

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Lewes District Council
2024/25

INDEX

| | | |
|-----|--|-----------|
| 1.1 | Background | 3 |
| 1.2 | Reporting Requirements | 3 |
| 1.3 | Treasury Management Strategy for 2024/25 | 4 |
| 1.4 | Training | 5 |
| 1.5 | Banking Services | 6 |
| 1.6 | IFRS 16 Leasing | 6 |
| 1.7 | IFRS 9 Financial Instruments..... | 6 |
| 1.8 | Treasury Management Consultants | 6 |
| 2. | THE CAPITAL PRUDENTIAL INDICATORS 2024/25 – 2026/27 | 7 |
| 2.1 | Capital Expenditure and Financing | 7 |
| 2.2 | The Council’s Borrowing Need (the Capital Financing Requirement)..... | 7 |
| 2.3 | Liability Benchmark | 9 |
| 2.4 | Core Funds and Expected Investment Balances | 10 |
| 2.5 | Minimum Revenue Provision (MRP) Policy Statement | 11 |
| 3. | BORROWING | 12 |
| 3.1 | Current Portfolio Position | 12 |
| 3.2 | Treasury Indicators: Limits to Borrowing Activity | 14 |
| 3.3 | Prospects for Interest Rates | 15 |
| 3.4 | Borrowing Strategy | 17 |
| 3.5 | Policy on Borrowing in Advance of Need..... | 18 |
| 3.6 | Rescheduling | 18 |
| 3.7 | New Financial Institutions as a Source of Borrowing / Types of Borrowing | 18 |
| 3.8 | Approved Sources of Long and Short-term Borrowing..... | 19 |
| 4 | ANNUAL INVESTMENT STRATEGY | 20 |
| 4.1 | Investment Policy – Management of Risk | 20 |
| 4.2 | Creditworthiness Policy | 22 |
| 4.3 | Limits | 25 |
| 4.4 | Investment Strategy | 25 |
| 4.5 | Environmental, Social & Governance (ESG) Considerations | 27 |
| 4.6 | Investment Performance / Risk Benchmarking..... | 27 |
| 4.7 | End of Year Investment Report | 27 |
| 4.8 | External Fund Managers | 27 |
| 5 | APPENDICES | 28 |
| 5.1 | THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2024/25 – 2026/27 ... | 29 |
| 5.2 | ECONOMIC BACKGROUND | 31 |
| 5.3 | COUNTERPARTY LIST | 34 |
| 5.4 | APPROVED COUNTRIES FOR INVESTMENTS | 40 |
| 5.5 | TREASURY MANAGEMENT SCHEME OF DELEGATION..... | 41 |
| 5.6 | THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER | 42 |
| 5.7 | GLOSSARY..... | 43 |

1.1 Background

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

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

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

CIPFA defines treasury management as:

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

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

1.2 Reporting Requirements

1.2.1 Capital Strategy

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

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

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

1.2.2 Treasury Management Reporting

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

- a. **Prudential and treasury indicators and treasury strategy** (this report)
 - The first, and most important report is forward looking and covers: -
 - the capital plans, (including prudential indicators)
 - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
 - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
 - an Annual Investment Strategy, (the parameters on how investments are to be managed)
- b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, the Council will receive quarterly update reports.
- c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

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

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 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. This role is undertaken by the Audit and Governance Committee.

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
- the policy on use of external service providers

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

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 council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, the Council 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 council members.
- Require treasury management officers and council members to undertake self-assessment against the required competencies.
- Have regular communication with officers and 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’.

Treasury Management training was provided to members of the Audit and Governance Committee on 27 November 2023 by its external treasury management advisors. The training needs of treasury management officers are periodically reviewed.

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

1.5 Banking Services

Lloyds Bank currently provides banking services for the Council.

1.6 IFRS 16 Leasing

The CIPFA LAASAC Local Authority Accounting Code Board has deferred implementation of IFRS16 until 1.4.24, the 2024/25 financial year. The new standard requires lessees to recognise nearly all leases on the balance sheet which will reflect their right to use an asset for a period of time and the associated liability for payments.

1.7 IFRS 9 Financial Instruments

The DLUHC enacted a statutory over-ride from 1/4/18 for a five-year period until 31/3/23 following the introduction of IFRS 9 in respect of the requirement for any unrealised capital gains or losses on marketable pooled funds to be chargeable in year. This has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31/3/23: this was intended to allow authorities to initiate an orderly withdrawal of funds if required. In addition, IFRS9 impacts the write-down in the valuation of impaired loans. The override has now been extended for a further two years to 31/3/25.

1.8 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 the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

Where the Council undertake non-treasury investments, e.g., investment in commercial properties, it will use specialist property advisers.

2. THE CAPITAL PRUDENTIAL INDICATORS 2024/25 – 2026/27

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.

2.1 Capital Expenditure and Financing

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

| Cap Exp £000 | 2022/23 Actual | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|-----------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| GF | 9,849 | 32,745 | 45,945 | 20,397 | 6,557 |
| HRA | 8,666 | 19,109 | 17,023 | 35,962 | 36,071 |
| Total | 18,515 | 51,854 | 62,968 | 56,359 | 42,628 |

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

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

| Financing £000 | 2022/23 Actual | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|--|-------------------|---------------------|---------------------|---------------------|---------------------|
| Capital receipts | - | - | 8,870 | - | - |
| Capital grants | 6,796 | 14,759 | 16,432 | 4,924 | 1,900 |
| Capital Reserves | 914 | - | - | - | - |
| Revenue | 182 | - | - | - | - |
| Net financing need for the year | 1,957 | 17,986 | 20,643 | 15,473 | 4,657 |

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

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so 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.

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., 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 Council does not currently have such schemes within the CFR.

The Council is asked to approve the CFR projections below:

| £000 | 2022/23 Actual | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|--------------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Capital Financing Requirement | | | | | |
| GF | 21,408 | 38,927 | 67,193 | 81,275 | 83,904 |
| HRA | 78,028 | 78,028 | 78,028 | 100,215 | 123,747 |
| Total CFR | 99,436 | 116,955 | 145,221 | 181,490 | 207,651 |
| Movement in CFR | | 17,519 | 28,266 | 36,269 | 26,161 |

| Movement in CFR represented by | | | | | |
|---|--------------|---------------|---------------|---------------|---------------|
| Net financing need for the year (above) | 4,009 | 17,986 | 29,513 | 37,660 | 28,189 |
| Less MRP/VRP | (367) | (467) | (1,247) | (1,391) | (2,028) |
| Loans Repaid | (133) | - | - | - | - |
| Movement in CFR | 3,509 | 17,519 | 28,266 | 36,269 | 26,161 |

| External borrowing £000 | 2022/23 Actual | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|-------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| HRA | 2,120 | - | - | 21,087 | 23,532 |
| General Fund | | | | | |
| Housing | 10 | 270 | 135 | 135 | 135 |
| Loans to Housing Companies | - | - | 500 | 500 | 419 |
| Regeneration | 830 | 4,165 | 12,256 | 5,100 | - |
| Asset Management | 16 | 775 | 2,210 | 620 | 140 |
| Indoor Leisure Facilities | - | 2,527 | 1,909 | 300 | 300 |
| Energy Schemes | 38 | 500 | 250 | 4,250 | 2,200 |
| Community Infrastructure Levy | - | - | - | - | - |
| Service Delivery | 831 | 6,225 | 2,947 | 3,422 | 427 |
| Specialist | 94 | 705 | 236 | 236 | 236 |
| Parks & Pavilions | 138 | 1,053 | 200 | 200 | 200 |
| Open Space / Biodiversity | - | 762 | - | - | - |
| Information Technology | - | 397 | - | 150 | 150 |
| Digital Transformation | - | 607 | - | 410 | 450 |
| Corporate | - | - | - | 150 | - |
| Total General Fund | 1,957 | 17,986 | 20,643 | 15,473 | 4,657 |
| Total CFR | 4,077 | 17,986 | 20,643 | 36,560 | 28,189 |

| External borrowing £000 | 2022/23 Actual | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|----------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Treasury Management | - | - | - | - | - |

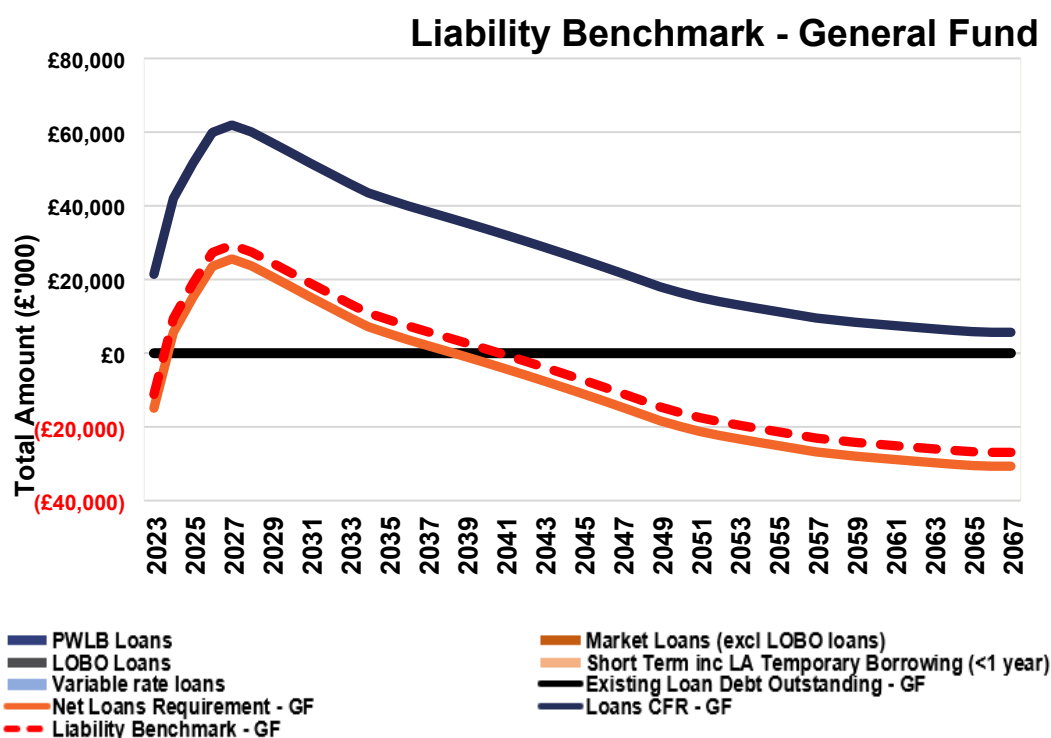
Treasury Management would be the externalisation of internal borrowing and re-financing.

2.3 Liability Benchmark

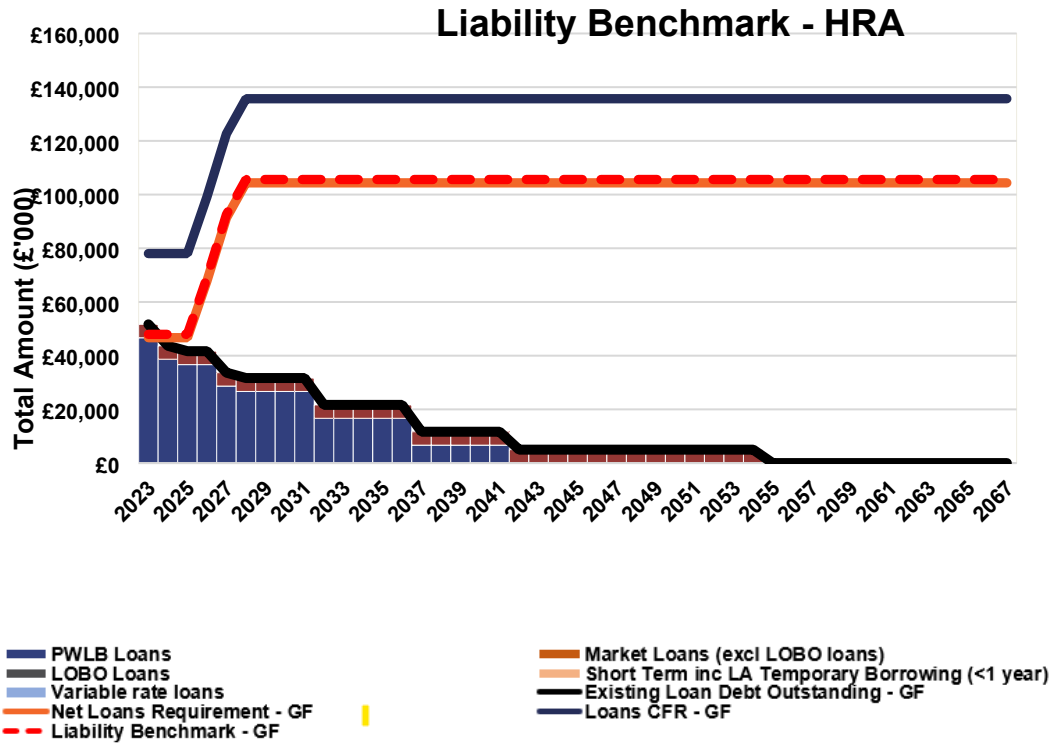
The Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

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



The graph provides a comparison of the existing loan portfolio against committed borrowing needs. This is to evidence an understanding of the existing debt maturity profile and how MRP and other cash flows affect the future debt requirement. If actual loans are less than the benchmark there is a future borrowing requirement.



2.4 Core Funds and Expected Investment Balances

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

| Year End Resources £000 | 2022/23 Actual | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|-----------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| Fund balances / reserves | 36,816 | 47,367 | 40,520 | 32,897 | 32,321 |
| Capital receipts | 11,063 | 2,224 | 2,224 | 2,224 | 2,224 |
| Provisions | 594 | 594 | 594 | 594 | 594 |
| Other | - | - | - | - | - |
| Total core funds | 48,473 | 50,185 | 43,338 | 35,715 | 35,139 |
| Working capital* | | | | | |
| Under/over borrowing** | | | | | |
| Expected investments | | | | | |

*Working capital balances are estimated at year-end and may be higher mid-year.

2.5 Minimum Revenue Provision (MRP) Policy Statement

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

The Council 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 Council can use any other reasonable basis that it can justify as prudent.

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

The Council is recommended to approve the following MRP Statement.

For expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be:

Asset life method (annuity) – MRP will be based on a maximum of 50 years.

From 1 April 2008 for all unsupported borrowing the MRP policy will be:

Asset life method (annuity) – MRP will be based on the estimated life of the assets.

Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25, or in the year after the asset becomes operational.

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

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

MRP in respect of assets acquired under Finance Leases or PFI will be charged at an amount equal to the principal element of the annual repayment.

For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

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

VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. There are no cumulative VRP overpayments made to date.

3. BORROWING

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

3.1 Current Portfolio Position

The overall treasury management portfolio as at 31/3/23 and for the position as at 31/12/23 are shown below for both borrowing and investments.

| TREASURY PORTFOLIO | | | | |
|---|---------------------------|------------------------|-----------------------------|--------------------------|
| | Actual 31/3/23 £000 | Actual 31/3/23 % | Current 31/12/23 £000 | Current 31/12/23 % |
| Treasury investments | | | | |
| Banks (see detail below) | 18,907 | 95% | 12,320 | 59.2% |
| Building societies - unrated | - | - | - | - |
| Building societies - rated | - | - | - | - |
| Local authorities | - | - | - | - |
| DMADF (H.M.Treasury) | 1,000 | 5% | 8,500 | 40.8% |
| Money Market Funds | - | - | - | - |
| Certificates of Deposit | - | - | - | - |
| Total managed in house | 19,907 | 100% | 20,820 | 100% |
| Bond Funds | - | - | - | - |
| Property Funds | - | - | - | - |
| Total managed externally | - | - | - | - |
| Total treasury investments | 19,907 | 100% | 20,820 | 100% |
| Treasury external borrowing | | | | |
| Local Authorities | - | - | - | - |
| PWLB | 46,673 | 90.3% | 42,673 | 89.5% |
| Market Loans | 5,000 | 9.7% | 5,000 | 10.5% |
| LOBOs | - | - | - | - |
| Total external borrowing | 51,673 | 100% | 47,673 | 100% |
| Net treasury investments / (borrowing) | (31,766) | | (26,853) | |

| TREASURY INVESTMENTS | | | | |
|----------------------------------|---------------------------|------------------------|-----------------------------|--------------------------|
| | Actual 31/3/23 £000 | Actual 31/3/23 % | Current 31/12/23 £000 | Current 31/12/23 % |
| Banks | | | | |
| Lloyds | 3,907 | 20.7% | 4,320 | 35.1% |
| Santander | 5,000 | 26.4% | 3,000 | 24.4% |
| Standard Chartered – Sustainable | 5,000 | 26.4% | 5,000 | 40.6% |
| Bayerische Landesbank | 5,000 | 26.4% | - | - |
| Total | 18,907 | 100% | 12,320 | 100% |

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.

| £000 | 2022/23 Actual | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|--------------------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| External Debt | | | | | |
| Debt at 1 April | 75,909 | 75,909 | 75,909 | 75,909 | 106,996 |
| Expected change in Debt | - | - | - | 31,087 | 33,532 |
| Other long-term liabilities (OLTL) | - | - | - | - | - |
| Expected change in OLTL | - | - | - | - | - |
| Actual gross debt at 31 March | 75,909 | 75,909 | 75,909 | 106,996 | 140,528 |
| Capital Financing Requirement | 99,436 | 116,955 | 145,221 | 181,490 | 207,651 |
| Under / (over) borrowing | 23,527 | 41,046 | 69,312 | 74,494 | 67,123 |

Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 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 Director of Finance and Performance reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

3.2 Treasury Indicators: Limits to Borrowing Activity

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

| Operational Boundary £000 | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Debt | 126,600 | 134,500 | 167,000 | 208,710 |
| Other long-term liabilities | - | 5,000 | 5,100 | 5,200 |
| Total | 126,600 | 139,500 | 172,100 | 213,910 |

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

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

| Authorised Limit £000 | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|------------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Debt | 139,300 | 140,350 | 174,270 | 217,790 |
| Other long-term liabilities | - | 5,500 | 5,610 | 5,720 |
| Total | 139,300 | 145,850 | 179,880 | 223,510 |

3.3 Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 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 |

The MPC are keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. Rate cuts are expected 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). 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. In the upcoming months, 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.

PWLB RATES

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. Currently there is a 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 (not downside or upside).

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

It is expected 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. It is not thought that the MPC will increase Bank Rate above 5.25%.

Gilt yields and PWLB rates

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.

Target borrowing rates are set two years forward (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 Q3 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% |

Borrowing advice: The 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 Base Rate reductions for 2024 and later.

The proposed budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps and 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% |
| Years 6 to 10 | 3.25% | 3.25% |
| Years 10+ | 3.25% | 3.25% |

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

The 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, Link continue to monitor events and will update their forecasts as and when appropriate.

3.4 Borrowing Strategy

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Director of Finance and Performance 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.*

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

3.5 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs 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.

3.6 Rescheduling

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate. If rescheduling is to be undertaken, it will be reported to the Council, at the earliest meeting following its action.

3.7 New Financial Institutions as a Source of Borrowing / Types of Borrowing

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

- Local authorities (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).

Examples include the UK Municipal Bonds Agency and UK Infrastructure Bank.

Link will inform as to the relative merits of each of these alternative funding sources.

3.8 Approved Sources of Long and Short-term Borrowing

| On Balance Sheet | Fixed | Variable |
|--|--------------|-----------------|
| PWLB | ● | ● |
| UK Municipal Bond Agency | ● | ● |
| Local Authorities | ● | ● |
| Banks | ● | ● |
| Pension Funds | ● | ● |
| Insurance Companies | ● | ● |
| UK Infrastructure Bank | ● | ● |
| Market (long-term) | ● | ● |
| Market (temporary) | ● | ● |
| Market (LOBOs) | ● | ● |
| Stock Issues | ● | ● |
| Local Temporary | ● | ● |
| Local Bonds | ● | |
| Local Authority Bills | ● | ● |
| Overdraft | | ● |
| Negotiable Bonds | ● | ● |
| Internal (capital receipts & revenue balances) | ● | ● |
| Commercial Paper | ● | |
| Medium Term Notes | ● | |
| Finance Leases | ● | ● |

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment Policy – Management of Risk

The Department of Levelling Up, Housing and Communities (DLUHC - this was 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 and service investments, 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 Guidance Notes 2021

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

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

The above guidance from 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: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. The 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 5.3 under the categories of 'specified' and 'non-specified' investments.

Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

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

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of £2m.
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 4.2.
8. The Council will set a limit for 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. The Council has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.
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 Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of 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.

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

Changes in risk management policy from last year.

The above criteria are unchanged from last year.

4.2 Creditworthiness Policy

This Council 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.

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

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 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.

All credit ratings will be monitored on an on-going basis. 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 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 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 |

The counterparties in which the Council will invest its cash surpluses is based on officer's assessment of investment security, risk factors, market intelligence, a diverse but manageable portfolio and their participation in the local authority market. The table below summarises the types of specified investment counterparties available to the Council, and the maximum amount and maturity periods placed on each of these. Further details are contained in the Appendix 5.3.

Criteria for Specified Investments:

| | Country/ Domicile | Instrument | Maximum investments | Max. maturity period |
|--|--------------------------|---|------------------------------|-------------------------|
| Debt Management and Deposit Facilities (DMADF) | UK | Term Deposits (TD) | unlimited | 1 yr |
| Government Treasury bills | UK | TD | unlimited | 1 yr |
| UK Local Authorities | UK | TD | £10m | 1 yr |
| Lloyds Banking Group <ul style="list-style-type: none"> Lloyds Bank Bank of Scotland | UK | TD (including callable deposits), Certificate of Deposits (CD's) | £10m | 1 yr |
| RBS/NatWest Group <ul style="list-style-type: none"> Royal Bank of Scotland NatWest | UK | | £5m | 1 yr |
| HSBC | UK | | £5m | 1 yr |
| Barclays | UK | | £5m | 1 yr |
| Santander | UK | | £5m | 6 mths |
| Goldman Sachs Investment Bank | UK | | £5m | 6 mths |
| Standard Chartered Bank | UK | | £5m | 6 mths |
| Nationwide Building Society | UK | | £5m | 6 mths |
| Coventry Building Society | UK | | £5m | 6 mths |
| Money Market Funds (MMF) | UK/Ireland/ EU domiciled | | AAA rated Money Market Funds | £10m per fund |
| Counterparties in select countries (non-UK) with a Sovereign Rating of at least AA+ | | | | |
| Australia & New Zealand Banking Group | Australia | TD / CD's | £5m | 1 yr |
| Commonwealth Bank of Australia | Australia | TD / CD's | £5m | 1 yr |

| | Country/ Domicile | Instrument | Maximum investments | Max. maturity period |
|-------------------------------|------------------------------|-------------------|--------------------------------|---------------------------------|
| National Australia Bank | Australia | TD / CD's | £5m | 1 yr |
| Westpac Banking Corporation | Australia | TD / CD's | £5m | 1 yr |
| Royal Bank of Canada | Canada | TD / CD's | £5m | 1 yr |
| Toronto-Dominion Bank | Canada | TD / CD's | £5m | 1 yr |
| Development Bank of Singapore | Singapore | TD / CD's | £5m | 1 yr |
| Overseas Chinese Banking Corp | Singapore | TD / CD's | £5m | 1 yr |
| United Overseas Bank | Singapore | TD / CD's | £5m | 1 yr |
| Svenska Handelsbanken | Sweden | TD / CD's | £5m | 1 yr |
| Nordea Bank AB | Sweden | TD / CD's | £5m | 1 yr |
| ABN Amro Bank | Netherlands | TD / CD's | £5m | 1 yr |
| Cooperative Rabobank | Netherlands | TD / CD's | £5m | 1 yr |
| ING Bank NV | Netherlands | TD / CD's | £5m | 1 yr |
| DZ Bank AG | Germany | TD / CD's | £5m | 1 yr |
| UBS AG | Switzerland | TD / CD's | £5m | 1 yr |
| Credit Suisse AG | Switzerland | TD / CD's | £5m | 1 yr |
| Danske Bank | Denmark | TD / CD's | £5m | 1 yr |

Creditworthiness

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 Council will not set a minimum rating for the UK.

CDS prices

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 Council has access to this information via its Link-provided Passport portal.

Non-Specified investments are any other types of investment that are not defined as specified. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out in the table below:

| | Minimum credit criteria | Maximum investments | Period |
|----------------------|-------------------------------------|----------------------------|---------------|
| UK Local Authorities | Government Backed | £2m | 2 years |
| Green Energy Bonds | Internal and External Due Diligence | £2m | 2-5 years |

The maximum amount that can be invested will be monitored in relation to the Council surplus monies and the level of reserves. The approved counterparty list will be maintained by referring to an up-to-date credit rating agency reports, and the Council will liaise regularly with brokers for updates. Counterparties may be added to or removed from the list only with the approval of the Chief Finance Officer. A detailed list of specified and non-specified investments that form the counterparty list is shown in Appendix 5.3.

UK Local Authorities - Should a suitable opportunity in the market occur to lend to other Local Authorities of more than a 1-year duration, at a reasonable level of return the deal would be classed as a low risk Non-Specified Investment.

4.3 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.
- 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 5.4. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Other limits. In addition: -

- no more than £5m will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies/institutions;
- 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. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations

The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to have peaked at 5.25%.

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% |

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

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, (overnight to 100 days), in order to benefit from the compounding of interest.

Changes of investment strategy

There are several alternative types of investment opportunity. This could involve the use of some of the following instruments as a different approach to how and where monies are invested in more traditional money markets.

- Ultra-Short Dated Bond Funds;
- Corporate Bonds - direct, passive and active external management (including Short Dated Bond Funds);
- Multi Asset Funds;
- Property Funds;
- Equity Funds.

Currently, these are not part of the Council’s investment strategy and involve taking on a different level of risk to that which members have approved in the past. If any of the instruments were to be considered, a separate report would be provided to include an explanation that enables members to understand the rationale and the change in risk exposure involved.

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 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 | £2m | £2m | £2m |

4.5 Environmental, Social & Governance (ESG) Considerations

ESG issues are increasingly significant for investors and investment managers. However, this is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult. The Council would need to develop its own ESG investment policy consistent with its own relevant policies, such as environmental and climate change policies. There is exposure to ESG risk and how well these risks would be managed would need to be evaluated. Many fund managers are unable to report accurately on the degree to which their funds/products are ESG compliant. The Council is currently making use of green/sustainable cash deposits where available.

4.6 Investment Performance / Risk Benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

Security - The Council's maximum security risk benchmark for the current portfolio, when compared to historic default tables.

Liquidity – in respect of this area the Council seeks to maintain a limits for: -

- Bank overdraft;
- Liquid short-term deposits available with a week's notice
- Weighted average life benchmark.

Yield - local measures of yield benchmarks.

4.7 End of Year Investment Report

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

4.8 External Fund Managers

All investments are currently managed in-house and there are no funds externally managed on either a discretionary / pooled basis by fund managers.

5 APPENDICES

1. Prudential and treasury indicators
2. Interest rate forecasts
3. Economic background
4. Counterparty list
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The treasury management role of the section 151 officer

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2024/25 – 2026/27

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.

5.1.1 Capital Expenditure

| Capital expenditure £000 | 2022/23 Actual | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|-----------------------------|-------------------|---------------------|---------------------|---------------------|---------------------|
| GF | 9,849 | 32,745 | 45,945 | 20,397 | 6,557 |
| HRA | 8,666 | 19,109 | 17,023 | 35,962 | 36,071 |
| Total | 18,515 | 51,854 | 62,968 | 56,359 | 42,628 |

5.1.2 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators: -

Ratio of Financing Costs to Net Revenue Stream – General Fund

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs), against the net revenue stream.

| % | 2022/23 Actual | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|----|-------------------|---------------------|---------------------|---------------------|---------------------|
| GF | 2.3% | 2.9% | 7.4% | 11.0% | 16.9% |

Ratio of Financing Costs to Rental Income - HRA

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs) plus depreciation, against total rental income.

| % | 2022/23 Actual | 2023/24 Estimate | 2024/25 Estimate | 2025/26 Estimate | 2026/27 Estimate |
|-----|-------------------|---------------------|---------------------|---------------------|---------------------|
| HRA | 46.5% | 50.2% | 48.2% | 52.0% | 56.1% |

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

5.1.3 Maturity Structure of Borrowing

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

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

| Maturity structure of fixed interest rate borrowing 2024/25 | | |
|--|--------------|--------------|
| | Lower | Upper |
| Under 12 months | 0% | 25% |
| 12 months to 2 years | 0% | 40% |
| 2 years to 5 years | 0% | 60% |
| 5 years to 10 years | 0% | 70% |
| 10 years + | 0% | 90% |

5.1.4. Control of Interest Rate Exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 ECONOMIC BACKGROUND

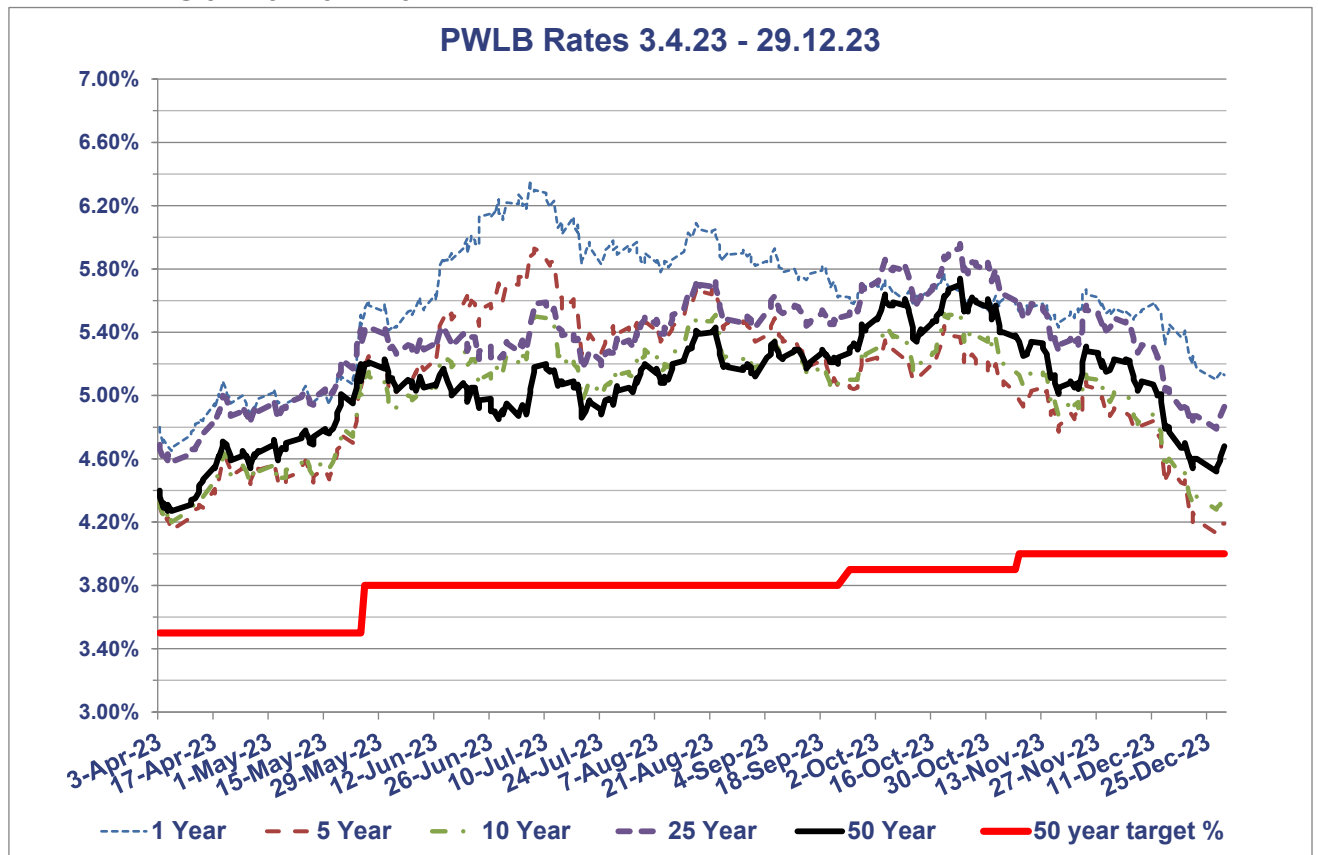
- The third quarter of 2023/24 saw:
 - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual 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 point 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.

- 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's 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 won't 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.

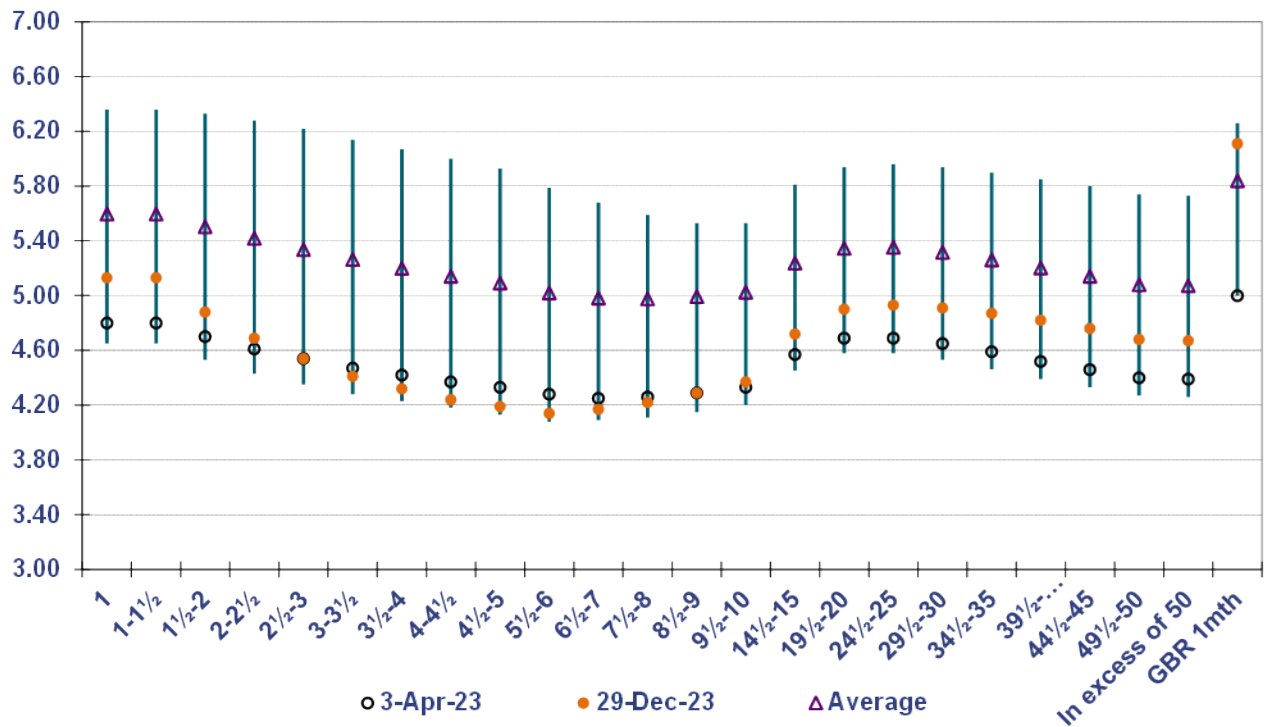
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive 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



PWLB Certainty Rate Variations 3.4.23 to 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.

| | Fitch Rating | | | | | Moody's Ratings | | | S&P Ratings | | | | | | | | |
|---|------------------|-----------|------------|-----------|---------|------------------|-----------|------------|------------------|-----------|------------|--------------------|---|-----------|------------|--|--|
| | Long Term Status | Long Term | Short Term | Viability | Support | Long Term Status | Long Term | Short Term | Long Term Status | Long Term | Short Term | Suggested Duration | Suggested Duration (Watch/Outlook Adjusted) | CDS Price | CDS Status | Suggested Duration (CDS Adjusted with manual override) | |
| Denmark | SB | AAA | | | | SB | Aaa | | SB | AAA | | Not Applicable | Not Applicable | 9.49 | In Range | Not Applicable | |
| Danske A/S | SB | A+ | F1 | a+ | WD | PO | A2 | P-1 | SB | A+ | A-1 | R - 6 mths | R - 6 mths | 45.18 | In Range | R - 6 mths | |
| Finland | SB | AA+ | | | | SB | Aa1 | | SB | AA+ | | Not Applicable | Not Applicable | 17.49 | In Range | Not Applicable | |
| Nordea Bank Abp | SB | AA- | F1+ | aa- | WD | SB | Aa3 | P-1 | SB | AA- | A-1+ | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| OP Corporate Bank plc | | WD | WD | | WD | SB | Aa3 | P-1 | SB | AA- | A-1+ | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| France | SB | AA- | | | | SB | Aa2 | | NO | AA | | Not Applicable | Not Applicable | 12.49 | In Range | Not Applicable | |
| BNP Paribas | SB | A+ | F1 | a+ | WD | SB | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 48.73 | In Range | O - 12 mths | |
| Credit Agricole Corporate and Investment Bank | SB | A+ | F1 | WD | WD | SB | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| Credit Agricole S.A. | SB | A+ | F1 | a+ | WD | SB | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 44.27 | In Range | O - 12 mths | |
| Credit Industriel et Commercial | SB | A+ | F1 | a+ | WD | SB | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| Societe Generale | PO | A- | F1 | a- | WD | SB | A1 | P-1 | SB | A | A-1 | R - 6 mths | R - 6 mths | 57.21 | In Range | R - 6 mths | |
| Germany | SB | AAA | | | | SB | Aaa | | SB | AAA | | Not Applicable | Not Applicable | 12.50 | In Range | Not Applicable | |
| Bayerische Landesbank | SB | A- | F1 | bbb+ | WD | PO | Aa3 | P-1 | | NR | NR | R - 6 mths | R - 6 mths | | | R - 6 mths | |
| Commerzbank AG | | WD | WD | WD | WD | SB | A1 | P-1 | PO | A- | A-2 | R - 6 mths | R - 6 mths | 66.21 | In Range | R - 6 mths | |
| Deutsche Bank AG | SB | A- | F2 | a- | WD | SB | A1 | P-1 | SB | A | A-1 | R - 6 mths | R - 6 mths | 90.07 | In Range | R - 6 mths | |
| DZ BANK AG Deutsche Zentral-Genossenschaftsbank | SB | AA- | F1+ | | WD | SB | Aa2 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| Landesbank Baden-Wuerttemberg | SB | A- | F1 | bbb+ | WD | SB | Aa3 | P-1 | | NR | NR | R - 6 mths | R - 6 mths | | | R - 6 mths | |
| Landesbank Berlin AG | | | | | | SB | Aa3 | P-1 | | | | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| Landesbank Hessen-Thueringen Girozentrale | SB | A+ | F1+ | | WD | SB | Aa3 | P-1 | | NR | NR | O - 12 mths | O - 12 mths | 67.81 | In Range | O - 12 mths | |

| | Fitch Rating | | | | | Moody's Ratings | | | S&P Ratings | | | | | | | | |
|--------------------------------------|------------------|-----------|------------|-----------|---------|------------------|-----------|------------|------------------|-----------|------------|--------------------|---|-----------|------------|--|--|
| | Long Term Status | Long Term | Short Term | Viability | Support | Long Term Status | Long Term | Short Term | Long Term Status | Long Term | Short Term | Suggested Duration | Suggested Duration (Watch/Outlook Adjusted) | CDS Price | CDS Status | Suggested Duration (CDS Adjusted with manual override) | |
| Landwirtschaftliche Rentenbank | SB | AAA | F1+ | | WD | SB | Aaa | P-1 | SB | AAA | A-1+ | P - 24 mths | P - 24 mths | | | P - 24 mths | |
| Norddeutsche Landesbank Girozentrale | SB | A- | F1 | bb | WD | PO | A3 | P-2 | | NR | NR | G - 100 days | G - 100 days | | | G - 100 days | |
| NRW.BANK | SB | AAA | F1+ | | WD | SB | Aa1 | P-1 | SB | AA | A-1+ | P - 24 mths | P - 24 mths | | | P - 24 mths | |
| Netherlands | SB | AAA | | | | SB | Aaa | | SB | AAA | | Not Applicable | Not Applicable | 10.99 | In Range | Not Applicable | |
| ABN AMRO Bank N.V. | SB | A | F1 | a | WD | SB | Aa3 | P-1 | SB | A | A-1 | R - 6 mths | R - 6 mths | | | R - 6 mths | |
| BNG Bank N.V. | SB | AAA | F1+ | | WD | SB | Aaa | P-1 | SB | AAA | A-1+ | P - 24 mths | P - 24 mths | | | P - 24 mths | |
| Cooperatieve Rabobank U.A. | SB | A+ | F1 | a+ | WD | SB | Aa2 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 28.68 | In Range | O - 12 mths | |
| ING Bank N.V. | SB | AA- | F1+ | a+ | WD | SB | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 36.29 | In Range | O - 12 mths | |
| Nederlandse Waterschapsbank N.V. | | | | | | SB | Aaa | P-1 | SB | AAA | A-1+ | P - 24 mths | P - 24 mths | | | P - 24 mths | |
| Norway | SB | AAA | | | | SB | Aaa | | SB | AAA | | Not Applicable | Not Applicable | 9.99 | In Range | Not Applicable | |
| DNB Bank ASA | | | | | | SB | Aa1 | P-1 | SB | AA- | A-1+ | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| Qatar | PO | AA- | | | | PO | Aa3 | | SB | AA | | Not Applicable | Not Applicable | 45.64 | In Range | Not Applicable | |
| Qatar National Bank | PO | A | F1 | bbb+ | WD | SB | Aa3 | P-1 | SB | A+ | A-1 | R - 6 mths | O - 12 mths | 85.64 | In Range | O - 12 mths | |
| Singapore | SB | AAA | | | | SB | Aaa | | SB | AAA | | Not Applicable | Not Applicable | | | Not Applicable | |
| DBS Bank Ltd. | SB | AA- | F1+ | aa- | WD | SB | Aa1 | P-1 | SB | AA- | A-1+ | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| Oversea-Chinese Banking Corp. Ltd. | SB | AA- | F1+ | aa- | WD | SB | Aa1 | P-1 | SB | AA- | A-1+ | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| United Overseas Bank Ltd. | SB | AA- | F1+ | aa- | WD | SB | Aa1 | P-1 | SB | AA- | A-1+ | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| Sweden | SB | AAA | | | | SB | Aaa | | SB | AAA | | Not Applicable | Not Applicable | 11.99 | In Range | Not Applicable | |
| Skandinaviska Enskilda Banken AB | SB | AA- | F1+ | aa- | WD | SB | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| Svenska Handelsbanken AB | SB | AA | F1+ | aa | WD | NO | Aa2 | P-1 | SB | AA- | A-1+ | O - 12 mths | O - 12 mths | | | O - 12 mths | |

| | Fitch Rating | | | | | Moody's Ratings | | | S&P Ratings | | | | | | | | |
|----------------------------------|------------------|-----------|------------|-----------|---------|------------------|-----------|------------|------------------|-----------|------------|--------------------|---|-----------|------------|--|--|
| | Long Term Status | Long Term | Short Term | Viability | Support | Long Term Status | Long Term | Short Term | Long Term Status | Long Term | Short Term | Suggested Duration | Suggested Duration (Watch/Outlook Adjusted) | CDS Price | CDS Status | Suggested Duration (CDS Adjusted with manual override) | |
| Swedbank AB | SB | AA- | F1+ | aa- | WD | SB | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| Switzerland | SB | AAA | | | | SB | Aaa | | SB | AAA | | Not Applicable | Not Applicable | 8.16 | In Range | Not Applicable | |
| UBS AG | SB | A+ | F1 | a | WD | NO | Aa2 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 55.17 | In Range | O - 12 mths | |
| United Arab Emirates | SB | AA | | | | SB | Aa2 | | SB | AA | | Not Applicable | Not Applicable | 41.17 | In Range | Not Applicable | |
| First Abu Dhabi Bank PJSC | SB | AA- | F1+ | a- | WD | SB | Aa3 | P-1 | SB | AA- | A-1+ | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| United Kingdom | NO | AA- | | | | SB | Aa3 | | SB | AA | | Not Applicable | Not Applicable | 25.46 | In Range | Not Applicable | |
| Collateralised LA Deposit* | | | | | | | | | | | | Y - 60 mths | Y - 60 mths | | | Y - 60 mths | |
| Debt Management Office | | | | | | | | | | | | Y - 60 mths | Y - 60 mths | | | Y - 60 mths | |
| Multilateral Development Banks | | | | | | | | | | | | Y - 60 mths | Y - 60 mths | | | Y - 60 mths | |
| Supranationals | | | | | | | | | | | | Y - 60 mths | Y - 60 mths | | | Y - 60 mths | |
| UK Gilts | | | | | | | | | | | | Y - 60 mths | Y - 60 mths | | | Y - 60 mths | |
| Al Rayan Bank Plc | | | | | | NO | A1 | P-1 | | | | R - 6 mths | R - 6 mths | | | R - 6 mths | |
| Bank of Scotland PLC (RFB) | SB | A+ | F1 | a | WD | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths | R - 6 mths | 44.28 | In Range | R - 6 mths | |
| Barclays Bank PLC (NRFB) | SB | A+ | F1 | a | WD | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths | R - 6 mths | 84.08 | In Range | R - 6 mths | |
| Barclays Bank UK PLC (RFB) | SB | A+ | F1 | a | WD | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths | R - 6 mths | | | R - 6 mths | |
| Close Brothers Ltd | NO | A- | F2 | a- | WD | SB | Aa3 | P-1 | | | | R - 6 mths | R - 6 mths | | | R - 6 mths | |
| Clydesdale Bank PLC | PO | A- | F2 | bbb+ | WD | SB | A3 | P-2 | SB | A- | A-2 | G - 100 days | G - 100 days | | | G - 100 days | |
| Co-operative Bank PLC (The) | SB | BB | B | bb- | WD | PO | Ba1 | NP | | | | N/C - 0 mths | N/C - 0 mths | | | N/C - 0 mths | |
| Goldman Sachs International Bank | SB | A+ | F1 | | WD | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths | R - 6 mths | 65.69 | In Range | R - 6 mths | |
| Handelsbanken Plc | SB | AA | F1+ | | WD | | | | SB | AA- | A-1+ | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| HSBC Bank PLC (NRFB) | SB | AA- | F1+ | a | WD | SB | A1 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 45.69 | In Range | O - 12 mths | |

| | Fitch Rating | | | | | Moody's Ratings | | | S&P Ratings | | | | | | | | |
|------------------------------|------------------|-----------|------------|-----------|---------|------------------|-----------|------------|------------------|-----------|------------|--------------------|---|-----------|------------|--|--|
| | Long Term Status | Long Term | Short Term | Viability | Support | Long Term Status | Long Term | Short Term | Long Term Status | Long Term | Short Term | Suggested Duration | Suggested Duration (Watch/Outlook Adjusted) | CDS Price | CDS Status | Suggested Duration (CDS Adjusted with manual override) | |
| United States | SB | AA+ | | | | NO | Aaa | | SB | AA+ | | Not Applicable | Not Applicable | 42.79 | In Range | Not Applicable | |
| Bank of America N.A. | SB | AA | F1+ | aa- | WD | NO | Aa1 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| Bank of New York Mellon, The | SB | AA | F1+ | aa- | WD | NO | Aa1 | P-1 | SB | AA- | A-1+ | P - 24 mths | P - 24 mths | | | P - 24 mths | |
| Citibank N.A. | SB | A+ | F1 | a | WD | SB | Aa3 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 60.92 | In Range | O - 12 mths | |
| JPMorgan Chase Bank N.A. | SB | AA | F1+ | aa- | WD | NO | Aa1 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | | | O - 12 mths | |
| Wells Fargo Bank, NA | SB | AA- | F1+ | a+ | WD | NO | Aa1 | P-1 | SB | A+ | A-1 | O - 12 mths | O - 12 mths | 60.90 | In Range | O - 12 mths | |

| Yellow | Purple | Blue | Orange | Red | Green | No Colour |
|------------|------------|--|-----------|----------------|----------------|----------------|
| | | | | | | |
| Up to 5yrs | Up to 2yrs | Up to 1yr (semi nationalised UK bank NatWest/RBS) | Up to 1yr | Up to 6 months | Up to 100 days | Not to be used |

Watches and Outlooks: SB- Stable Outlook; NO- Negative Outlook; NW- Negative Watch; PO- Positive Outlook; PW- Positive Watch; EO- Evolving Outlook; EW- Evolving Watch; WD- Rating Withdrawn.

| Non-Specified Investments: | | | |
|-----------------------------------|-------------------------------------|---------------------|-----------|
| | Minimum credit Criteria | Maximum Investments | Period |
| UK Local Authorities | Government Backed | £2m | 2 years |
| Green Energy Bonds | Internal and External Due Diligence | £2m | 2-5 years |

5.4 APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (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.

5.5 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Cabinet

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit and Governance Committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.6 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe;
- ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- 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 Council;
- ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources;
- 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;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees ;
- ensuring that members are adequately informed and understand the risk exposures taken on by the Council;
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed, to include risk management, performance management and measurement, decision making, governance and organisation, reporting and management information and training and qualifications.

5.7 GLOSSARY

| Terms | Descriptions |
|-------------------------------------|--|
| A (Fitch) Rating | <p>Fitch Ratings publishes credit ratings that are forward-looking opinions on the relative ability of an entity or obligation to meet financial commitments.</p> <p><i>A: High credit quality.</i> 'A' rating denotes expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.</p> |
| Bond | A certificate of long-term debt issued by a company, government, or other institution, which is tradable on financial markets. |
| Borrowing | Usually refers to the stock of outstanding loans owed, and bonds issued. |
| CFR | Capital Financing Requirement. A council's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with capital expenditure and decreases with capital finance and MRP. |
| Capital gain or loss | An increase or decrease in the capital value of an investment, for example through movements in its market price. |
| CIPFA | The Chartered Institute of Public Finance and Accountancy (CIPFA) is a UK-based international accountancy membership and standard-setting body. The only such body globally dedicated to public financial management. |
| Collective investment scheme | Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds'). |
| Cost of carry | When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim. |
| Counterparty | The other party to a loan, investment or other contract. |
| Counterparty limit | The maximum amount an investor is willing to lend to a counterparty, in order to manage credit risk. |
| Covered bond | Bond issued by a financial institution that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds. |
| CPI | Consumer Price Index - the measure of inflation targeted by the Monetary Policy Committee. |
| Deposit | A regulated placing of cash with a financial institution. Deposits are not tradable on financial markets. |
| Diversified income fund | A collective investment scheme that invests in a range of bonds, equity and property in order to minimise price risk, and also focuses on investments that pay income. |
| Dividend | Income paid to investors in shares and collective investment schemes. Dividends are not contractual, and the amount is therefore not known in advance. |

| Terms | Descriptions |
|---------------------------------|--|
| DMADF | Debt Management Account Deposit Facility – a facility offered by the DMO enabling councils to deposit cash at very low credit risk. Not available in Northern Ireland. |
| DLUHC | Department for Levelling Up, Housing and Communities (<i>formerly known as Ministry of Housing, Communities and Local Government - MHCLG</i>). |
| DMO | Debt Management Office – an executive agency of HM Treasury that deals with central government’s debt and investments. |
| Equity | An investment which usually confers ownership and voting rights. |
| Floating rate note (FRN) | Bond where the interest rate changes at set intervals linked to a market variable, most commonly 3-month LIBOR or SONIA. |
| FTSE | Financial Times stock exchange – a series of indices on the London Stock Exchange. The FTSE 100 is the index of the largest 100 companies on the exchange, the FTSE 250 is the next largest 250 and the FTSE 350 combines the two. |
| GDP | Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth. |
| Income Return | Return on investment from dividends, interest and rent but excluding capital gains and losses. |
| GILT | Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on. |
| LIBID | London interbank bid rate - the benchmark interest rate at which banks bid to borrow cash from other banks, traditionally 0.125% lower than LIBOR. |
| LIBOR | London interbank offer rate - the benchmark interest rate at which banks offer to lend cash to other banks. Published every London working day at 11am for various currencies and terms. Phased out in 2022. |
| LOBO | Lender’s Option Borrower’s option. |
| MMF | Money Market Funds. A collective investment scheme which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to Constant Net Asset Value (CNAV) and Low Volatility Net Asset Value (LVNAV) funds with a Weighted Average Maturity (WAM) under 60 days which offer instant access, but the European Union definition extends to include cash plus funds. |
| MPC | The Monetary Policy Committee (MPC) decides what monetary policy action the Bank of England will take to keep inflation low and stable. |
| OBR | The Office for Budget Responsibility was created to provide independent and authoritative analysis of the UK's public finances. It is one of a growing number of official independent fiscal watchdogs around the world. |
| PMI | Purchasing Managers' Index (PMI) - a composite PMI is the weighted average of manufacturing and service sector PMIs for a given geography or economy, produced by IHS Markit. Weights are derived from official data relating to each sector's contribution to GDP (value added). |

| Terms | Descriptions |
|---------------------------------|--|
| Pooled Fund | Scheme in which multiple investors hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds'). |
| PWLB | Public Works Loan Board – a statutory body operating within the Debt Management Office (DMO) that lends money from the National Loans Fund to councils and other prescribed bodies and collects the repayments. Not available in Northern Ireland. |
| Quantitative easing (QE) | Process by which central banks directly increase the quantity of money in the economy to promote GDP growth and prevent deflation. Normally achieved by the central bank buying government bonds in exchange for newly created money. |
| S & P 500 | The S&P 500 (also known as the Standard & Poor's 500) is a registered trademark of the joint venture S&P Dow Jones Indices. It is a stock index that consists of the 500 largest companies in the U.S. and is generally considered the best indicator of how U.S. stocks are performing overall. |
| SME | SME finance is the funding of small and medium-sized enterprises and represents a major function of the general business finance market – in which capital for different types of firms are supplied, acquired, and costed or priced. |
| SONIA | Sterling overnight interest average – a benchmark interest rate for overnight deposits. |
| Short-dated | Usually means less than one year. |
| TMSS | Treasury Management Strategy Statement. |
| Total return | The overall return on an investment, including interest, dividends, rent, fees and capital gains and losses. |