Treasury Management Strategy and Capital Prudential Indicators 2024/25 to 2028/29

1 INTRODUCTION

1.1 Background

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

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

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

CIPFA defines treasury management as:

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

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

1.2 Reporting Requirements

1.2.1 Capital Strategy

The CIPFA Prudential Code for Capital Finance in Local Authorities (the code) requires all local authorities to prepare a 'Capital Strategy'.

The Council's Capital Strategy (subject to approval by Council on 20th February 2024) builds upon the Council's Commercial Asset Strategy and Treasury Management Strategy to ensure that:

- Property acquisitions and commercial developments to deliver economic growth, are properly appraised, budgeted and financed to ensure Council Plan objectives are achieved.
- Capital acquisitions that do not clearly meet economic objectives can demonstrably achieve other objectives listed in the Council Plan.

- The proper maintenance of the capital asset base is considered in the medium term and appropriately budgeted for and financed.
- Processes exist for the ongoing appraisal of the asset base and a rigorous methodology applied should any decision be required in relation to disposal.
- The required budget and financing in relation to all capital decisions is fully incorporated into the Medium Term Financial Strategy (MTFS).

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

1.2.2 Treasury Management reporting

Members receive for noting and approval, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

1. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report 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 Investment Strategy (the parameters on how investments are to be managed).

2. **An annual treasury report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit & Risk Committee who, in addtion to the above, also receive periodic Treasury Management reports. These update Committee members with the capital position and any necessary amendments to prudential indicators.

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

Capital issues

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

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the 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.

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.

1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, the Code states 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.

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

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

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

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

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

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

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

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

2 THE CAPITAL PRUDENTIAL INDICATORS 2024/25 – 2028/29

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

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans. The capital expenditure forecasts to 2028/29 (which form part of the Capital Programme subject to approval by Council on 20 February 2024) are as follows:

Capital expenditure £000s	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**
Community Services	3,904	132	494	322	190
Digital Transformation & Estate Management	6,940	455	175	45	170
Welfare Services	1,127	1,127	1,127	1,127	1,127
Total	**11,971**	**1,714**	**1,796**	**1,494**	**1,486**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a borrowing need (to be met either through internal funds or external borrowing).

Capital expenditure £000s	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**
Total	**11,971**	**1,714**	**1,796**	**1,494**	**1,486**
Financed by:					
Capital Receipts	178	335	55	45	170
Capital Grants & Other Contributions	1,127	1,127	1,127	1,127	1,127
Revenue	126	0	0	0	0
Total Internal Financing	**1,430**	**1,462**	**1,182**	**1,172**	**1,297**
Net External Financing Requirement	**10,541**	**252**	**614**	**322**	**190**

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

The second prudential indicator is the 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 underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes.

Audit & Risk Committee is asked to recommend to Full Council that the following CFR projections are approved:

Capital Financing Requirement (CFR) £000s	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Capital Financing Requirement (CFR)	**42,207**	**41,680**	**41,527**	**40,965**	**40,217**
Movement in CFR	9,975	-527	-153	-562	-748
Movement in CFR is represented by					
Net financing need for the year	10,541	252	614	322	190
Less MRP & other financing movements	-566	-779	-767	-884	-938
Movement in CFR	**9,975**	**-527**	**-153**	**-562**	**-748**

The above table shows that as a result of the Council's capital plans (as set out in 2.1) the CFR (which essentially is a measure of the Council's underlying borrowing need) will increase to £42.207m in 2024/25 before starting to reduce from 2025/26 as the planned capital spend slows down and MRP contributions are made.

2.3 Liability Benchmark

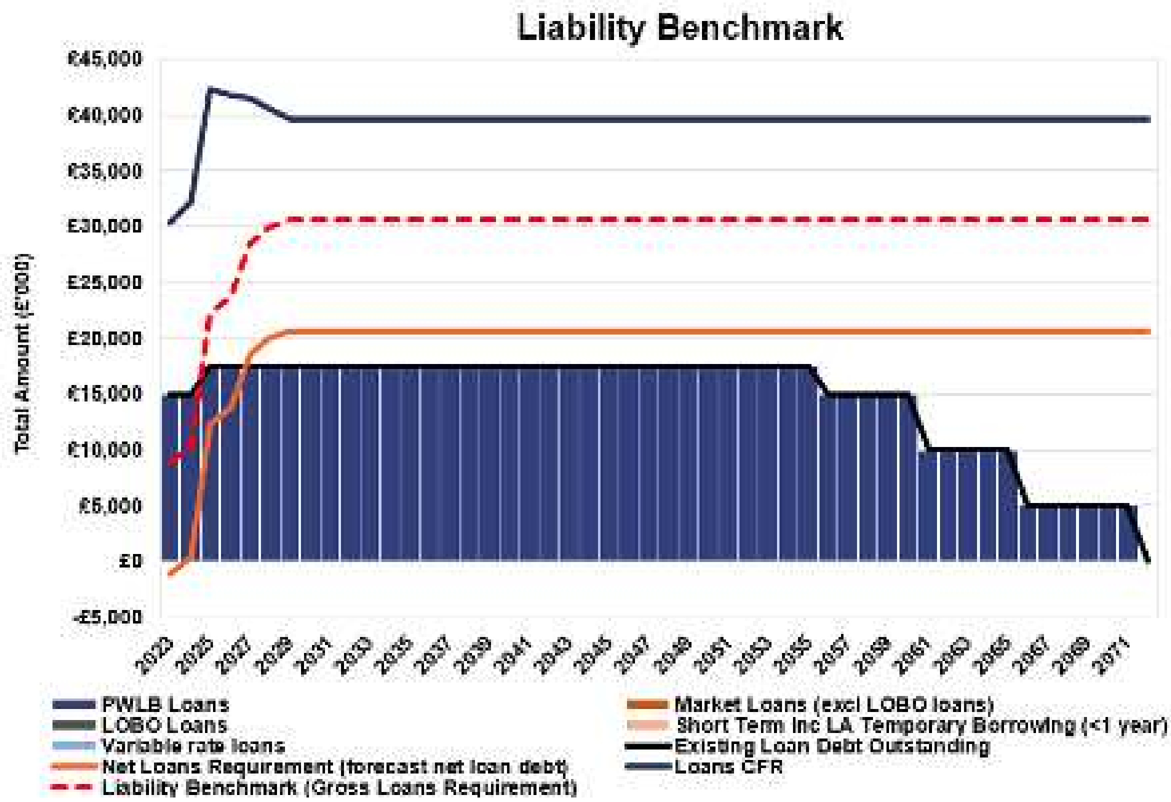
The third prudential indicator for 2024/25 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

Please note, CIPFA strongly recommends that the LB is produced for at least 10 years and should ideally cover the full debt maturity profile of a local authority. In this case we havce produced a LB up to the point at which the authority becomes debt free in 2072.

There are four components to the LB: -

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

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



2.4 Core Funds (available to invest or cover the borrowing position)

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 prudent estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources £000s	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
General Fund Balance	6,207	5,028	2,199	-137	-2,038
Capital Receipts Reserve	1,883	1,548	1,493	1,448	1,278
Earmarked Reserves	5,709	5,709	3,709	3,709	3,709
Total Core Funds	**13,799**	**12,285**	**7,401**	**5,020**	**2,949**
Working Capital*	1,000	1,000	1,000	1,000	1,000
Total Core Funds Available to Invest	**12,799**	**11,285**	**6,401**	**4,020**	**1,949**

*Working capital balances shown are estimated year-end; these may be higher mid-year

2.5 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP). DLUHC regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure which in the future will be Supported Capital Expenditure, the MRP policy will be based on the CFR.

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be based on the Asset life methodology:

- MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3).

This option provides for a reduction in the borrowing need over approximately the asset's life. Finance leases are applied to revenue as MRP.

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, 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. At the date of this report the council has not made, nor has any plans to make, any VRP overpayments.

3 TREASURY MANAGEMENT

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

3.1 Current Portfolio Position

The current treasury position as at 31.12.23 and the estimated portfolio as at 31.03.24 are shown below for both investments and borrowing

Treasury Position £000s	Current 31.12.23	Estimated 31.03.24
Investments		
CCLA	11,000	2,000
Federated MMF	7,100	4,800
Internal Investments	5,000	5,000
Total Investments	**23,100**	**11,800**
External Borrowing		
PWLB	15,000	15,000
Total External Borrowing	**15,000**	**15,000**

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

External Debt £000s	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Debt at 1 April	**15,000**	**15,000**	**17,500**	**17,500**	**17,500**
Expected change in Debt	0	2,500	0	0	0
Actual gross debt at 31 March	**15,000**	**17,500**	**17,500**	**17,500**	**17,500**
The Capital Financing Requirement	42,207	41,680	41,527	40,965	40,217
Under/(over) borrowing	**27,207**	**24,180**	**24,027**	**23,465**	**22,717**

Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 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.

The Finance Director reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future – as set out in the above table. This view takes into account current commitments, existing plans, and the proposals in the proposed MTFS.

3.2 Treasury Indicators: Limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and internally available funds.

Operational boundary £000s	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Debt	42,000	42,000	42,000	41,000	40,000
Other long-term liabilities	1,000	1,000	1,000	1,000	1,000
Total	**43,000**	**43,000**	**43,000**	**42,000**	**41,000**

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

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Audit and Risk Committee is asked to recommend to Full Council that the following authorised limit is approved:

Authorised Limit £000s	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Debt	45,000	45,000	45,000	44,000	43,000
Other long-term liabilities	1,000	1,000	1,000	1,000	1,000
Total	**46,000**	**46,000**	**46,000**	**45,000**	**44,000**

In order to ensure that the Council has the overall scope to borrow, the Authorised Limit has been adjusted upwards to reflect the approved Capital Programme. This provides the flexibility to borrow, but not the obligation.

The authorised limit has been set at a level higher than the (net) external borrowing need in 3.1. This provides some headroom for changes in available funds/working balances.

It should be noted that these limits have been set based on the current planned capital programme. Should proposals come forward for additional capital items these limits would be reviewed and risks and rewards reconsidered.

3.3 Borrowing Strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used.

The table below summarises the council forecast under-borrowing position.

Year End Resources £000s	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Under borrowing	27,207	24,180	24,027	23,465	22,717

The Finance Director will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances and projected forecasts of interest rate changes.

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be delayed or taken short term*.

- *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.

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

Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments:
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates:
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

Audit and Risk Committee is asked to recommend to Full Council that the following treasury indicators and limits are approved:

Interest Rate Exposures £000s	2024/25 Upper	2025/26 Upper	2026/27 Upper	2027/28 Upper	2028/29 Upper
Limits on fixed interest rates	45,000	45,000	45,000	44,000	43,000
Limits on variable interest rates	15,000	15,000	15,000	15,000	14,000

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

Audit and Risk Committee is asked to recommend to Full Council that the following treasury indicators and limits are approved:

Maturity structure of variable interest rate borrowing 2024/25		
	Lower	**Upper**
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years and above	0%	50%

**Please note that this excludes other long term liabilities (leases)*

There are no limits to fixed rate borrowing which can be upto 100% of our debt portfolio.

3.4 Policy on Borrowing in Advance of Need

The Council 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 Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.5 Debt Rescheduling

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

If rescheduling is to be undertaken, it will be reported to the Audit & Risk Committee, at the earliest meeting following its action.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings:
- helping to fulfil the treasury strategy:
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Audit & Risk Committee, at the earliest meeting following its action.

3.6 New financial institutions as a source of borrowing and / or types of borrowing

The Public Works Loans Board (PWLB) forms part of HM treasury, part of its function is to provide loans to local authorities in the UK, primarily to fund capital projects. The council has the ability to borrow from PWLB at the Certainty Rate, which is a rate set at 0.20% below its standard interest rate.

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both Housing Revenue Account (HRA) and non-HRA borrowing. 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 – 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).

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

3.7 Approved sources of long- and short-term borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – Management of risk

The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of assets regeneration, are covered in the Capital Strategy, (a separate report).

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

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

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

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

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

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

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

4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix B 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.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 40% of the total investment portfolio, (see Appendix B).

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

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

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

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

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

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

12. 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 Ministry of Housing, Communities and Local Government (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 March 2023. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.

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

It is also recognised that Security, Liquidity and Yield should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector in relation to the economic and political environments in which institutions operate. In addition, there are other risks of material importance to the treasury portfolio from an ethical, environmental, social and governance perspective. It is important, therefore, to assess these categories as well and to understand if these create potential longer-term financial and reputational risks for the Council, and if there are any commonalities with the Council's key objectives in this regard. To this end, the Council will use information sources and its advisors as appropriate to assist it in scrutinising and understanding if these might affect the suitability of potential counterparties.

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

4.2 Creditworthiness policy

The Council has utilised and applied the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies:
- CDS spreads to give early warning of likely changes in credit ratings:
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product 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 Enhanced money market funds (EMMFs) with a credit score of 1.25
•	Light pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5

•	Purple	2 year
•	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

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.

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

All credit ratings are regularly monitored. 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 Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European 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 Council's lending list.

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

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	Money and / or % Limit	Time Limit
Banks	**Yellow**	**£4m / 25%**	**5 years**
Banks	**Purple**	**£3m / 25%**	**2 years**
Banks	**Orange**	**£3m / 25%**	**1 year**
Banks – part nationalised	**Blue**	**£3m / 25%**	**1 year**

	Colour (and long-term rating where applicable)	Money and / or % Limit	Time Limit
Banks	**Red**	**£1m / 10%**	**6 months**
Banks	**Green**	**£1m / 10%**	**100 days**
Banks	**No colour**	**Not to be used**	
Limit 3 category – Council's banker (not meeting Banks 1)	**n/a**	**£10m**	**14 days**
Other institutions limit*	**-**	**£100,000**	**3 years**
DMADF	**AAA**	**100%**	**6 months**
Local authorities	**n/a**	**£4m / 25%**	**3 years**
	Fund rating	**Money and / or % Limit**	**Time Limit**
Money market funds	**AAA**	**£15m per MMF**	**liquid**
Ultra-Short Dated Bond funds with a credit score of 1.25	**Dark pink / AAA**	**£4m / 25%**	**liquid**
Ultra-Short Dated Bond funds with a credit score of 1.5	**Light pink / AAA**	**£3m / 25%**	**liquid**

*The Council, from time to time, may also issue small, short-term loans to local parishes, charities and similar organisations. These organisations do not have a credit rating and so fall outside of the normal credit rating assessments. However, these are covered under other institutions within the criteria set above.

4.3 Other limits

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

a) **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 40% 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 *AA1*** 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 C. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- no more than 50% will be placed with any non-UK country at any time:
- limits in place above will apply to a group of companies:
- sector limits will be monitored regularly for appropriateness.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.

Interest rate forecasts are included in Appendix E. Interest rates have continued to increase since the autumn of 2022 with current BoE base rate being 5.25% at the time of writing this report. Latest indications are that the BoE base rate may have peaked and there is an expectation of a gradual reduction in base rate from summer 2024.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year.

Year	Average Interest Rate Earned
2023/24 (remainder)	4.75%
2024/25	4.25%
2025/26	3.25%
2026/27	2.75%
2027/28	2.25%
2028/29	2.00%

Investment treasury indicator and limit - 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.

The Council is asked to approve the treasury indicator and limit: -

Maximum principal sums invested longer than 365 days					
£m	2024/25	2025/26	2026/27	2027/28	2028/29
Principal sums invested longer than 365 days*	£4m	£4m	£4m	£4m	£4m

For its 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 in order to benefit from the compounding of interest.

*Please note that currently the council does not have any investments invested for more than 365 days.

4.5 Property Funds

The Council current uses CCLA as one of its main Money Market Funds, who also offer investments in 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 seek guidance on the status of any additional funds it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

The council does not currently have any investments in property funds.

4.6 End of year investment report

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