Appendix L

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Rutland County Council
2024/25

Contents

1 KEY CONSIDERATIONS

1.1 Background

1.1.1 The Council is required to operate a balanced budget, which means that cash raised through the year will meet its cash expenditure. The Treasury Management Strategy (TMS) has four fundamental roles:

- Manage external investments - security, liquidity and yield
- Ensure debt is prudent and economic
- Produce and monitor the Prudential Indicators
- To ensure that decisions comply with regulations.

1.1.2 The role of treasury management is to ensure cash flow is adequately planned so that cash is available when it is needed. Surplus monies are invested in low-risk counterparties commensurate with the Council's low risk appetite ensuring that security and liquidity are achieved before considering investment return.

1.1.3 Another 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.

1.1.4 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.

1.1.5 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."

1.1.6 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 Key Changes for 2024/25

1.2.1 For 2024/25 there have been no changes to key legislation that governs Treasury Management

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

1.2.2 Other key changes within the strategy are:

- Consideration of the Treasury Management operations of the Council to the Audit & Risk Committee – the key principle of the Treasury Management strategy is to document how risks are managed and the Audit and Risk Committee consider the key strategic risks of the Council and therefore the approach is consistent. Reporting to commence to the Audit and Risk Committee in 2024/25 following approval of this strategy by full Council in March 2024.
- Updated the conditions for undertaking new or rescheduling borrowing (para 4.6.3)
- Updated the policy on undertaking borrowing in advance of need (para 4.7) minor change to ensure the Council can take to decisions to ensure value for money
- Included details of approved institutions for borrowing purposes (para 4.10) – included as this is the first TMS approved by newly elected members following the May 2023 local elections.
- Increased the level the Council can invest with high quality institutions from £7.0m to £10.0m. This increase is to ensure the Council can invest with high quality institutions. The Council will still ensure that there is not a reliance on one institution as set out in this strategy.

1.3 Reporting Requirements

Capital Strategy

1.3.1 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 service delivery
- an overview of how the associated risk is managed
- the implications for future financial sustainability

1.3.2 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.

1.3.3 This Capital Strategy is reported separately from the Treasury Management Strategy Statement and non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and investments usually driven by expenditure on an asset. The Capital Strategy will show:

- The corporate governance arrangements for these types of activities;
- Any service objectives relating to the investments;
- The expected income, costs and resulting contribution;
- For non-loan type investments, the cost against the current market value;
- The risks associated with each activity.

1.3.4 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

1.3.5 Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the DLUHC

(Department for Levelling Up, Housing and Communities) Investment Guidance and CIPFA Prudential Code have not been adhered to.

1.3.6 The Council does not hold any non-treasury investment for purely yield and financial return purposes. However, if a loss were to be incurred on any non-treasury investment during the final accounts and audit process, the strategy and revenue implications will be reported through the budgetary control process.

Treasury Management Reporting

1.3.7 The Council is 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** - 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, this Council will receive quarterly update reports as part of the Financial Reporting throughout the year.

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

1.3.8 The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Audit and Risk Committee. The Strategic Overview and Scrutiny Committee also receive the Finanical Reporting throughout the year and the Integrated Budget report which will also include the Treasury Management Strategy. As noted in 1.2.2 this will commence in 2024/25 financial year.

1.4 Treasury Management Strategy for 2024/25

1.4.1 The strategy for 2024/25 covers two main areas:

a) **Capital expenditure and revenue costs**

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

b) **Treasury management considerations**

- 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

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

1.5 Training

1.5.1 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. The Audit & Risk Committee have received training from the Councils Treasury Management Consultants during the Autumn of 2023/24, see section 1.6.

1.5.2 To guide future training requirements the Council will use, CIPFA's Better Governance Forum and Treasury Management Network 'self-assessment'.

1.6 Treasury Management Consultants

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

1.6.2 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 it's external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

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

2.1 Capital Expenditure and Financing

2.1.1 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.

Indicator 1 – Capital Expenditure

2.1.2 This Prudential Indicator is a summary of the Council's estimated capital expenditure for the forthcoming financial year and the following financial years including how it will be funded either from grants, contributions, or capital receipts with the remaining being the 'net financing requirement':

Estimated Capital expenditure	Actuals 2022/23 £000	Projects 2023/24 £000	Projects 2024/25 £000	Projects 2025/26 £000	Projects 2026/27 £000	Projects 2027/28 £000
Service Investments	7,145	7,951	19,942	14,206	3,501	3,501
Commercial Activities / non- financial investments	-	-	-	-	-	-
Total	**7,145**	**7,951**	**19,942**	**15,406**	**3,501**	**3,501**
Grant & Contributions	6,958	7,928	19,305	14,126	3,421	3,421
Direct Revenue Financing	187	-	-	-	-	-
Capital Receipts	-	23	637	80	80	80
Net Financing Requirement	-	-	-	-	-	-
Total	**7,145**	**7,951**	**19,942**	**15,406**	**2,663**	**2,663**

Indicator 2 – Capital Financing Requirement (CFR)

2.1.3 The CFR is the total historical capital expenditure which has not yet been paid for from either revenue or capital resources. It is a measure of the Council's underlying borrowing requirement. Any capital expenditure which has not immediately been paid for will increase the CFR.

2.1.4 The CFR does not increase indefinitely, as the 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.

2.1.5 The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases) included on the Council's balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The following table shows the CFR estimates for the next financial years for Council approval:

Capital Financing Requirement	2022/23 Act. £000	2023/24 Est. £000	2024/25 Est. £000	2025/26 Est. £000	2026/27 Est. £000	2027/28 Est. £000
CFR – Services 1 April	19,425	18,810	18,195	17,580	16,965	16,350
Movement in year	(615)	(615)	(615)	(615)	(615)	(615)
Total CFR	**18,810**	**18,195**	**17,580**	**16,965**	**16,350**	**15,735**
Movement in CFR represented by						
Net financing requirement for the year (per Indicator 1)	0	0	0	0	0	0
Less MRP and other financing movements	(615)	(615)	(615)	(615)	(615)	(615)
Movement in CFR	**(615)**	**(615)**	**(615)**	**(615)**	**(615)**	**(615)**

2.2 Liability Benchmark (LB)

2.2.1 The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

2.2.2 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.

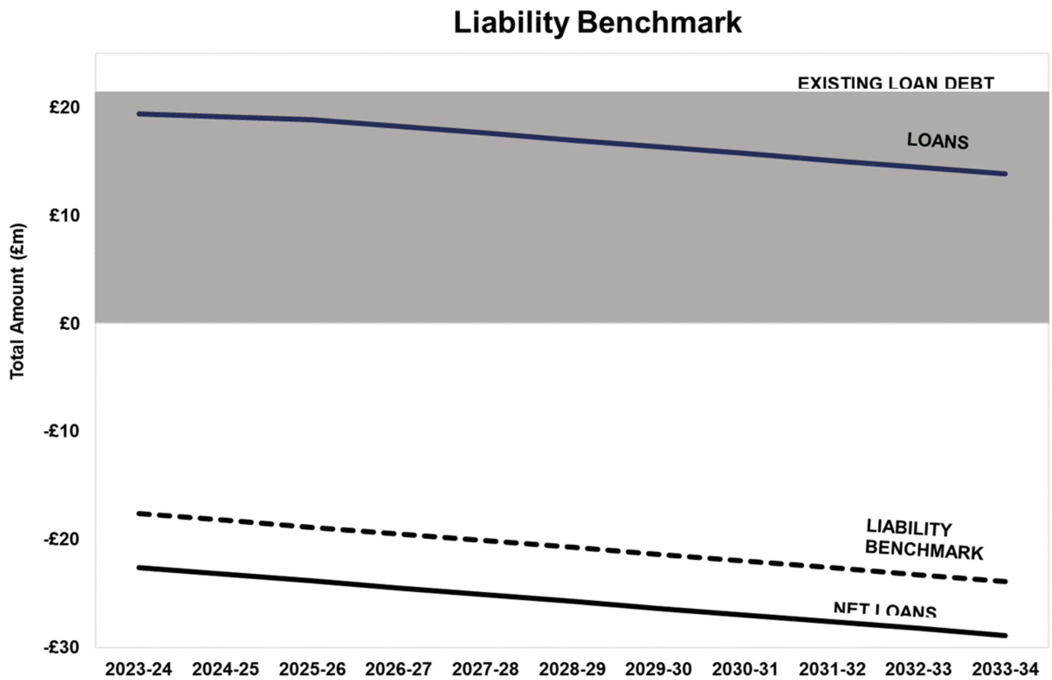
2.2.3 There are four components to the LB:

a) **Existing loan debt outstanding**: the Council's existing loans that are still outstanding in future years.

b) **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.

c) **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.

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



2.3 Core Funds and Expected Investment Balances

2.3.1 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	2022/23 Actual £000	2023/24 Est. £000	2024/25 Est. £000	2025/26 Est. £000	2026/27 Est. £000
Fund balances / reserves	29,830	28,093	23,430	22,702	22,252
Capital receipts	1,656	1,633	1,046	1,016	986
Provisions	908	908	908	908	908
Total core funds	**32,394**	**30,634**	**25,384**	**24,626**	**24,146**
Working capital*	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
New borrowing	-	-	-	-	-
Expected investments	**30,394**	**28,634**	**23,384**	**22,626**	**22,146**

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

3 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

3.1 Legislation

3.1.1 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 called the Minimum Revenue Provision (MRP).

3.1.2 The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Council can use any other reasonable basis that it can justify as prudent.

3.1.3 The MRP policy statement requires full council approval in advance of each financial year.

3.2 Adopted Methodology

3.2.1 The Council is recommended to approve the following MRP Statement

- For capital expenditure incurred before 1 April 2008 will either be
  a) **Straight line basis** over 50 years.
  b) **Asset Life, annuity method** – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project.
- From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be (either / and):
  a) **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction);
  b) **Depreciation method** – MRP will follow standard depreciation accounting procedures. These options provide for a reduction in the borrowing need over approximately the asset's life.
  c) **Asset Life, annuity method** – MRP will be based on the prevailing PWLB interest rate for a loan with a term equivalent to the estimated life of the project.

3.2.2 The Council will undertake a review during 2024/25 with regards to timing of the repayment of existing borrowing. This will be in line with the financial health indicators outlined in Appendix G, specifically indicator 6 which considers the management of current assets and cash balances which indicates an opportunity for an alternative approach. Any amendments will require full Council approval and will be based on the methods outlined above.

3.3 MRP Overpayments

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

3.3.2 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.

3.3.3 Up until the 31 March 2021 the total VRP overpayments were £1.41m in 2013/14 and £0.597m in 2015/16 giving a total MRP overpayment of £2.01m.

4 BORROWING

4.1 Current Portfolio Position

4.1.1 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.

4.1.2 The overall treasury management portfolio as at 31 March 2023 and for the position as at 1 December are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
Treasury Investments	**actual 31.3.23 £000**	**actual 31.3.23 %**	**current 01.12.24 £000**	**current 01.12.24 %**
Banks	35,000	76%	46,000	81%
Building societies - unrated	1,000	2%	4,000	7%
Building societies - rated	7,000	15%	1,000	2%
Local authorities	3,000	7%	6,000	11%
Total managed in house	**46,000**	**100%**	**57,000**	**100%**
Bond Funds	0	0%	0	0%
Property Funds	0	0%	0	0%
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**46,000**	**100%**	**57,000**	**100%**
Treasury external borrowing				
Local Authorities	0	0%	0	0%
PWLB	21,386	100%	21,386	100%
LOBOs	0	0%	0	0%
Total external borrowing	**21,386**	**100%**	**21,386**	**100%**
Net treasury investments / (borrowing)	**24,614**	**0**	**35,614**	**0**

Indicator 3 - Actual and estimates of the ratio of financing costs to net revenue budget.

4.1.3 This indicator identifies the proportion of the revenue budget which is taken up in financing capital expenditure i.e., the net interest cost and the provision to repay debt.

%	2022/23 Actual	2023/24 Est. £000	2024/25 Est. £000	2025/26 Est. £000	2026/27 Est. £000	2027/28 Est. £000
Interest Cost	1,033	1,033	1,033	1,033	1,033	1,033
MRP	615	615	615	615	615	615
Total Financing Costs	**1,648**	**1,648**	**1,648**	**1,648**	**1,648**	**1,648**
Net revenue stream	39,901	45,771	47,779	50,914	52,590	54,327
Ratio of Debt to Net revenue stream	4.13%	3.60%	3.45%	3.24%	3.13%	3.03%

Indicator 4 - The Council's treasury position

4.1.4 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.

Year End Resources	2022/23 Actual £000	2023/24 Est. £000	2024/25 Est. £000	2025/26 Est. £000	2026/27 Est. £000	2027/28 Est. £000
External Debt						
Debt - 1 April	22,058	21,386	21,386	21,386	21,386	21,386
Expected Change in Debt	(672)	0	0	0	0	0
Actual / projected Gross Debt 31 March	21,386	21,386	21,386	21,386	21,386	21,386
Capital Financing Requirement	18,811	18,196	17,581	16,966	16,351	15,736
Under / (Over) Borrowing	(2,575)	(3,190)	(3,805)	(4,420)	(5,035)	(5,650)

4.1.5 Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

4.1.6 The overborrowed position has not materialised from borrowing for revenue purposes, which this indicator is a key test. Whilst the CFR is reduced by MRP charge every year, external debt position has not changed significantly as debt is not due (see 3.3.5). Due to the repayment dates of the Council's inherited debt, as part of Local Governmnet Re-Organisation. In recent years it has remained prohibitive to refinance debt due to the premiums that would be charged through early redemption. However, due to the change in interest rates experienced during 2023/24 opportunities are to be explored to redeem debt given the MTFS forecast of capital programme expenditure.

4.2 Treasury Indicators: Limits to Borrowing Activity

Indicator 5 – The Operational Boundary

4.2.1 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	**2023/24 Est. £000**	**2024/25 Est. £000**	**2025/26 Est. £000**	**2026/27 Est. £000**	**2027/28 Est. £000**
Debt	23,000	23,000	23,000	23,000	23,000
Other long-term liabilities	-	-	-	-	-
Total	**23,000**	**23,000**	**23,000**	**23,000**	**23,000**

Indicator 6 – The Authorised Limit

4.2.2 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.

4.2.3 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.

4.2.4 The Council is asked to approve the following Authorised Limit:

Authorised Limit	**2023/24 Est. £000**	**2024/25 Est. £000**	**2025/26 Est. £000**	**2026/27 Est. £000**	**2027/28 Est. £000**
Debt	28,000	28,000	28,000	28,000	28,000
Other long-term liabilities	-	-	-	-	-
Total	**28,000**	**28,000**	**28,000**	**28,000**	**28,000**

4.2.5 The following chart shows where the Council is currently are against all of the borrowing prudential indicators.

4.3 Prospects for Interest Rates

4.3.1 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 07 November 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps, and form the basis of assumptions contained within this strategy.

	Dec-23 %	Jun-24 %	Dec-24 %	Jun-25 %	Dec-25 %	Jun-26 %	Dec-26 %
Bank Rate	5.25	5.25	4.50	3.50	3.00	3.00	3.00
3 Month Av Earnings	5.30	5.30	4.50	3.50	3.00	3.00	3.00
6 Month Av Earnings	5.60	5.40	4.60	3.60	3.10	3.10	3.10
12 Month Av Earnings	5.80	5.50	4.70	3.70	3.30	3.30	3.30
5 Yr PWLB	5.00	4.80	4.40	4.00	3.70	3.50	3.50
10 Yr PWLB	5.10	4.80	4.40	4.00	3.70	3.60	3.50
25 Yr PWLB	5.50	5.10	4.70	4.30	4.10	4.00	4.00
50 Yr PWLB	5.30	4.90	4.50	4.10	3.90	3.80	3.80

4.3.2 Link Group interest rate forecasts, detailed above, are based on their views of the future economic climate, and below are some extracts taken from their economic forecasts:

- The central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least Q2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.
- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

4.4 PWLB RATES

4.4.1 Yield curve movements have with the short part of the curve has not moved far but the longer-end continues to reflect inflation concerns.

The balance of risks to the UK economy:

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

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

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

- Despite the recent tightening to 5.25%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- The **pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term **US treasury yields rise strongly** if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so.)
- **Projected gilt issuance**, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

4.5 Link Group Forecasts

4.5.1 We now expect the Monetary Policy Comittee will keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

Gilt yields and PWLB rates

4.5.2 The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation starts to fall through the remainder of 2023 and into 2024.

4.5.3 Links target borrowing rates are set two years forward (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out in the following table:

PWLB debt	Current borrowing rate as at 06.11.23	Target borrowing rate (end of Q3 2025)
5 years	5.02%	3.80%
10 years	5.15%	3.80%
25 years	5.61%	4.20%
50 years	5.38%	4.00%

4.5.4 **Borrowing advice:** Links long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed Local Authority to Local Authority monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

4.5.5 Link's suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 0.10% and set out below. It should be noted that investment earnings have been revised somewhat higher for all years from 2025/26 as Bank Rate remains higher for longer.

Average earnings in each year	Now	Previously	RCC Budgeted Position
2024/25	4.70%	4.70%	4.89%
2025/26	3.20%	3.00%	3.26%
2026/27	3.00%	2.80%	2.76%
2027/28	3.25%	3.05%	2.70%

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

4.6 Borrowing Strategy

4.6.1 The Council is currently maintaining an over-borrowed position, as mentioned in para 4.1.5 this is not due to borrowing, but largely due to the CFR reducing. In essence the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

4.6.2 Against this background, S151 offcier will in conjunction with the Council's advisers monitor the interest rate situation closely and will adopt a pragmatic approach to delivering the objectives of this strategy within changing economic circumstances.

4.6.3 All decisions on whether to undertake new or replacement borrowing to support previous or future capital investment will be subject to evaluation against the following criteria:

a) Overall need, namely whether a borrowing requirement to fund the capital programme or previous capital investment exist

b) Timing, when such a borrowing requirement might exist given the overall strategy for financing capital investment, and previous capital spending performance

c) Market conditions, to ensure borrowing that does need to be undertaken is achieved at minimum cost

d) Scale, to ensure borrowing is undertaken on a scale commensurate with the agreed financing route

e) To consider whether to use cash balances as a form of internal borrowing, but this will reduce the level of investments that can be made.

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

4.7 Policy on Borrowing in Advance of Need

4.7.1 The Council will not borrow more than or in advance of need with the objective of profiting from the investment of the additional sums borrowed. However, borrowing in advance of need is permitted to pre-fund future years' capital requirements, providing this does not exceed the authorised limit for borrowing. Therefore, the council may look to borrow in advance if the need to finance the future capital investment will materialise in two years or less; and

a) Where the most advantageous method of raising capital finance requires the council to raise funds in a quantity greater than would be required in any one year, or

b) Where in the view of the section 151 officer, based on independent advice, the achievement of value for money would be prejudiced by delaying borrowing .

4.7.2 Having satisfied the criteria above, any proposal to borrow in advance of need would be reviewed against the following factors:

a) Whether the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered and reflected in those plans and budgets, with the value for money of the proposal fully evaluated.

b) The merits and demerits of alternative forms of funding.

c) The alternative interest rate bases available, the most appropriate periods over which to fund and repayment profiles to use.

4.7.3 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.

4.8 Treasury Debt Prudential Indicators

4.8.1 There are three debt treasury indicators which ensure debt structure remains within appropriate limits. This manages risk and reduces the impact of any adverse movement in interest rates.

Indicator 7 – Upper limit on fixed interest rate exposure.

4.8.2 This identifies a maximum limit for fixed interest rates based upon the debt position net of investments. This has been set at 100% of the borrowing requirement.

Indicator 8 - Upper limit on variable rate exposure.

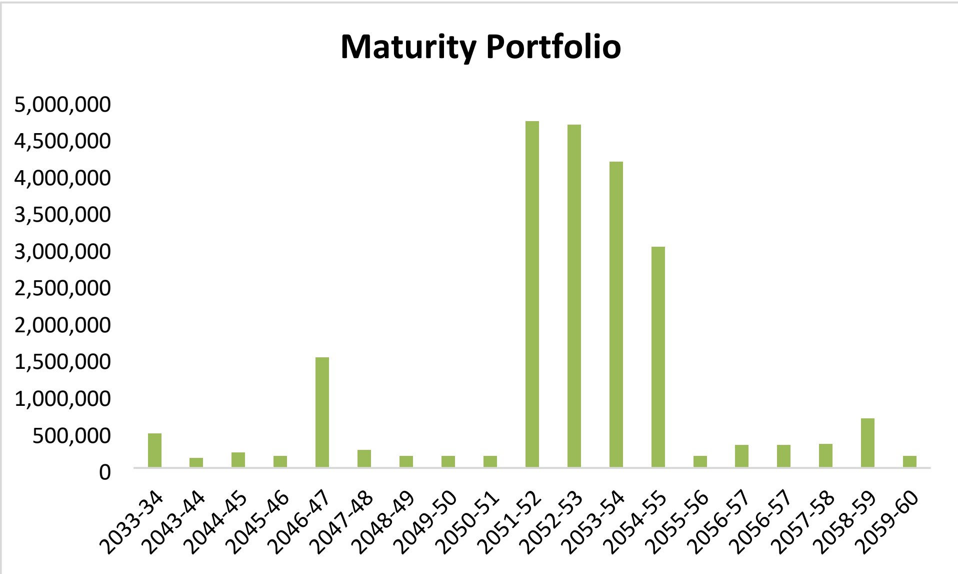
4.8.3 This identifies a maximum limit for variable interest rates based upon the debt position net of investments. This has been set at 25% of the borrowing requirement.

Maturity structure of rates for borrowing in 2024/25	Fixed Interest Rate		Variable Interest Rate	
	Lower	Upper	Lower	Upper
Under 12 months	0%	25%	0%	25%
12 months to 2 years	0%	25%	0%	25%
2 years to 5 years	0%	20%	0%	25%
5 years to 10 years	0%	20%	0%	25%
10 years and above	0%	100%	0%	25%

4.9 Rescheduling of debt

4.9.1 Rescheduling of current borrowing in the Council's debt portfolio may be considered if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate and creates no additional revenue burden.

4.9.2 The following chart shows the Council's debt maturity profile by financial year as at 13 December 2023:



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

4.10 Approved Sources of Long and Short-term Borrowing

4.10.1 Traditionally the Public Works Loan Board (PWLB) has been the main source of longterm borrowing for local authorities. The interest rate charged on Public Works Loan Board loans is linked to the gilt yield. Currently the Council can obtain a Public Works Loan Board loan at 0.8% higher than the gilts yield (this rate is referred to as the margin).

4.10.2 The approved sources of long-term and short-term borrowing will be:

- Public Works Loan Board
- UK Local Authorities
- UK public and private sector pension funds

- Municipal Bond Agency
- UK Infrastructure Bank
- Any other financial institution approved by the Prudential Regulation Authority, (this is part of the Bank of England and is responsible for the regulation and supervision of around 1,700 banks, building societies, credit unions, insurers and major investment firms)

5 ANNUAL INVESTMENT STRATEGY

5.1 Investment Policy – Management of Risk

5.1.1 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.

5.1.2 The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments. Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, Appendix M.

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

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

5.1.4 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.

5.2 Creditworthiness Policy

5.2.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

5.2.2 The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.

5.2.3 Typically, the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of F1 and a long term rating of A-. There may be occasions when the counterparty ratings from one or two of the rating agencies are marginally lower than these ratings but may still be used. In these instances, when counterparty ratings from one of the credit rating agencies (Fitch) meet the minimum criteria and also other relevant market data shows a stable position the counterparty can be used. If there is a major disparity between the counterparty ratings issued by Fitch and the other credit rating agencies then the counterparty will not be used.

5.2.4 Credit rating information is supplied by the Council's treasury consultants daily on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance for overseas counterparties a negative rating watch at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market, the negative ratings watch will only be a factor in the selection process for overseas banks or if the negative rating applies only to one or several counterparties

5.2.5 Environmental, Social and Governance (ESG) factors can and do influence credit quality, ESG credit factors are those factors that can materially influence the creditworthiness of a rated entity or issue, examples include:

5.2.6 Environmental credit factors- climate policy, market changes to address mitigation and adaption requirements related to climate change;

- Social credit factors- social capital including consumer and citizen relationship issues; socioeconomic and demographic issues; and
- Governance credit factors- risk management, cyber risk and governance structure factors- including board skill sets and key person risk.

5.2.7 The credit rating criteria is shown below alongside the time and monetary limits for institutions on the Council's counterparty list (for both specified and non-specified investments):

Credit rating criteria alongside the time and monetary limits	**Fitch Rating (long-term / short-term)**	**Money Limit**	**Time Limit**
Banks/ Building Society higher quality	AA-/F1+	£10m	3yrs
Banks /Building Society medium quality	A-/F1	£10m	364 days
Banks – part nationalised	N/A	£10m	364 days
Council's banker (not meeting Banks above)	BBB/F2	£10m	overnight
Building Society (not meeting Banks above & minimum assets £1 bn)	Not Rated	£10m	6 months
UK Government Gilts	UK sovereign rating	£7m	3 years
Debt Management Account Deposit Facility managed by the DMO (Debt Management Office)	UK sovereign rating	£10m	364 days
Local authorities	N/A	£10m	364 days
Property Funds	N/A	£2m	No limit set*
	Fund rating	**Money Limit**	**Time Limit**
Money Market Funds CNAV	AAA	£5m	liquid
Money Market Funds LVNAV	AAA	£5m	liquid

* No time limit as investment would need to be left to mature to ensure no loss on investments.

5.3 Use of additional information other than credit ratings.

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

5.3.2 For local authorities, in terms of credit risk they receive a risk score of 1, equivalent to government credit quality. There are a number of local authorities that are issuing s114 notices showing financial distress. An additional check will be undertaken before lending to other local authorities to confirm at the time of investment the Council is not subject to DLUHC intervention and they have not issued a s114 notice.

5.4 Other limits.

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

- no more than 10% will be placed with any non-UK country at any time; and
- all limits in place will apply to a group of companies.

Indicator 9 – Upper limit on total principal sums invested for periods of longer than a year

5.4.2 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.

	2023/24	2024/25	2025/26
Long term treasury management investments; invested for longer than 365 days	10%	10%	10%

5.5 Investment Strategy

5.5.1 As per the Council's overall objectives, it will ensure that surplus balances are managed in a way to maximise the income potential whilst having regard to security risk.

5.5.2 The Council's approach is influenced by numerous issues:

- Cash flow – when will the Council need the funds to pay general running costs of the Council or fund capital investment activity;
- The vehicles allowed for investment as outlined in this strategy as referenced on 5.2.7;
- The rate of return on offer,
- Liquidity – the Council seeks to maintain liquid short-term deposits of at least £1.0m available with a week's notice and no bank overdraft.

5.6 Investment returns expectations.

5.6.1 The benchmark SONIA (Sterling Overnight Index Average) 1-month rate will continue to be the bench. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

5.6.2 The investment income budget proposed for approval in the Budget 2024/25 is £1.95m. This is based on expected balances and forecast interest rate based on the anticipated base rate changes during 2024/25. This will be regularly monitored during the year and variances to budget will be reported in line with the reporting requirements.

5.6.3 Security – each counterparty the Council invests in has a risk of default (a calculated percentage to demonstrate the potential loss on the investment). The Council's maximum security risk benchmark for the current portfolio, is:

- 0.10% historic risk of default when compared to the whole portfolio. The following table demonstrates a financial representation of how much the Council would stand to lose at 0.10%.

	2023/24 Forecast £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
Total Investments at 31 March	36,860	35,840	34,820	34,820
Revenue impact of risk of default at 0.10%	37	36	35	35

6 APPENDICES

1. Economic background

2. Approved countries for investments

3. The treasury management role of the section 151 officer

6.1 ECONOMIC BACKGROUND

6.1.1 The first half of 2023/24 saw:

- Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

6.1.2 The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

6.1.3 The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.

6.1.4 The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

6.1.5 As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

6.1.6 The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

6.1.7 But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

6.1.8 CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.

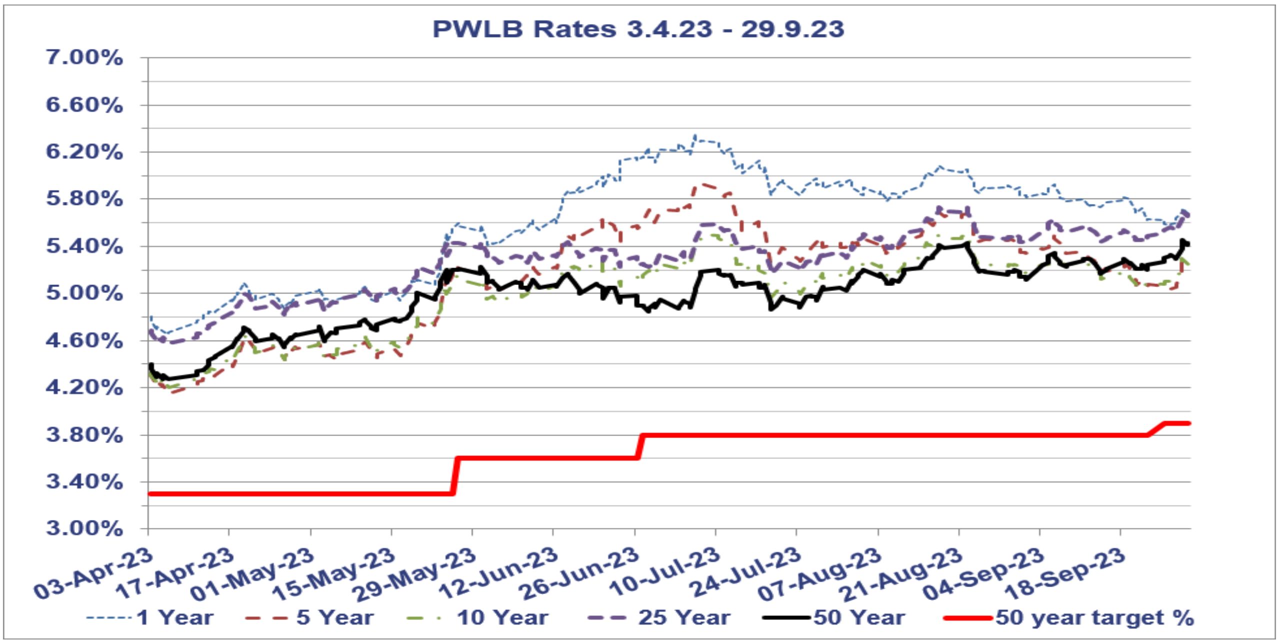
6.1.9 In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.

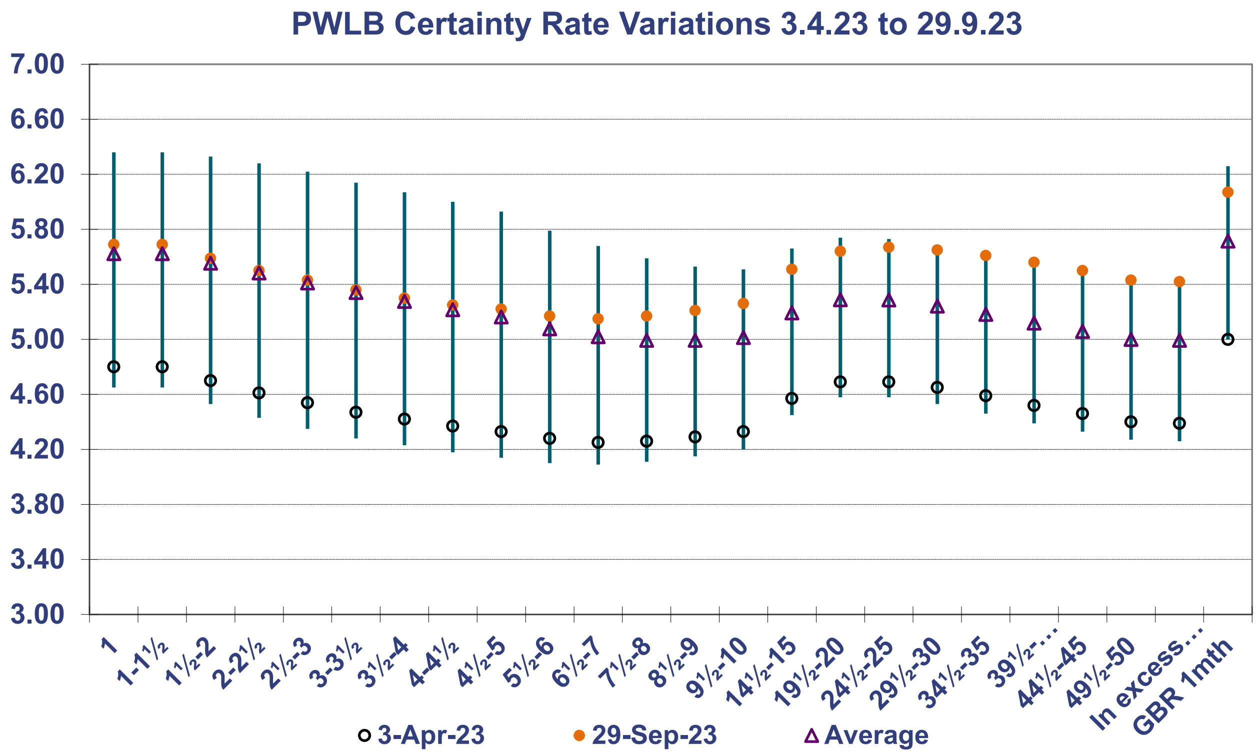
6.1.10 Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.

6.1.11 This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

6.1.12 In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.

PWLB RATES 01.04.23 - 29.09.23





HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

6.1.13 The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

6.1.14 The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS

6.1.15 Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

6.1.16 Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

6.2 APPROVED COUNTRIES FOR INVESTMENTS

6.2.1 This list is based on those countries which have sovereign ratings of AA- or higher, and also have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

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

6.3 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

6.3.1 List of specific responsibilities of the S151 officer in the 2021 Treasury Management Code includes;

- 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
- 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
- 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