Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Lewes District Council
2025/26

INDEX

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 2025/26

The strategy for 2025/26 covers two main areas:

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

Treasury management issues
- the current treasury position
- treasury indicators which limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling

- the investment strategy
- creditworthiness policy; and
- the policy on use of external service providers

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

1.4 Training

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

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 2025/26 – 2027/28

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

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	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
GF	16,311	27,707	37,451	9,369	2,271
HRA	11,408	22,557	33,916	38,120	25,326
Total	**27,719**	**50,264**	**71,367**	**47,489**	**27,597**

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	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital receipts	6,287	16,273	2,339	2,268	1,306
Capital grants	8,314	21,639	22,521	5,224	4,391
Capital Reserves	5,712	8,753	6,997	7,160	7,303
Revenue	230	1,693	176	308	393
Net financing need for the year	**7,176**	**1,906**	**39,334**	**32,529**	**14,204**

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	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Financing Requirement					
GF	28,115	29,454	44,785	50,624	50,009
HRA	78,028	78,669	101,697	126,757	139,690
Total CFR	**106,143**	**108,123**	**146,482**	**177,381**	**189,699**
Movement in CFR		**1,980**	**38,359**	**30,899**	**12,318**

Movement in CFR represented by					
Net financing need for the year (above)	7,176	1,906	39,334	32,529	14,204
Leases	-	1,000	-	-	-
less MRP	(467)	(926)	(975)	(1,630)	(1,886)
less Loans Repaid	-	-	-	-	-
Movement in CFR	**6,709**	**1,980**	**38,359**	**30,899**	**12,318**

External borrowing £000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
HRA	-	641	23,028	25,060	12,933
General Fund					
Housing	-	135	135	135	135
Loans to Housing Companies	-	-	250	-	-
Regeneration	1,257	80	7,778	5,291	116
Asset Management	644	418	1,326	160	270
Indoor Leisure Facilities	947	-	2,800	300	-
Energy Schemes	-	-	500	250	-
Community Infrastructure Levy	-	-	-	-	-
Flooding & Coastal	3,822	85	1,422	427	250
Specialist	281	-	236	236	-
Parks & Pavilions	3	-	1,230	200	500
Open Space / Biodiversity	42	547	-	200	-
Information Technology	-	-	150	150	-
Digital Transformation	-	-	329	120	-
Corporate	180	-	150	-	-
Total General Fund	**7,176**	**1,265**	**16,306**	**7,469**	**1,271**
Total CFR	**7,176**	**1,906**	**39,334**	**32,529**	**14,204**

External borrowing £000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Treasury Management	-	-	-	-	-

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

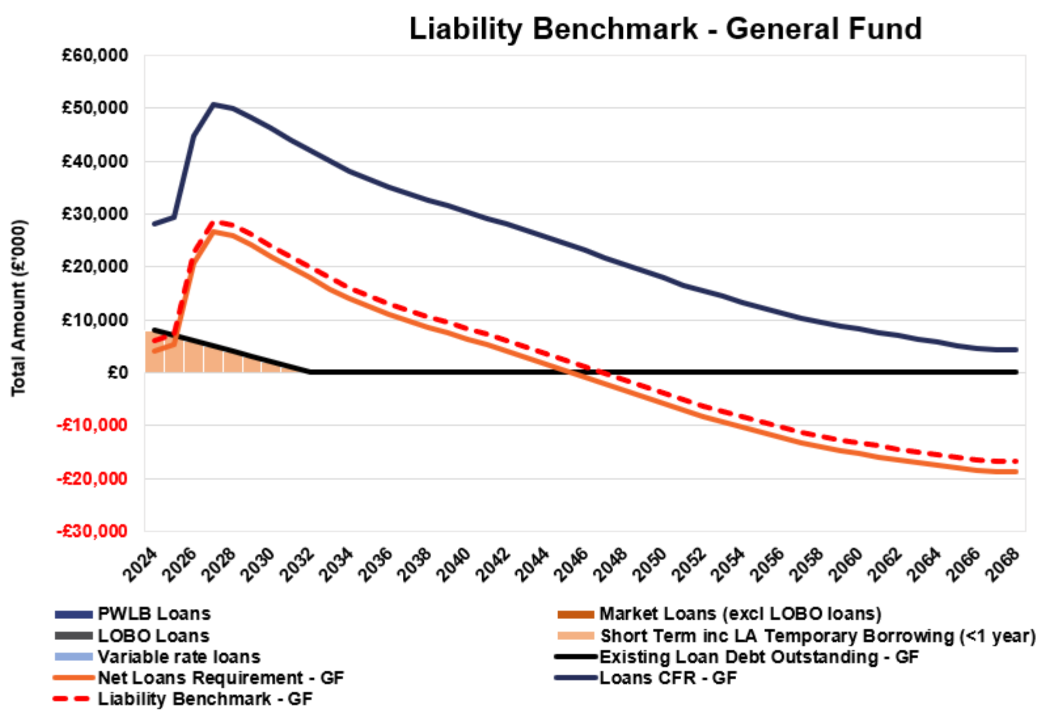
2.3 Liability Benchmark

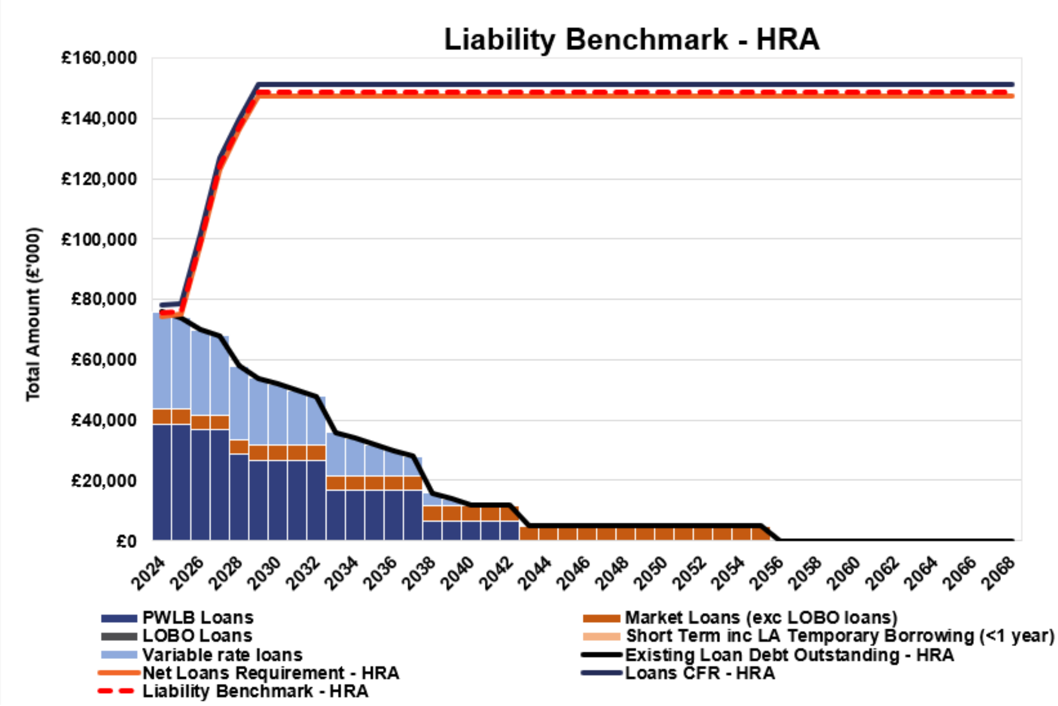
The Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

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 graphs provide 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	**2023/24 Actual**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
Fund balances / reserves	(39,898)	(24,648)	(21,630)	(16,787)	(12,627)
Capital receipts	(15,767)	(1,594)	(1,355)	(1,187)	(1,981)
Provisions	(594)	(594)	(594)	(594)	(594)
Other	-	-	-	-	-
Total core funds	**(56,259)**	**(26,836)**	**(23,579)**	**(18,568)**	**(15,202)**
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 2003 Regulations have been further amended with full effect from April 2025 to expressly provide that in determining a prudent provision local authorities cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute.

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 (2024) provides four ready-made options for calculating MRP. The Council can use a mix of these options if it considers it appropriate to do so.

The Government considers that the methods of making prudent provision include the options set out in the statutory guidance. However, this does not rule out or otherwise preclude an authority from using an alternative method should it decide that is more appropriate. Any method used is subject to the conditions in paragraphs 61 to 65 of the guidance as far as these are relevant.

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 financed by borrowing during 2024/25 will not be subject to an MRP charge until 2025/26, 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.

The Council has determined that MRP is not required for borrowing or credit arrangements used to finance capital expenditure on housing assets and accounted for within the Housing Revenue Account (HRA) as it has determined, through its duty to charge depreciation and hold a Major Repairs Reserve, that prudent provision has been made.

Leases/PFI

The adoption of International Financial Reporting Standard 16 has introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is low value. When such lease contracts and the related assets and liabilities are brought onto the balance sheet, the Council will increase its long-term liabilities and as a result this will increase the debt liability.

Generally accepted accounting practice requires these changes to be accounted for retrospectively, with the result that an element of the rental or service charge payable in previous years (and previously charged to revenue accounts) will be taken to the balance sheet to reduce the liability.

On its own, this change in the accounting arrangements would result in a one-off increase to the CFR and an equal increase in revenue account balances.

This is not seen as a prudent course of action and the guidance aims to ensure local authorities are in the same position as if the change had not occurred. It does this by recommending the inclusion in the annual MRP charge of an amount equal to the amount that has been taken to the balance sheet to reduce the liability, including the retrospective element in the first year.

It will be open to the Council to consider a different approach to the calculation, subject to compliance with the overriding statutory requirement to make a prudent level of MRP.

Regarding MRP in respect of assets acquired either under leases where a right-of-use asset is on the balance sheet or where on-balance sheet PFI contracts are in place, the prudent charge to revenue can be measured as being equal to the element of the rent/charge that goes to write down the balance sheet liability.

Where a lease (or part of a lease) or PFI contract is brought onto the balance sheet, having previously been accounted for off-balance sheet, the MRP requirement is regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.

Investment Property

The duty to make MRP extends to investment properties where the acquisition results in an increase to the CFR. As depreciation is not charged on investment properties, Option 4: the Depreciation method is not a suitable approach for calculating the MRP to be charged in respect of investment properties.

The Council cannot exclude any proportion of its debt liability from the determination of a prudent MRP charge on the basis that the debt is associated with an investment asset that the Council believes will retain or increase capital value.

Capital Loans

Regulation 27(4) allows the Council to exclude capital loans that are financed by debt from the requirement to make MRP, provided the loan is not a commercial loan. A commercial loan is defined in regulation 27(5) as a loan from the Council to another entity for a purpose which, if the Council were to undertake itself, would be primarily for financial return; or, where the loan is itself capital expenditure undertaken primarily for financial return. The Council must make MRP with respect to any debt used to finance a commercial capital loan.

The Council may choose not to charge MRP in respect of the financing by debt of a loan issued by the Council to any person or body, where:

(a) the loan is treated as capital expenditure in accordance with regulation 25(1)(b),
(b) the loan is not a commercial loan, and
(c) the Council has not recognised, in accordance with proper practices(c), any expected or actual credit loss in respect of that loan.

Capital Receipts

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.

Share Capital

Where the Council incurs expenditure that is capitalised on or after April 2008, which is financed by borrowing for the acquisition of share capital, Regulation 25(1)(d) Acquisition of share capital sets out the maximum period for the Council to provide MRP of 20 years.

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 31/3/24 and for the position as at 31/12/24 are shown below for both borrowing and investments.

	TREASURY PORTFOLIO			
	Actual **31/3/24**	Actual **31/3/24**	Current **31/12/24**	Current **31/12/24**
Treasury investments	**£000**	**%**	**£000**	**%**
Banks (see detail below)	5,492	100%	6,243	55%
Building societies - unrated	-	-	-	-
Building societies - rated	-	-	-	-
Local authorities	-	-	-	-
DMADF (H.M.Treasury)	-	-	5,000	45%
Money Market Funds	-	-	-	-
Certificates of Deposit	-	-	-	-
Total managed in house	**5,492**	**100%**	**11,243**	**100%**
Bond Funds	-	-	-	-
Property Funds	-	-	-	-
Total managed externally	**-**	**-**	**-**	**-**
Total treasury investments	**5,492**	**100%**	**11,243**	**100%**
Treasury external borrowing				
Local Authorities	8,000	15%	5,000	11%
PWLB	38,673	75%	36,673	78%
Market Loans	5,000	10%	5,000	11%
LOBOs	-	-	-	-
Total external borrowing	**51,673**	**100%**	**46,673**	**100%**
Net treasury investments / (borrowing)	**(46,181)**		**(35,430)**	

Treasury Investments				
	Actual **31/3/24**	Actual **31/3/24**	Current **31/12/24**	Current **31/12/24**
Banks	**£000**	**%**	**£000**	**%**
Lloyds	4,192	76%	6,243	100%
Santander	1,300	24%	-	-
Total	**5,492**	**100%**	**6,243**	**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	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
External Debt					
Debt at 1 April	83,909	83,909	94,456	133,790	166,319
Expected change in Debt	-	10,547	39,334	32,529	14,204
Other long-term liabilities (OLTL)					
Expected change in OLTL	-	-	-	-	-
Actual gross debt at 31 March	**83,909**	**94,456**	**133,790**	**166,319**	**180,523**
Capital Financing Requirement	**106,143**	**108,123**	**146,482**	**177,381**	**189,699**
Under / (over) borrowing	**22,234**	**13,667**	**12,692**	**11,062**	**9,176**

External debt at 1/4/25 includes £34.9m of general fund loans to the housing revenue account. When borrowing rates are more favourable, the intention is to externalise these loans with the PWLB.

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

The 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	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	124,340	168,450	203,990	218,150
Other long-term liabilities	1,000	1,000	1,000	1,000
Total	**125,340**	**169,450**	**204,990**	**219,150**

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	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	129,750	175,780	212,860	227,640
Other long-term liabilities	1,100	1,100	1,100	1,100
Total	**130,850**	**176,880**	**213,960**	**228,740**

3.3 Prospects for Interest Rates

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

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

- Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, we have significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

- If we reflect on the 30 October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

- The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

- There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

- Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

- Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.

- Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

- So far, we have made little mention of the US President election. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.

- Our revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).

Gilt yields and PWLB rates

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

PWLB debt	**Current borrowing rate as at 11.11.24 p.m.**	**Target borrowing rate now (end of Q3 2026)**	**Target borrowing rate previous (end of Q3 2026)**
5 years	5.02%	4.30%	3.90%
10 years	5.23%	4.50%	4.10%
25 years	5.66%	4.90%	4.40%
50 years	5.42%	4.70%	4.20%

Borrowing advice: The long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.5%, from 3%. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

The 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
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

Link will continue to monitor economic and market developments as they unfold. Typically, they formally review the forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider their position on an ad hoc basis as required.

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 relatively elevated in 2025 even if some rate cuts arise.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 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 National Wealth Fund	●	●
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 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: -

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

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

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

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

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

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

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

4. 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 • Lloyds Bank • Bank of Scotland	UK	TD (including callable deposits), Certificate of Deposits (CD's)	£10m	1 yr
RBS/NatWest Group • Royal Bank of Scotland • NatWest	UK		£5m	1 yr
HSBC	UK		£5m	1 yr
Barclays	UK		£5m	6 mths
Santander	UK		£5m	6 mths
Goldman Sachs Investment Bank	UK		£5m	6 mths
Standard Chartered Bank	UK		£5m	1 yr
Nationwide Building Society	UK		£5m	6 mths
Coventry Building Society	UK		£5m	100 days
Money Market Funds (MMF)	UK/Ireland/ EU domiciled	AAA rated Money Market Funds	£10m per fund	Instant access
Counterparties in select countries (non-UK) with a Long Term rating of at least A-				
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
Danske Bank	Denmark	TD / CD’s	£5m	6 months
DZ Bank AG	Germany	TD / CD’s	£5m	1 yr
ABN Amro Bank	Netherlands	TD / CD’s	£5m	6 months
Cooperative Rabobank	Netherlands	TD / CD’s	£5m	1 yr
ING Bank NV	Netherlands	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
UBS AG	Switzerland	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 dentification 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 the risks are relatively balanced between Bank Rate staying higher for longer, if inflation picks up markedly through 2025 post the 30 October 2024 Budget, or it may be cut quicker than expected if the economy stagnates. The economy only grew 0.1% in Q3 2024, but the CPI measure of inflation is now markedly above the 2% target rate set by the Bank of England's Monetary Policy Committee two to three years forward

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

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

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

Average earnings in each year	
2024/25 (residual)	4.60%
2025/26	4.10%
2026/27	3.70%
2027/28	3.50%
2028/29	3.5%
Years 6 to 10	3.50%
Years 10+	3.50%

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

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			
	2025/26	**2026/27**	**2027/28**
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 2025/26 – 2027/28

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

5.1.1 Capital Expenditure

Capital expenditure £000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
GF	16,311	27,707	37,451	9,369	2,271
HRA	11,408	22,557	33,916	38,120	25,326
Total	**27,719**	**50,264**	**71,367**	**47,489**	**27,597**

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.

%	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
GF	3.7%	8.6%	12.7%	18.5%	3.7%

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.

%	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
HRA	48.5%	44.3%	48.6%	50.7%	48.5%

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 2025/26		
	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 2024 (July to September) saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

Over the aforementioned period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession. However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.

If we reflect on the 30 October Budget, our central case is that those policy announcements will prove to be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be elevated at 2.7% y/y (Q4 2025) before dropping back to sub-2% in 2027. Nonetheless, since the Budget, the October inflation print has shown the CPI measure of inflation bouncing up to 2.3% y/y with the prospect that it will be close to 3% by the end of the year before falling back slowly through 2025. The RPI measure has also increased significantly to 3.4% y/y.

How high inflation goes will primarily be determined by several key factors. First amongst those is that the major investment in the public sector, according to the Bank of England, will lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises in the June 2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.

Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.

Currently, it also seems likely that net inward migration is set to fall, so there is likely to be a smaller pool of migrant workers available who, in the past, have filled the requirement for construction worker demand. The Government plans to heavily promote training schemes, particularly to the one million 16- to 24-year-olds who are neither in education nor work. But it is arguable as to whether the employee shortfall can be made up from this source in the requisite time, even if more do enter the workforce.

Against, this backdrop, there may be a near-term boost to inflation caused by a wave of public sector cash chasing the same construction providers over the course of the next year or so, whilst wages remain higher than the Bank currently forecasts because of general labour shortages, including in social care where Government accepts there is a 150,000 shortfall at present.

Unemployment stands at a low 4.3% (September), whilst wages are rising at 4.3% y/y (including bonuses) and 4.8% (excluding bonuses). The Bank would ideally like to see further wage moderation to underpin any further gradual relaxing of monetary policy. Indeed, over the next six months, the market is currently only pricing in Bank Rate reductions in February and May – which would see Bank Rate fall to 4.25% - but further cuts, thereafter, are highly likely to be even more data-dependent.

If we focus on borrowing, a term we are likely to hear throughout 2025 is "bond vigilante". Essentially, this represents a generic term for when the market is ill at ease with the level of government borrowing and demands a higher return for holding debt issuance. In the UK, we do not need to go back too far to recall the negative market reaction to the Truss/Kwarteng budget of 2022. But long-term borrowing rates have already gradually moved back to those levels since their recent low point in the middle of September 2024. Of course, the UK is not alone in this respect. Concerns prevail as to what the size of the budget deficit will be in the US, following the election of Donald Trump as President, and in France there are on-going struggles to form a government to address a large budget deficit problem too. Throw into the mix the uncertain outcome to German elections, and there is plenty of bond investor concern to be seen.

Staying with the US, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks continue to abound in Europe, the Middle East and Asia.

In the past month, the US Core CPI measure of inflation has indicated that inflation is still a concern (3.3% y/y, 0.3% m/m), as has the November Producer Prices Data (up 3.0 y/y v a market estimate of 2.6% y/y, 0.4% m/m v an estimate of 0.2% m/m) albeit probably insufficient to deter the FOMC from cutting US rates a further 0.25% at its December meeting. However, with Trump's inauguration as President being held on 20 January, further rate reductions and their timing will very much be determined by his policy announcements and their implications for both inflation and Treasury issuance.

Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. More recently, however, 10 year gilt yields have spiked back up to 4.35%.

The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8.304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any further rally (or not) is likely to be the breadth of AI's impact on business growth and performance.

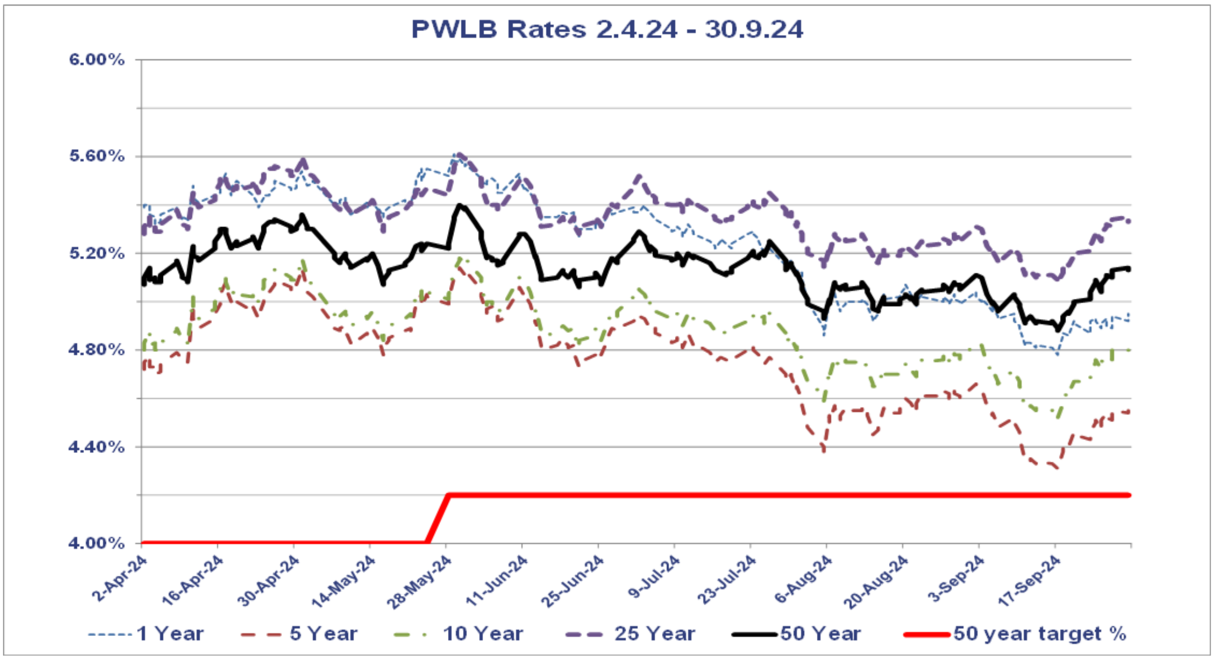
MPC meetings: 9 May, 20 June, 1 August, 19 September, 7 November 2024

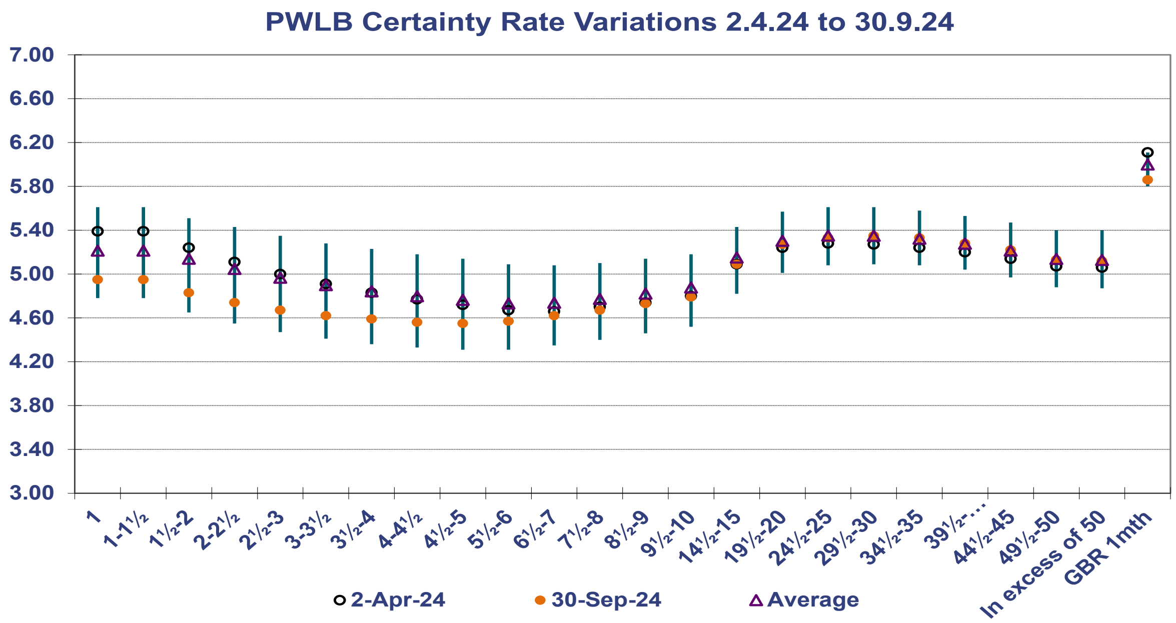
- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.

(Please note these charts are updated quarterly and will next be updated early January.)

PWLB RATES 02.04.24 - 30.09.24





HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

5.3 COUNTERPARTY LIST

Counterparty			Fitch Ratings					Moodys Ratings			S&P Ratings						
			Long Term	Short Term	Viability	Support		Long Term	Short Term		Long Term	Short Term	Suggested Duration	(Watch/ Outlook Adjusted)	CDS Price	CDS Status	(CDS Adjusted with manual override)
Australia		SB	AAA				SB	Aaa		SB	AAA				10.16		
Banks	Australia and New Zealand Banking Group Ltd.	SB	AA-	F1+	a+	WD	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	20.38		O - 12 mths
	Commonwealth Bank of Australia	SB	AA-	F1+	a+	WD	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	20.38		O - 12 mths
	Macquarie Bank Ltd.	SB	A+	F1	a	WD	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths
	National Australia Bank Ltd.	SB	AA-	F1+	a+	WD	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	20.39		O - 12 mths
	Westpac Banking Corp.	SB	AA-	F1+	a+	WD	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths	23.35		O - 12 mths
Belgium		NO	AA-				NO	Aa3		SB	AA				19.00		
Banks	BNP Paribas Fortis	SB	A+	F1	a+	WD	NO	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths			R - 6 mths
	KBC Bank N.V.	SB	A+	F1	a	WD	SB	Aa3	P-1	PO	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths
Canada		SB	AA+				SB	Aaa		SB	AAA						
Banks	Bank of Montreal	SB	AA-	F1+	aa-	WD	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths
	Bank of Nova Scotia	SB	AA-	F1+	aa-	WD	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths
	Canadian Imperial Bank of Commerce	SB	AA-	F1+	aa-	WD	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths
	National Bank of Canada	SB	A+	F1	a+	WD	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths
	Royal Bank of Canada	SB	AA-	F1+	aa-	WD	SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths
	Toronto-Dominion Bank	NO	AA-	F1+	aa-	WD	SB	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths
Denmark		SB	AAA				SB	Aaa		SB	AAA				6.99		
Banks	Danske A/S	SB	A+	F1	a+	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	37.66		R - 6 mths
Finland		NO	AA+				SB	Aa1		SB	AA+				16.00		
Banks	Nordea Bank Abp	SB	AA-	F1+	aa-	WD	PO	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

Counterparty		Fitch Ratings					Moodys Ratings			S&P Ratings							
		Long Term		Short Term	Viability	Support	Long Term		Short Term	Long Term		Short Term	Suggested Duration	(Watch/ Outlook Adjusted)	CDS Price	CDS Status	(CDS Adjusted with manual override)
France		NO	AA-				SB	Aa3		SB	AA-				19.00		
Banks	BNP Paribas	SB	A+	F1	a+	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	47.69	●	R - 6 mths
	Credit Agricole Corporate and Investment Bank	SB	A+	F1	WD	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths			R - 6 mths
	Credit Agricole S.A.	SB	A+	F1	a+	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	44.72	●	R - 6 mths
	Credit Industriel et Commercial	SB	A+	F1	a+	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths			R - 6 mths
	Societe Generale	SB	A-	F1	a-	WD	NO	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	52.72	●	R - 6 mths
Germany		SB	AAA				SB	Aaa		SB	AAA				6.99		
Banks	Bayerische Landesbank	SB	A+	F1+	bbb+	WD	SB	Aa2	P-1		NR	NR	O - 12 mths	O - 12 mths			O - 12 mths
	Commerzbank AG		WD	WD	WD	WD	PO	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	51.74	●	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	61.27	●	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	Aa2	P-1		NR	NR	O - 12 mths	O - 12 mths			O - 12 mths
	Landesbank Berlin AG						SB	Aa3	P-1				O - 12 mths	O - 12 mths			O - 12 mths
	Landesbank Hessen-Thueringen Girozentrale	SB	A+	F1+	bbb	WD	SB	Aa2	P-1		NR	NR	O - 12 mths	O - 12 mths	72.28	●	O - 12 mths
	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	SB	Aa2	P-1		NR	NR	O - 12 mths	O - 12 mths			O - 12 mths
	NRW.BANK	SB	AAA	F1+		WD	SB	Aa1	P-1	NO	AA	A-1+	P - 24 mths	P - 24 mths			P - 24 mths
Netherlands		SB	AAA				SB	Aaa		SB	AAA				7.99		
Banks	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	25.69	●	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	29.19	●	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				6.49		
Banks	DNB Bank ASA						SB	Aa1	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths

Counterparty			Fitch Ratings				Moodys Ratings			S&P Ratings							
			Long Term	Short Term	Viability	Support		Long Term	Short Term		Long Term	Short Term	Suggested Duration	(Watch/ Outlook Adjusted)	CDS Price	CDS Status	(CDS Adjusted with manual override)
Qatar		SB	AA				SB	Aa2		SB	AA				43.67		
Banks	Qatar National Bank	SB	A+	F1	bbb+	WD	SB	Aa3	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	83.67		O - 12 mths
Singapore		SB	AAA				SB	Aaa		SB	AAA						
Banks	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				7.49		
Banks	Skandinaviska Enskilda Banken AB	SB	AA-	F1+	aa-	WD	PO	Aa3	P-1	PO	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths
	Svenska Handelsbanken AB	SB	AA	F1+	aa	WD	SB	Aa2	P-1	SB	AA-	A-1+	O - 12 mths	O - 12 mths			O - 12 mths
	Swedbank AB	SB	AA-	F1+	aa-	WD	PO	Aa3	P-1	PO	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths
Switzerland		SB	AAA				SB	Aaa		SB	AAA				6.30		
Banks	UBS AG	SB	A+	F1	a	WD	NO	Aa2	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	45.69		O - 12 mths
United Arab Emirates		SB	AA				SB	Aa2		SB	AA				44.18		
Banks	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		SB	AA-				SB	Aa3		SB	AA				14.04		
AAA rated and Government backed securities	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
Banks	Al Rayan Bank Plc						SB	A2	P-1				R - 6 mths	R - 6 mths			R - 6 mths
	Bank of Scotland PLC (RFB)	SB	AA-	F1+	a+	WD	SB	A1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	39.22		O - 12 mths
	Barclays Bank PLC (NRFB)	SB	A+	F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths	58.69		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
	Clydesdale Bank PLC	SB	A-	F1	bbb+	WD	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths

		Fitch Ratings						Moodys Ratings			S&P Ratings							
Counterparty			Long Term		Short Term	Viability	Support		Long Term	Short Term		Long Term	Short Term	Suggested Duration	(Watch/ Outlook Adjusted)	CDS Price	CDS Status	(CDS Adjusted with manual override)
Banks	Co-operative Bank PLC (The)	PW	BB+	PW	B	bb	WD	SB	A3	P-2				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	57.68	●	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	38.70	●	O - 12 mths
	HSBC UK Bank Plc (RFB)	SB	AA-		F1+	a	WD	SB	A1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths			O - 12 mths
	Lloyds Bank Corporate Markets Plc (NRFB)	SB	AA-		F1+		WD	SB	A1	P-1	SB	A	A-1	O - 12 mths	O - 12 mths			O - 12 mths
	Lloyds Bank Plc (RFB)	SB	AA-		F1+	a+	WD	SB	A1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	39.22	●	O - 12 mths
	National Bank Of Kuwait (International) PLC	SB	A+		F1		WD				SB	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths
	National Westminster Bank PLC (RFB)	PO	A+		F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths	O - 12 mths			O - 12 mths
	NatWest Markets Plc (NRFB)	PO	A+		F1	WD	WD	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	52.73	●	R - 6 mths
	Santander Financial Services plc (NRFB)	SB	A+		F1		WD	SB	A1	P-1	SB	A-	A-2	R - 6 mths	R - 6 mths			R - 6 mths
	Santander UK PLC	SB	A+		F1	a	WD	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths			R - 6 mths
	SMBC Bank International Plc	SB	A-		F1		WD	SB	A1	P-1	SB	A	A-1	R - 6 mths	R - 6 mths	38.20	●	R - 6 mths
	Standard Chartered Bank	SB	A+		F1	a	WD	PO	A1	P-1	SB	A+	A-1	R - 6 mths	O - 12 mths	38.70	●	O - 12 mths
	The Royal Bank of Scotland Plc (RFB)	PO	A+		F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths	O - 12 mths			O - 12 mths
Building Society	Coventry Building Society	NO	A-		F1	a-	WD	SB	A3	P-2				G - 100 days	G - 100 days			G - 100 days
	Leeds Building Society	SB	A-		F1	a-	WD	SB	A3	P-2				G - 100 days	G - 100 days			G - 100 days
	Nationwide Building Society	SB	A		F1	a	WD	SB	A1	P-1	SB	A+	A-1	R - 6 mths	R - 6 mths			R - 6 mths
	Principality Building Society	SB	BBB+		F2	bbb+	WD	SB	Baa1	P-2				N/C - 0 mths	N/C - 0 mths			N/C - 0 mths
	Skipton Building Society	SB	A-		F1	a-	WD	SB	A2	P-1				R - 6 mths	R - 6 mths			R - 6 mths
	Yorkshire Building Society	SB	A-		F1	a-	WD	SB	A2	P-1				R - 6 mths	R - 6 mths			R - 6 mths
United States		SB	AA+					NO	Aaa		SB	AA+				32.48		
Banks	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	SB	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	55.23	●	O - 12 mths
	JPMorgan Chase Bank N.A.	SB	AA		F1+	aa-	WD	NO	Aa1	P-1	SB	AA-	A-1+	P - 24 mths	P - 24 mths			P - 24 mths
	Wells Fargo Bank, NA	SB	AA-		F1+	a+	WD	NO	Aa1	P-1	SB	A+	A-1	O - 12 mths	O - 12 mths	53.78	●	O - 12 mths

Key

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

CDS

Indicator	Status
	In Range
	Monitoring
	Out of Range

Duration

60 Months	Y
24 Months	P
12 Months	B
12 Months	O
6 Months	R
100 Days	G
0 Months	N/C

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)
- Qatar

AA-

- Belgium
- France
- 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	Description
A (Fitch) Rating	Fitch Ratings publishes credit ratings that are forward-looking opinions on the relative ability of an entity or obligation to meet financial commitments. *A: High credit quality*. '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.
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.
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.
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.
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.
MHCLG	Ministry of Housing, Communities and Local Government (*formerly known as Department for Levelling Up, Housing and Communities - DLUHC*).
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.

Terms	Description
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.
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).
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.

Terms	Description
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.