Borrowing Position Against the CFR

Internal Borrowing	**2023/24 Forecast £000's**	**2023/24 Estimate £000's**	**2024/25 Estimate £000's**	**2025/26 Estimate £000's**
Capital Financing Requirement (CFR)	71,099	70,195	69,229	68,208
External Funding	65,712	67,534	65,872	66,523
Net Internal Funding	**5,387**	**2,661**	**3,357**	**1,685**

53. The Council is now (20 January 2024) maintaining an under-borrowed position. Borrowing activity is constrained by prudential indicators particularly the CFR, and by the authorised limit. The Council's long-term borrowing must only be for a capital purpose. This essentially means that the Council cannot borrow to support revenue expenditure.

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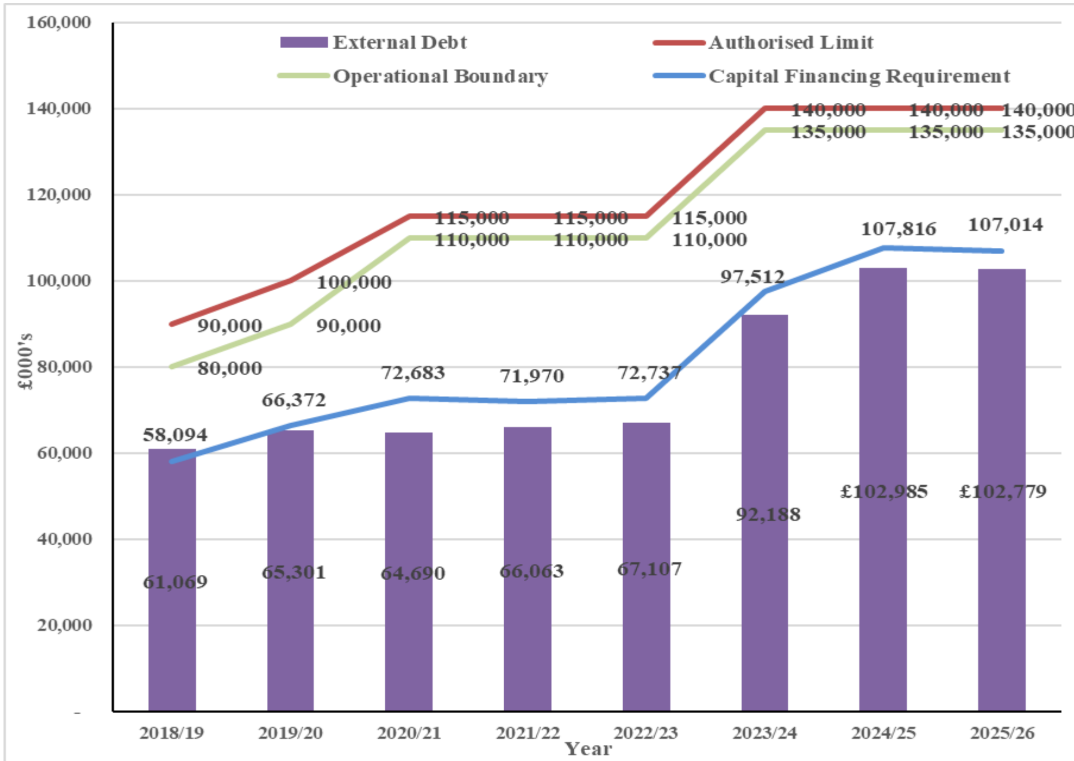
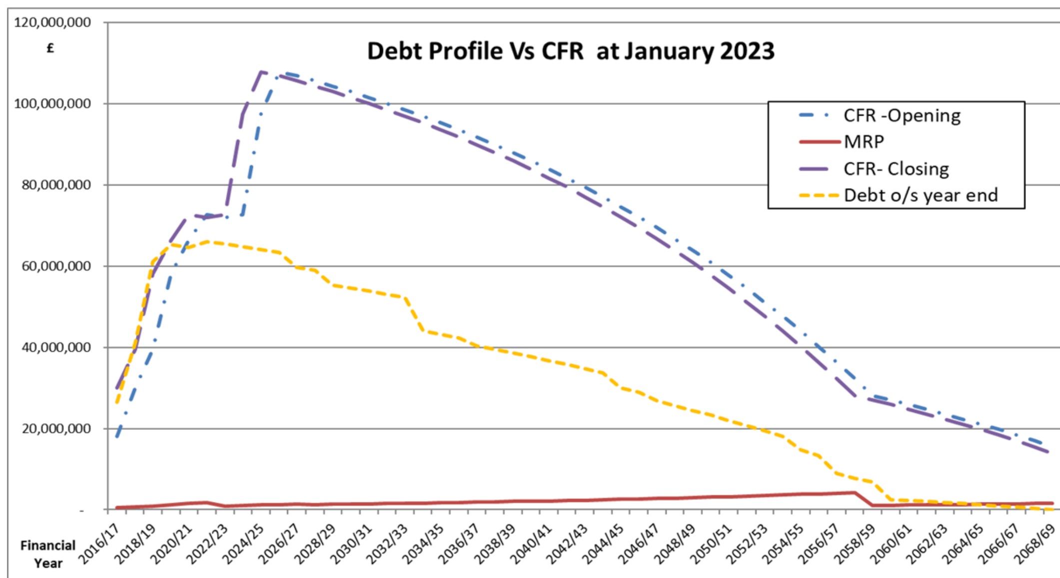
Debt Profile and CFR

54. The graph below shows how the CFR (blue and purple lines) reduce over time as MRP payments are made. The yellow line shows the level of external debts reducing as principal repayments are made (see debt maturity graph below).

Table 3 - External Debt, Authorised Limits and CFR Projections





55. The graph above is based on the current known capital programme up to 2026/27. If further capital expenditure is finance by borrowing, which is highly likely, then this will push the trajectory of the graph out into further years and increase future MRP payment.

Liability Benchmark

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

57. There are four components to the LB:

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

Core Funds and Expected Investment Balances

58. 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.

59. The treasury indicators for borrowing activity are the **Authorised Limit** and the **Operational Boundary** for external debt.

60. The **Authorised Limit**, which is a limit beyond which external debt is prohibited, needs to be set or revised by the full Council; it is a statutory duty under Section 3 (1) of the Local Government Act 2003 and supporting regulations. It reflects the level of borrowing which, while not desired, could be afforded in the short term. It is the expected maximum borrowing need with some headroom for unexpected movements.

Authorised Limit	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000
Debt	110,000	135,000	135,000	135,000	135,000
Other long-term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	115,000	115,000	140,000	140,000	140,000

61. The **Operational Boundary** is the limit beyond which external debt is not normally expected to exceed.

Operational Boundary	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000
Debt	105,000	130,000	130,000	130,000	130,000
Other long-term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	110,000	110,000	135,000	135,000	135,000

62. Essentially the Council is required to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council Tax levels is 'acceptable.'

63. Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion in the Capital programme incorporate financing by both external borrowing as well as other forms of liability e.g., Credit arrangements (such as leases).

64. The Authorised Limit and Operational Boundary are to be set, on a rolling basis, for the forthcoming financial year and two successive financial years by full Council as part of this strategy.

65. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

66. Given the current level of capital expenditure plans for the years ahead it is recommended that the limits are maintained at the existing levels to allow sufficient headroom for our capital aspirations.

Minimum Revenue Provision (MRP)

67. Appendix 1 of this report provides the detail on what the MRP is and the basis of the calculation. Basically, authorities are required each year to set aside some of their revenues as provision for debt repayment. Unlike depreciation, which is reversed out of the accounts, this provision has a direct impact on the Council Tax requirement. The provision is in respect of capital expenditure that is financed by borrowing or credit arrangements e.g., leases.

68. The Council is required to make a "Prudent Provision" which basically ensures that revenue monies are set aside to repay the debt over the useful life of the asset acquired i.e., the Minimum Revenue Provision (MRP). This can be achieved by equal annual instalments (current practice) or an annuity method – annual payments gradually increasing over the life of the asset. Where an annuity loan is taken, the Council's policy (Appendix 1) was amended to reflect the matching, as far as possible, of the MRP with the actual principal repaid (within each debt repayment).

69. The MRP for 2024/25 is estimated at £966,000 (the statutory charge to revenue that remains within the accounts).

70. The Government are consulting on amending MRP regulations/guidance for England. One of the revisions likely is to make it clear to all authorities that where loans have been made for capital purposes to other organisations e.g., local authority companies, housing providers, then provision for debt repayments must be made. Hastings BC has always done so and is not caught out by this sensible requirement. The latest information we have is that any changes to the guidance will take effect from 2024/25 at the earliest.

PROSPECTS FOR INTEREST RATES

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

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

72. The central forecast for interest rates was previously updated on 7 November and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).

73. Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

74. In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the

provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

Public Works Loan Board (PWLB) Rates

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

The balance of risks to the UK economy:

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

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

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

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

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

LINK GROUP FORECASTS

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

Gilt yields and PWLB rates

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

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

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

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

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

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

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

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

Borrowing Strategy

83. The Authority 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 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 by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

84. Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

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

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

Current Portfolio Position

86. The Council's forecast debt position for 31 March 2024, if no further borrowing is taken for the rest of the financial year, as at 15 January 2024, amounted to £65.4m (See Table X below).

Table 4 - Borrowing

Debt	1 April 2023 Principal	Start Date	Maturity Date	31 March 2024 Principal	Rate
PWLB	£7,500,000	25/05/2007	01/02/2033	£7,500,000	4.80%
PWLB	£909,027	04/09/2014	02/09/2044	£909,027	3.78%
PWLB (Optivo)	£1,788,235	04/09/2014	02/09/2044	£1,788,235	3.78%
PWLB (FT)(Annuity)	£95,262	21/03/2016	20/03/2026	£79,712	1.66%
PWLB	£1,000,000	11/05/2016	11/05/2056	£1,000,000	2.92%
PWLB	£1,000,000	11/05/2016	11/05/2046	£1,000,000	3.08%
PWLB	£1,000,000	11/05/2016	11/05/2036	£1,000,000	3.01%
PWLB	£1,000,000	11/05/2016	11/05/2026	£1,000,000	2.30%
PWLB	£2,000,000	24/06/2016	24/06/2054	£2,000,000	2.80%
PWLB	£1,000,000	24/06/2016	24/06/2028	£1,000,000	2.42%
PWLB	£2,000,000	21/03/2017	21/03/2057	£2,000,000	2.53%
PWLB	£2,000,000	21/03/2017	19/09/2059	£2,000,000	2.50%
PWLB	£2,000,000	23/03/2017	23/03/2060	£2,000,000	2.48%
PWLB (Annuity)	£6,652,722	01/06/2017	01/06/2057	£6,530,042	2.53%
PWLB (Annuity)	£7,729,610	22/11/2017	22/11/2057	£7,595,155	2.72%
PWLB	£2,000,000	12/12/2018	12/06/2028	£2,000,000	1.98%
PWLB (Annuity)	£3,756,930	13/12/2018	13/12/2058	£3,692,214	2.55%
PWLB (Annuity)	£2,348,400	31/01/2019	31/01/2059	£2,308,028	2.56%
PWLB (Annuity)	£4,226,034	31/01/2019	31/01/2069	£4,177,042	2.56%
PWLB (Annuity)	£8,827,583	20/03/2019	20/03/2059	£8,751,881	2.54%
PWLB (Annuity)	£4,587,401	02/09/2019	02/09/2069	£4,555,098	1.83%
PWLB	£2,000,000	13/01/2022	13/01/2062	£2,000,000	1.89%
Total Debt	**£65,421,204**			**£64,887,244**	**2.81%**

87. The Council has loaned money to four other organisations. Six longer-term loans are outstanding. Namely:

Table 5 - Loans to Other Organisations

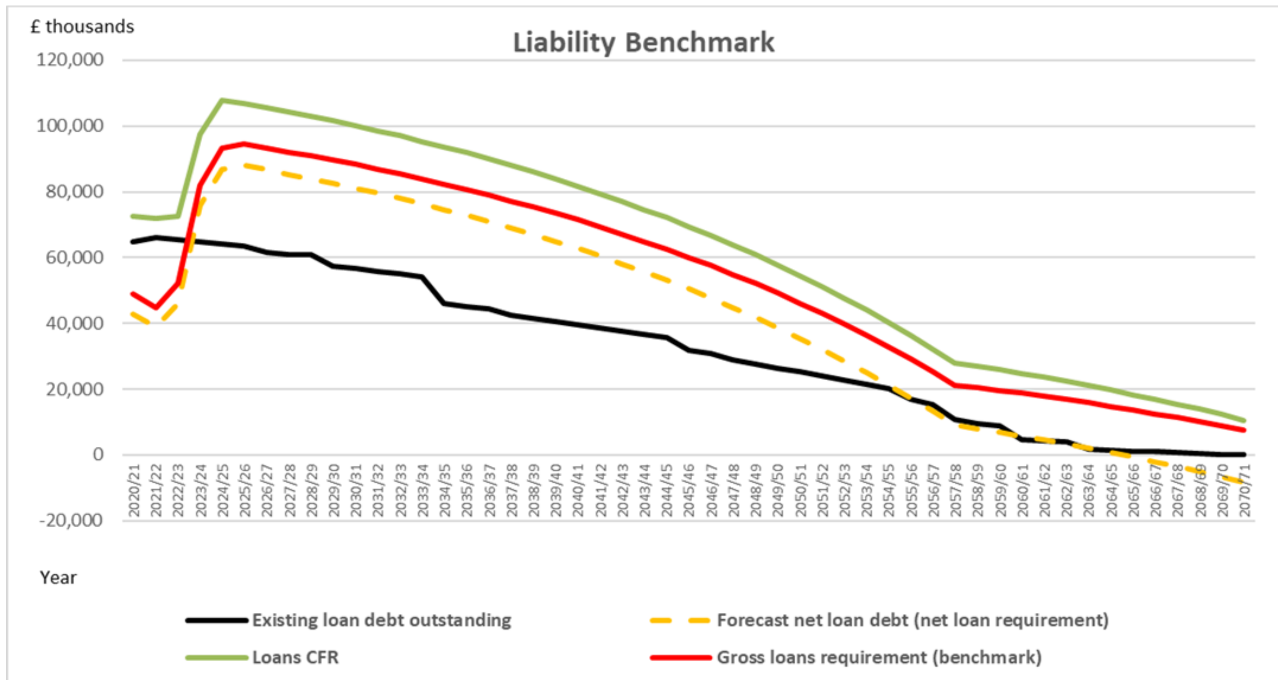
3rd Party Organisations	Rate/ Return (%)	Start Date	End Date	Principal Outstanding as at 31/03/2024 £	Type
Amicus /Optivo	3.78%	04/09/2014	02/09/2044	£1,788,235	Maturity
The Foreshore Trust	1.66%	21/03/2016	20/03/2026	£79,712	Annuity
The Source	2.43%	17/12/2015	17/12/2025	£8,144	Annuity
			Sub-Total	**£1,876,091**	
Hastings Housing Company					
Hastings Housing Company - Loan 1	4.48%	28/02/2018	28/02/2058	£784,676	Maturity
Hastings Housing Company - Loan 2	4.84%	12/02/2019	12/02/2059	£344,810	Maturity
Hastings Housing Company - Loan 3	4.84%	13/06/2019	13/06/2059	£4,359,912	Maturity
			Sub-Total	**£5,489,398**	
			Total	**£7,365,489**	

88. Borrowing from the PWLB was taken to fund the Amicus Horizon (now Optivo) loan (£1,788,235 - maturity loan) and the loan to the Foreshore Trust (£300,000 originally

borrowed – annuity loan); these correspond to PWLB loans in Table 1 above. The £25,000 loan to the Source is repayable over a 10-year period and is financed from HBC reserves.

89. Borrowing from the PWLB was taken to fund the loans to Hastings Housing Company Ltd (HHC). The three loans, totalling £5,489,398, are maturity loans and will be due for repayment by HHC at the end of their term.

90. The Liability Benchmark for the Council is shown in the chart below.



91. Some analysis on the lines on the chart above is provided below:

- Existing Loan Debt Outstanding (black line) – The line shows the external loans that the Council has with the PWLB and how the value decreases over time as the principal is repaid.
- Loans CFR (green line) – This line shows the Capital Financing Requirement for the Council. The line decreases as annual MRP payments are made.
- Net Loan Debt (yellow dotted line) – This line shows the Council's debt (CFR) less the value of any external investments it has made i.e., the net debt. You can see that in 2065/66 the line goes below zero and becomes negative. This is because the value of external investments the council is forecasting to be holding is greater that the level of debt that the council has.
- Gross loans requirement (red line) – this line very closely mirrors the Net Loan Debt (yellow dotted) line. It essentially shows the same thing but with an added liquidity allowance – essentially a working balance for the council's treasury activities. This level has been set at £6m to match the councils minimum recommended level of reserves (but in the chart has been inflated by 2% annually so that it maintains its value in real terms).

92. It should be noted that the Liability Benchmark is only a snapshot in time and as capital expenditure plans evolve further borrowing is likely to be incurred which will increase the CFR and push the point at which the lines move towards zero further out into future years.

Borrowing – Overall Limits

93. In determining what is a prudent level of borrowing, the Council needs to ensure that it would still be able to provide core services if its investments or income generating initiatives failed

– at least in part. As a guide each £1m of new borrowing, financing an asset with a life of 50 years would currently cost the Council some 5.5% p.a. (based on an annuity loan with a 5% interest rate) i.e., £55,000 p.a.

94. In taking on significant levels of additional debt the Council has to ensure that it can afford to do so. It also needs to ensure that it has an affordable exit strategy in the event that expected returns are not realised. Where property is concerned there is normally an asset to dispose of and such schemes are not therefore at the higher end of the risk spectrum. It is considered that the Council currently has sufficient reserves to ensure that it could dispose of assets in a reasonable period and not be forced into an immediate fire sale. In the event that property values fell by say 20% the Council would not be forced to sell assets providing the rental streams were secure.

Borrowing – Certainty Rate

95. The Council again registered for the PWLB certainty rate earlier in the year which has given a 20-basis point reduction in the average rate of borrowing. The Council will look to do so again annually – for as long as it remains available.

Policy on Borrowing in Advance of Need

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

97. In determining whether borrowing will be undertaken in advance the Council will:

    a. ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance.

    b. ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.

    c. evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.

    d. consider the merits and demerits of alternative forms of funding.

    e. consider the appropriate funding period.

    f. consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and the level of such risks given the controls in place to minimise them.

98. 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.

Rescheduling

99. 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.

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

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

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

    - Local authorities (primarily shorter dated maturities out to 3 years or so – generally still

cheaper than the Certainty Rate).

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

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

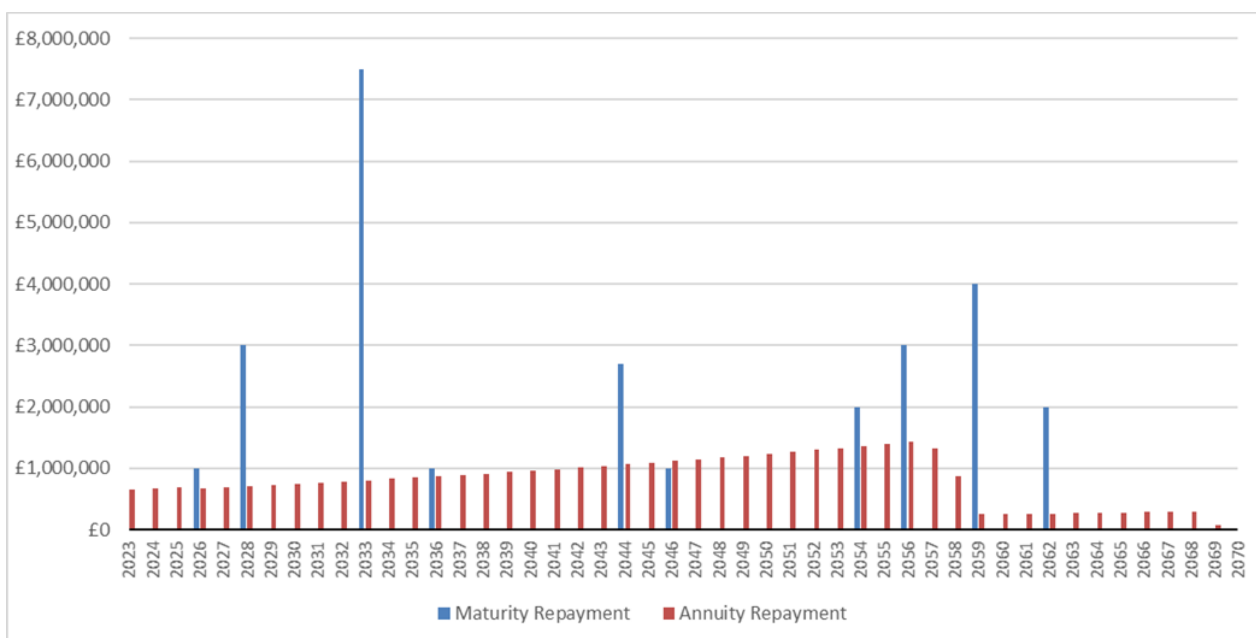
Borrowing – Timing

103. The general aim of this treasury management strategy is to minimise the costs of borrowing in both the short and longer term. In the short term it can consider avoiding new borrowing and using cash balances to finance new borrowing (internal borrowing). However, to minimise longer term costs it needs to borrow when rates are at lower levels. The timing of new borrowing is therefore important to minimise the overall costs to the Council.

104. The Council has previously sought to achieve near full financing of the Capital programme via external debt over recent years in order to take advantage of the historically low borrowing rates and avoid the risk of having to lock into high interest rates when it has no option but to borrow. For the last year, a higher level of internal borrowing was adopted to temporarily finance long life assets. Currently, with interest rates looking likely to increase further the Council is considering externalising some of the internal debt to lock in rates at lower levels.

Debt Maturity

105. The Graph below shows the profile of when debt (loans from the PWLB) become repayable. Blue lines indicate maturity loans and red lines indicate annuity loans.



106. The Council will need to carefully consider the structure and timing of any new borrowing to ensure debt does not exceed the CFR in the years ahead.

Approved Sources of Long and Short-term Borrowing

107. The following are the approved sources of long and short-term borrowings permitted by the council:

On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●

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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	●	●

Summary

108. No new external borrowing has been taken over the last 12 months but instead the council has been utilising internal borrowing to minimise interest costs.

109. The capital expenditure plans require no further new borrowing by the Council. The plans play a large part in the consideration as to when to borrow and the level of internal borrowing. The Council has taken advantage of other investment opportunities which have been providing higher returns than the cost of borrowing e.g., property funds. To date the Council has increased the level of internal funding in order to save on interest payments as the cost of these exceeds returns that can be achieved by investing surplus funds in the short term.

110. For the last few years, the cheapest borrowing has been internal borrowing by running down cash balances and foregoing interest earned at historically low rates. However, the Council may not have sufficient balances to temporarily finance all the capital expenditure in 2024/25 and may need to borrow before March 2025. In view of the overall forecast for long-term borrowing rates to remain static in the medium term, consideration has been given to weighing the short-term advantage of internal borrowing against the potential increase in long term costs if rates rise.

111. Where required, the use of PWLB variable rate loans for up to 10 years will still be considered as they can be repaid early without early redemption premiums. They can also be converted into longer dated fixed rate debt should it be considered prudent to do so.

112. The use of fixed rate market loans will also be considered should rates be below PWLB rates for the equivalent maturity period. The use of either PWLB maturity or annuity loans will be considered in order to minimise annual borrowing costs.

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ANNUAL INVESTMENT STRATEGY

Investment Policy

113. The Department of Levelling Up, Housing and Communities (DLUHC - formerly 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, are covered in the Capital Strategy.

114. The Council's investment policy has regard to the DLUHC's Guidance on Local Government Investments ("the Guidance"), the CIPFA Treasury Management in the Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code") and the CIPFA Treasury Management Guidance Notes 2021.

115. The Council has had various investment limits depending upon the credit rating e.g., £5m with any one institution with a minimum short-term rating of F+, and a long-term rating of A+ or above, supported by a red (6 month) rating by Link Group. The £5m limit generally represents a level of up to 25% of the investment portfolio with any one institution or group at any one time. It is also necessary, at times, to invest sums of this size in order to attract the larger institutions which have the higher credit ratings.

116. The guidance from the DLUHC 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:

    a) 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.

    b) **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.

    c) **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.

    d) 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 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.

    e) **Lending limits**, (amounts and maturity), for each counterparty as set out in the **creditworthiness** policy below.

    f) **Transaction limits** are set for each type of investment.

    g) Investments will only be placed with counterparties from countries with a **specified minimum sovereign rating**.

    h) This Council has engaged **external consultants** (Link Group), to provide expert advice on how to optimise an appropriate balance of security, liquidity, and yield, given the risk

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appetite of the council in the context of the expected level of cash balances and need for liquidity throughout the year.

i) All investments will be denominated in **sterling**.

j) Consideration will be given to organisations Environmental, Social & Governance (ESG) credentials, although no scoring will be applied.

k) As a result of the change in accounting standards for 2023/24 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.

117. However, the Council 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.

118. There are no changes in our risk management policy and the above criteria remain unchanged from last year.

Creditworthiness Policy

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

1. "watches" and "outlooks" from credit rating agencies,
2. CDS spreads that may give early warning of changes in credit ratings,
3. sovereign ratings to select counterparties from only the most creditworthy countries.

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

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

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

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

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

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

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

Creditworthiness

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

CDS prices

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

Limits

127. 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. **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 25% of the total treasury management investment portfolio.

    b. **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of *AA-*** from Fitch *(or equivalent*). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Other limits

128. In addition:

- no more than £10m will be placed with any non-UK country at any time,
- limits in place above will cumulatively apply to a group of companies/institutions,
- sector limits will be monitored regularly for appropriateness.

Investment Strategy

129. As at January 2024 the Council had cash balances amounting c£29.2m. The monies held are higher than would normally be expected and include monies that the Council is holding in respect of a number of grant schemes.

130. 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 the Council's risk appetite.

131. The Chief Finance Officer has the authority to amend the limits on a daily basis, if necessary, to ensure that monies can be placed with appropriate institutions. The use of Money Market

funds is anticipated, the Council is setup on a portal to allow access to a diversified range of money market funds from different providers.

132. The effects of the pandemic and conflicts continue to impact on countries around the world and in turn on credit ratings. The Council follows the Credit ratings of Link Group, and the ratings now enable the Council to invest £5m with any one institution with a minimum short-term rating of F (rather than F+), and a long-term rating of A+ and above (Unchanged), supported by a red (6 month) rating.

133. 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 Council is in the position to ensure that its cash balances are spread across numerous counterparties.

134. **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 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.

135. 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.

136. The current forecast shown in paragraph 70, includes a forecast for Bank Rate to have peaked at 5.25%.

137. 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	
2023/24 (residual)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

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

139. For cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, Money Market Funds, and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

Investment treasury indicator and limit

140. For total principal funds invested for greater than 365 days, these limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

141. The Council is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	**2024/25**	**2025/26**	**2026/27**
Principal sums invested for longer than 365 days	£5m	£5m	£5m
Current investments as at 31/12/23 in excess of 1 year maturing in each year	£5m	£5m	£5m

Investment Strategy – Property Fund

142. It was agreed in February 2017 that the option for diversification of some of the investments into a property fund be undertaken with CCLA in the sum of £2m. The investment being in respect of the Council's reserves that are not required for a period of at least 5 years in order that any fall in values and entry costs into such funds can be covered. The £2m was invested in April 2017 and the performance is detailed below:

Table 6: CCLA – LA's Property Prices and Dividend yields

End of	Sept 23	June 23	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Offer Price p	303.70	307.30	307.73	368.46	313.45	315.7	327.4
Net Asset Value p	284.50	287.87	288.27	345.17	293.63	295.74	306.7
Bid Price p	280.09	283.41	283.80	339.82	289.08	291.15	301.95
Dividend* on XD Date p	3.74	3.35	3.09	2.7875	2.9797	3.25	3.31
Dividend* - Last 12 Months p	13.27	12.79	12.29	11.22	12.63	13.06	13.08
Dividend Yield on NAV %	4.66	4.44	4.26	3.13	4.3	4.41	4.26

143. The dividend yield is currently around 4.7% p.a. on the net asset value. Dividends for the first 2 quarters of 2023/24 amount to £46,160 (£39,811 at the same point last year). Full year dividends for 2023/24 are estimated at around £86,400 and a similar return is anticipated for 2024/25.

Table 7: CCLA - Property Fund Capital Value

Units (651,063)	Sep-23	Jun-23	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Mid-Market Price(£)	1,852,274	1,882,874	1,876,819	2,247,274	1,911,716	1,925,454	1,996,810
Bid Price (£)	1,823,562	1,845,178	1,847,717	2,212,442	1,882,093	1,895,570	1,965,885

144. The Capital value (Net market Value) has decreased by 7.2% between April 2020 and September 2023 and is now below the original investment.

Diversified Income Fund

145. It was agreed in February 2019 that a sum of £3m would be made available for further diversification of the Council's investments. £1m was invested on 26 July 2019 and a further £2m investment was made on 24 September 2019 into the CCLA Diversified Income Fund. Anticipated returns were around 3% with the added advantage of much higher liquidity than the property fund.

146. The market value of the initial investment was £3,012,479 as at the end of December 2019. In March 2020 the market value had fallen to £2,620,089, this has seen a recovery with a market value of £2,824,439 on 29 December 2023 (6.2% below the initial investment value). Dividend yield on price was 3.25% for December 2023 (3.0% March 2023). Dividends payable for the first 2 quarters of 2023/24 amount to £41,073 (£44,402 for the same period last year). It should be remembered that this is a long-term investment and prices can go up and down.

Investment Performance / Risk Benchmarking

147. This Authority 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.

End of Year Investment Report

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

Regeneration and Economic Development - Income Generation

149. The Council has remained keen to pursue capital schemes that also generate income. Substantial investments in housing and energy projects will necessitate new borrowing. The levels of new borrowing that the Council can afford to take on board will be dependent upon the individual proposals and credit worthiness of the counterparties involved.

150. The additional risks that the Council is taking on need to be considered in the context of the totality of risk that the Council faces e.g., external claims, rates revaluation, robustness of income streams, economic downturns, etc. Where there is more risk and volatility in income streams, the Council will need to ensure that it maintains sufficient reserves to ensure the Council's ability to deliver key

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services is not jeopardised.

Policy on Use of External Service Providers

151. The Council uses Link Group, Treasury solutions as its external treasury management advisors. There is currently value in employing external providers of treasury management services in order to acquire access to credit worthiness information and specialist advice.

Training

152. The CIPFA Code requires the responsible officer (Chief Financial 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 terms of treasury management in general, training has been undertaken by members on an annual basis to date.

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

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

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

155. Treasury Management Training was offered to all members on 11th January 2023 with further training arranged, as required.

156. The training needs of treasury management officers are periodically reviewed.

157. A formal record of the training received by officers and members central to the Treasury function is maintained by the Deputy Chief Finance Officer.

MiFID II (Markets in Financial Instruments Directive)

158. In brief, this directive requires the Council to distinguish itself as either a retail or professional client. In order to qualify for professional status, the Council is required to show that it has more than £10m in investments, invests regularly (more than 10 times a quarter), as well as having appropriately trained and experienced staff.

159. To date only two counterparties have required us to complete the forms in order to maintain the existing professional status. The directive became law on 1 January 2018.

160. The two parties to date are Link Group and CCLA. A schedule of such counterparties will be maintained, as per the requirements of the Code, should the list expand further.

Scheme of Delegation

161. Please see Appendix 9.

Role of the Section 151 Officer

162. Please see Appendix 10.

APPENDIX 1

Minimum Revenue Provision – An Introduction

What is a Minimum Revenue Provision?

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g., buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred therefore such expenditure is spread over several years in order to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision, which was previously determined under Regulation, and will in future be determined under Guidance.

Statutory duty

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 in advance of each financial year.

There is no requirement to charge MRP where the Capital Financing Requirement is nil or negative at the end of the preceding financial year.

Government Guidance

Along with the above duty, the Government issued guidance which came into force on 31st March 2008 which requires that a Statement on the Council's policy for its annual MRP should be submitted to the full Council for approval before the start of the financial year to which the provision will relate.

The Council is legally obliged to "have regard" to the guidance, which is intended to enable a more flexible approach to assessing the amount of annual provision than was required under the previous statutory requirements. The guidance offers four main options under which MRP could be made, with an overriding recommendation that the Council should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits. The requirement to 'have regard' to the guidance therefore means that: -

Although four main options are recommended in the guidance, there is no intention to be prescriptive by making these the only methods of charge under which a local authority may consider its MRP to be prudent.

It is the responsibility of each authority to decide upon the most appropriate method of making a prudent provision, after having had regard to the guidance.

Option 1: Regulatory Method

Under the previous MRP regulations, MRP was set at a uniform rate of 4% of the adjusted CFR (i.e., adjusted for "Adjustment A") on a reducing balance method (which in effect meant that MRP charges would stretch into infinity). This historic approach must continue for all capital expenditure incurred in years before the start of this new approach. It may also be used for new capital expenditure up to the amount which is deemed to be supported through the Supported Capital Expenditure (SCE) annual allocation.

Option 2: Capital Financing Requirement Method

This is a variation on option 1 which is based upon a charge of 4% of the aggregate CFR without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. The CFR is the measure of an authority's outstanding debt

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liability as depicted by their balance sheet.

Option 3: Asset Life Method.

This method may be applied to most new capital expenditure, including where desired that which may alternatively continue to be treated under options 1 or 2.

Under this option, it is intended that MRP should be spread over the estimated useful life of either an asset created, or other purpose of the expenditure. There are two useful advantages of this option: -

- Longer life assets e.g., freehold land can be charged over a longer period than would arise under options 1 and 2.
- No MRP charges need to be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use (this is often referred to as being an 'MRP holiday'). This is not available under options 1 and 2.

There are two methods of calculating charges under option 3:

- equal instalment method – equal annual instalments,
- annuity method – annual payments gradually increase during the life of the asset.

Option 4: Depreciation Method

Under this option, MRP charges are to be linked to the useful life of each type of asset using the standard accounting rules for depreciation (but with some exceptions) i.e., this is a more complex approach than option 3.

The same conditions apply regarding the date of completion of the new expenditure as apply under option 3.

Minimum Revenue Provision Policy Statement 2024/25

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).

Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) regulations 2008 require the Authority to calculate a prudent provision of MRP whilst having regard to the current MRP Guidance (2018). The broad aim of prudent provision is to ensure that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The Guidance 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 in advance of each financial year.

It is recommended that Council approves the following MRP Policy Statement.

- Supported borrowing incurred before 1st April 2008 will apply the Asset Life Method using an annuity calculation over 50 years.

- Unsupported borrowing will be subject to MRP using the Asset Life Method, which will be charged over a period which is reasonably commensurate with the estimated useful life of the assets. An annuity method will be applied for the MRP calculation.

- The interest rate applied to the annuity calculations will reflect the market conditions at the time. For the 2024/25 financial year the interest rate used will be average PWLB rate for the year.

- MRP will commence in the financial year following the one in which the expenditure was incurred, or in the year after the asset becomes operational.

- MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset life method as recommended by the MRP guidance.

- MRP in respect of assets acquired under PFI or Finance Leases will be charged at a rate equal to the principal element of the annual lease rental for the year in question.
- MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory MRP, i.e., voluntary revenue provision (VRP) or overpayments, can be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The VRP overpayments up to 31st March 2023 are £0.
- On an annual basis the Section 151 Officer shall review the level of MRP to be charged, to determine if this is at a level which is considered prudent based on the Authority's circumstances at that time, taking into account medium / long term financial plans, current budgetary pressures, current and future capital expenditure plans. Dependant on this review the Section 151 officer will adjust the annual MRP charge by making VRP or reclaiming previous VRP. The amount of MRP charged *shall not be less than zero in any financial year.*

APPENDIX 2 - Interest Rate Forecasts

Link Group Interest rate forecast – March 2024 – March 2027

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

Note: PWLB forecasts are based on PWLB certainty rates.

APPENDIX 3 - Economic Review (by Link Group)

ECONOMIC BACKGROUND

- The third quarter of 2023/24 saw:
  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%.
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%.
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November.
  - Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022.
  - The Bank of England holding Bank Rate at 5.25% in November and December.
  - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 points to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with the Halifax house price index recently pointing to a 1.7% year on year increase whilst Nationwide's December data pointed to a -1.8% year on year decrease. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.

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- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That is the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures." And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time." In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England will not feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.

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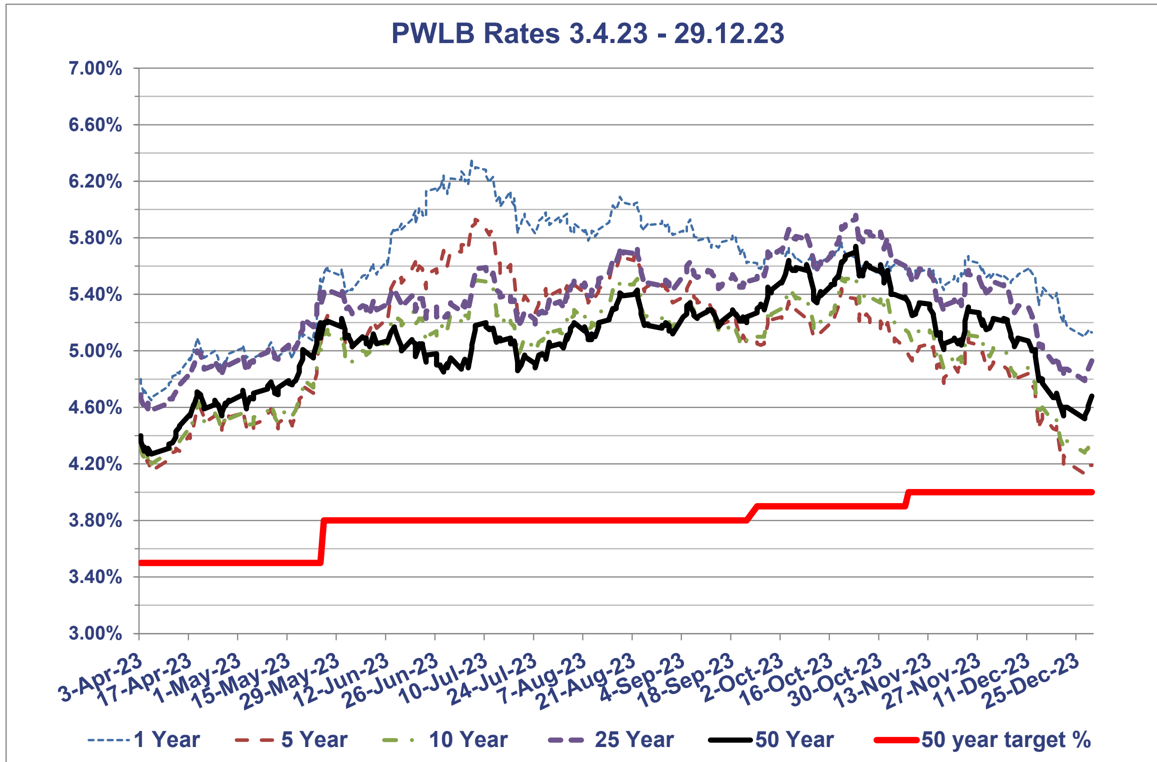
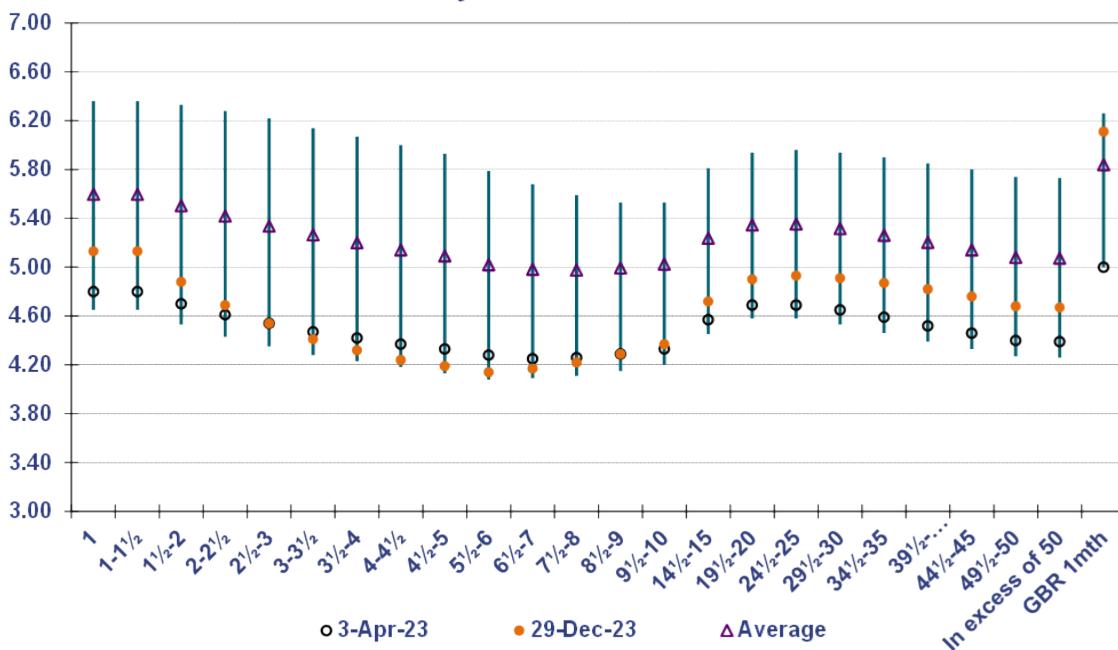
- The further fall in 10-year gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

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

PWLB RATES 3.4.23 - 29.12.23





HIGH/LOW/AVERAGE PWLB RATES FOR 3.4.23 – 29.12.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

MPC meetings 2nd November and 14th December 2023

- On 2nd November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.
- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

APPENDIX 4 - Prudential Indicators

The Council's Capital expenditure plans are the key driver of treasury management activity. The output of the Capital expenditure plans (detailed in the budget) is reflected in the prudential indicators below.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2022/23	2023/24	2024/25	2025/26	2026/27
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
borrowing	110,000	135,000	135,000	135,000	135,000
other long-term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	115,000	140,000	140,000	140,000	140,000
Operational Boundary for external debt					
borrowing	105,000	130,000	130,000	130,000	130,000
other long-term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	110,000	135,000	135,000	135,000	135,000

Interest Rate Exposures	**2023/24 Upper**	**2024/25 Upper**	**2025/26 Upper**
Limits on fixed interest rates based on **net** debt	100%	100%	100%
Limits on variable interest rates based on **net** debt	100%	100%	100%
Limits on fixed interest rates:			
· Debt only	100%	100%	100%
· Investments only	100%	100%	100%
Limits on variable interest rates			
· Debt only	30%	30%	30%
· Investments only	100%	100%	100%

Maturity Structure of fixed interest rate borrowing 2024/25	**Lower**	**Upper**
Under 12 Months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Maturity Structure of variable interest rate borrowing 2024/25	**Lower**	**Upper**
Under 12 Months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	30%
10 years to 20 years	0%	10%
20 years to 30 years	0%	10%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%

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Affordability Prudential Indicator - Ratio of financing costs to net revenue stream.

This indicator assesses the affordability of the capital investment plans. It provides an indication of the impact of the capital investment plans on the Council's overall finances. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Prudential Indicator: Financing Cost to Net Revenue Stream	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,862	2,435	1,817	1,817	1,817
2. Interest Payable under Finance Leases and any other long-term liabilities	-	-	-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	-	-	-	-	-
4. Interest and Investment Income	(540)	(808)	(824)	(618)	(618)
5. Amounts payable or receivable in respect of financial derivatives	-	-	-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	870	904	966	1,021	1,125
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-	-	-	-
Total	1,591	2,009	1,483	1,538	1,642
Net Revenue Stream Amount to be met from government grants and local taxpayers	14,743	15,752	14,829	14,404	16,122
Ratio **Financing Cost to Net Revenue Stream**	**11%**	**13%**	**10%**	**11%**	**10%**

This prudential indicator shows that the ratio of financing costs to the net revenue stream is increasing. This is not unexpected given that the Council has had an income generation strategy that has resulted in increased Capital expenditure over the period 2017/18 to 2021/22 and that the Council agreed a programme for over £54m of Capital expenditure over the period 2020/21 to 2023/24 - thus increasing borrowing costs. The above ratio does not take into account the income is being generated from some of the initiatives and commercial property acquisitions as these are not treated as investment income.

Other Prudential Indicators

Gearing is the amount of debt – in proportion to equity capital – that a company uses to fund its operations. An entity that possesses a high gearing ratio shows a high debt to equity ratio, which potentially increases the risk of financial failure of the business. The Council's current gearing ratio is forecast to be 34% for 23/24, forecast to drop to 29% in 26/27. This indicates that we have more than three times the value in assets to cover our long-term liabilities.

Internal Borrowing and Gearing ratios for the authority are included in the Capital Strategy.

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APPENDIX 5 - Specified and Non-Specified Investments

Specified Investments:

The idea of specified investments is to identify investments offering high security and high liquidity. All these investments should be in sterling and with a maturity of up to a maximum of one year.

Schedule A

	Security / Minimum Credit Rating	Maximum Maturity Period
Local authorities	N/A	1 year
DMADF – UK Government	N/A	1 year
Money Market Funds (CNAV, LVAV,VNAV)	AAA	Liquid
Term deposits with banks and building societies	Blue Orange Red Green No Colour	Up to 1 year Up to 1 year Up to 6 months Up to 3 months Not for use
Certificates of deposits (CDs) issued by credit rated deposit takers (banks and building societies)	Blue Orange Red Green No Colour	Up to 1 year Up to 1 year Up to 6 months Up to 3 months Not for use
UK Government Gilts	UK sovereign rating	12 months
UK Government Treasury Bills	UK sovereign rating	12 months

Non-Specified Investments

These are any investments which do not meet the specified investment criteria.

The aim is to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies which do not have a “high” credit rating. As far as this Council is concerned the risks are in relation to the value of the investments, which may rise, or fall, rather than deficient credit rating.

There is no intention to invest in Non-Specified Investments, other than those Property Funds where there are no Capital accounting implications, without taking specialist advice first. The limits on Investments in Property Funds will be agreed as part of this Treasury Management Strategy and Investment Policy. For clarity, any increase in the level of the investment would need Council approval.

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Schedule B

Investment	Security / Minimum credit rating	(A) Why use it? (B) Associated risks
Property Funds	*The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will check on the status of any fund it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken. These are longer term investments and will extend beyond 365 days (expected to be invested for 5 years or more)*	
UK Government Gilts with maturities in excess of 1-year Custodial arrangement required prior to purchase	Government backed	(A) Why use it? (i) Excellent credit quality. (ii) Very liquid. (iii) if held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e., sold before maturity) (v) No currency risk. (B) Associated risks (i) 'Market or interest rate risk': Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e., potential for capital loss.

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APPENDIX 6 - Approved Countries for Investments

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

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

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

APPENDIX 7 - Treasury Management Policy Statement

The Council defines the policies and objectives of its treasury management activities as:

“The management of the organisation’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.”

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

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.”

APPENDIX 8 - Key Principles and Clauses formally adopted.

The Code identifies three key principles:

Key Principle 1

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Key Principle 2

Their policies and practices should make clear that the effective management and control of risk are the prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

Key Principle 3

They should acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

Clauses formally adopted.

1. This organisation will create and maintain, as the cornerstones for effective treasury 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 those activities.
    - Investment Management Practices (IMPs) for investments which 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 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 Codes key principles.

2. This organisation (i.e., full Council) will receive reports on its treasury 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 its close, in the form prescribed in its TMPs and IMPs.

3. This council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet, and for the execution and administration of treasury decisions to the Chief Financial 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.

4. This Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

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APPENDIX 9 - Treasury Management Scheme of Delegation

(i) Full Council

1. Approval of the Treasury Management Strategy - prior to the new financial year
2. Approval of the Investment Strategy - prior to the new financial year
3. Approval of the MRP Policy - prior to the start of the new financial year
4. Approval of any amendments required to the Strategy during the year.
5. Receipt of a mid-year report on the Treasury Management Strategy, to include consideration of any recommendations of the Cabinet or Audit Committee arising from any concerns since the original approval.

(ii) Cabinet

1. Developing and determining the Treasury Management Strategy, Investment Strategy and MRP policy and recommending them to full Council - prior to the start of the new financial year.
2. Receipt of a mid-year report on the Treasury Management Strategy and any concerns since the original approval and making recommendations to Council as appropriate.
3. Receiving, and reviewing reports on treasury management policies, practices, activities, and performance reports (based on quarterly reporting).
4. Approval of/amendments to the organisation's adopted clauses, treasury management policy statement.
5. Budget consideration and approval.
6. Approval of the division of responsibilities.

(iii) Audit Committee

1. Scrutinising the Council's Treasury Management Strategy, Investment Strategy and MRP policy, Treasury Management Policy Statement and Treasury Management Practices and making recommendations to Cabinet and Council as appropriate.
2. Receiving and reviewing monitoring reports (based on quarterly reporting) and making recommendations as appropriate.

APPENDIX 10 - The Treasury Management Role of the Section 151 Officer

Chief Finance Officer (S151 Officer) responsibilities:

- recommending clauses, treasury management policy for approval, determining Treasury Management Practices, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports
- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.

Additional Responsibilities following new Codes of Practice/ Investment Guidance

The above list of specific responsibilities of the S151 officer in the 2021 Treasury Management Code has not changed. However, implicit in the changes in both the Prudential and the Treasury Management Codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management). Namely:-

1. preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments, and treasury management, with a long-term timeframe (say 20+ years – to be determined in accordance with local priorities).
2. ensuring that the capital strategy is sustainable, affordable, and prudent in the long term and provides value for money.
3. ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.
4. ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
5. ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources.
6. ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities.
7. provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans, and financial guarantees.
8. ensuring that members are adequately informed and understand the risk exposures taken on by an authority.
9. ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.
10. creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following): -
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios.
    - Performance measurement and management (TMP2 and schedules),

including methodology and criteria for assessing the performance and success of non-treasury investments.

- Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making.
- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken.
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

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