Agenda Item No:	6	Fenland CAMBRIDGESHIRE
Committee:	Audit and Risk Management Committee	
Date:	12 February 2024	
Report Title:	Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2024/25	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to provide Members with information on the proposed Treasury Management Strategy Statement, Minimum Revenue Provision (MRP) Policy Statement and Annual Investment Strategy for 2024/25.

2 Key issues

- The prudential and treasury indicators detailed in paragraphs 2-13, show that the Council's capital investment plans are affordable, prudent and sustainable.
- The MRP policy sets out how the Council will make prudent provision for the repayment of borrowing needs over the medium-term forecast.
- The Treasury Management Strategy has been organised so that the Council will have sufficient cash resources to meet capital expenditure plans and operational cash flows.
- Total external interest payments which include finance lease interest payments; revised estimate for 2023/24 is £618,000 and the estimate for 2024/25 is £905,100.
- Link Group forecast that Bank Rate has now peaked at 5.25%.
- The current Medium Term Financial Strategy assumes that some external borrowing will be required over the four-year period to 31 March 2027.
- The aim of the Council's annual investment strategy is to provide security of investments whilst managing risk appropriately; investment returns are commensurate with the Council's historic low risk appetite although we are in the process of transition as a Council from a low risk policy to an appropriate managed risk policy. The Council achieves these objectives through differentiating between "specified" and "non-specified" investments and through the application of a creditworthiness policy.
- The council holds £4m in Property Funds which are long term investments. Although the returns from these investments can be higher than short term investments there is an increased risk that capital values will rise and fall.
- Total investment income from temporary investments is estimated at £1,090,000 for 2023/24 and £750,000 for 2024/2025. Income from pooled property funds is estimated at £130,000 in 2023/24 and £150,000 in 2024/25.

- The Council's Capital Strategy is currently being updated to take account of the latest developments in respect of the Council's Commercial and Investment Strategy and relevant sector guidance. The final version will be incorporated in the papers which Council considers at its meeting on 26 February 2024.

3 Recommendations

It is recommended that: -

- Audit and Risk Management Committee endorses the strategy detailed in this report to be included in the final budget report for 2024/25.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Boden, Leader and Portfolio Holder, Finance
Report Originator(s)	Peter Catchpole, Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
Contact Officer(s)	Peter Catchpole, Corporate Director and Chief Finance Officer (S.151 Officer) Mark Saunders, Chief Accountant
Background Paper (s)	Link Group template Budget working papers

Report:

1 Introduction

CIPFA Treasury Management Code and Prudential Code (Revised 2021)

1.1 CIPFA published the revised codes on 20 December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

1.2 The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address Environmental, Social and Governance (ESG) issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to Treasury Management Practice 1 to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

1.3 In addition, all investments and investment income must be attributed to one of the following three purposes: -

Treasury management

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

Service delivery

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

Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return. This does not preclude the Council from taking forward investments as part of its Commercial and Investment Strategy so long as financial return is not the primary reason for taking forward the scheme. This particularly applies in the case of projects relating to housing where service delivery objectives can be achieved as well as a financial return.

1.4 As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report

1.5 These changes are now fully adopted within the 2024/25 TMSS report.

2 Background

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

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

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

CIPFA defines treasury management as:

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

2.4 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.

3 The Capital Strategy Reporting Requirements

3.1 The CIPFA revised 2021 Prudential and Treasury Management Codes require all local authorities to prepare an additional document, a Capital Strategy 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; and
- the implications for future financial sustainability.

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

4 Treasury Strategy Reporting Requirements

4.1 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. These reports are required to be adequately scrutinised by the Audit and Risk Management Committee and Cabinet before being recommended to the Council.

4.2 **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 policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how investments and borrowings are to be organised) including treasury indicators; and
- an Investment Strategy (the parameters on how investments are to be managed).

A Mid-Year Treasury Management Report - This will update Members with the progress of the capital position, amending prudential indicators as necessary and whether any policies require revision.

An Annual Treasury Report - This is a backward looking review document and provides details of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

4.3 The Strategy covers two main areas:

Capital issues

- the capital expenditure plans and associated prudential indicators;
- the MRP policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;

- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

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

4.4 **IFRS16 - Leases** The CIPFA Local Authority Accounting Code Board has deferred implementation of IFRS16 until 1 April 2024, the 2024/25 financial year. IFRS 16 defines a lease as a contract or part of a contract, which conveys the right to use an asset (the underlying asset) for a period of time in exchange for a consideration. Under the new standard the distinction between finance leases and operating leases under the previous leasing standard is removed and all leases are treated in the way the finance leases currently are. A 'right of use' asset is shown on the balance sheet with a corresponding liability of the discounted value of the future lease payments. There are exceptions for short, dated leases (under a year, or with less than a year remaining at transition) and low value leases (low value to be determined by the council using its approach to determining de minimus items). This means that all leases that do not meet the exceptions will be treated as capital expenditure from 2024/25 and form part of the Capital Financing Requirement. Although legally the Council doesn't own the asset during the lease duration, International Accounting Standards require that the Council capitalise the asset and liability on its balance sheet, much like a loan. Whilst this increases the CFR, the nature of the finance lease agreement doesn't require the Council to separately borrow to fund the asset.

4.5 **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.

The training needs of treasury management officers and members are periodically reviewed.

5 Capital Prudential Indicators 2024/25 to 2026/27

5.1 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 are prudent, affordable and sustainable.

5.2 The capital expenditure prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously and those forming part of this budget cycle. Commercial activities/non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

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

Capital Programme	2023/24 Revised Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Forecast Capital Expenditure	**14,634**	**6,695**	**3,097**	**1,829**
Commercial and Investment Strategy Schemes	**7,389**	**2,730**	**6,000**	**7,972**
TOTAL	**22,023**	**9,425**	**9,097**	**9,801**
Financed by:				
Capital Grants	12,541	2,754	1,194	1,194
Capital Receipts	155	250	250	250
Reserves used in year to fund Capital	2,674	730	0	0
Section 106 and Other Contributions	1,025	45	38	35
Total Financing	**16,395**	**3,779**	**1,482**	**1,479**
Net Financing Need for The Year (Borrowing)	**5,628**	**5,646**	**7,615**	**8,322**

5.4 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, its underlying borrowing need. Any capital expenditure shown above, which has not immediately been paid for will increase the CFR.

5.5 The CFR does not increase indefinitely, as each year the Council is required to pay off an element of the capital spend (including finance leases) through a statutory revenue charge (MRP). In the case of schemes taken forward as part of the Council's capital programme this has the effect of reducing the Council's (CFR) broadly over the asset's life.

5.6 In the case of capital expenditure incurred in accordance with the Council's Commercial and Investment Strategy the MRP charge cannot be determined until such time that the Investment Board approves a scheme. Where the projected Capital Financing Requirement is disclosed in this report the figures used reflect the impact of borrowing to fund the full allocation of the remaining £16.972m over the next 4 years but no assumptions have been made regarding how MRP might reduce the CFR attributable to these schemes. This approach is considered reasonable until such time that any new schemes are formally approved by the Investment Board. In accordance with the current Minimum Revenue Policy, a provision for MRP in relation to the investment and residential property acquired in previous financial years is incorporated into the information in this report and the Council's Medium Term Financial Strategy.

5.7 In this context, it is also important to note that, as well as the statutory MRP charge, the Council is permitted to make additional voluntary payments to reduce the CFR. These voluntary payments will typically reduce the statutory charge that would have been due in future years. Voluntary payments can be funded from capital resources. This is particularly significant in the context of the Council's Commercial and Investment Strategy. As a result of investments undertaken, the Council may receive significant capital receipts and/or repayments of amounts due under the terms of loan agreements with third parties, including the Local Authority Trading Company. These amounts may be received before the maturity date of the external borrowing used to undertake the initial investment. Any assumptions regarding the anticipated use of capital resources to reduce the CFR will be reported as part of future treasury management reporting.

5.8 The CFR includes any other long term liabilities (finance leases).

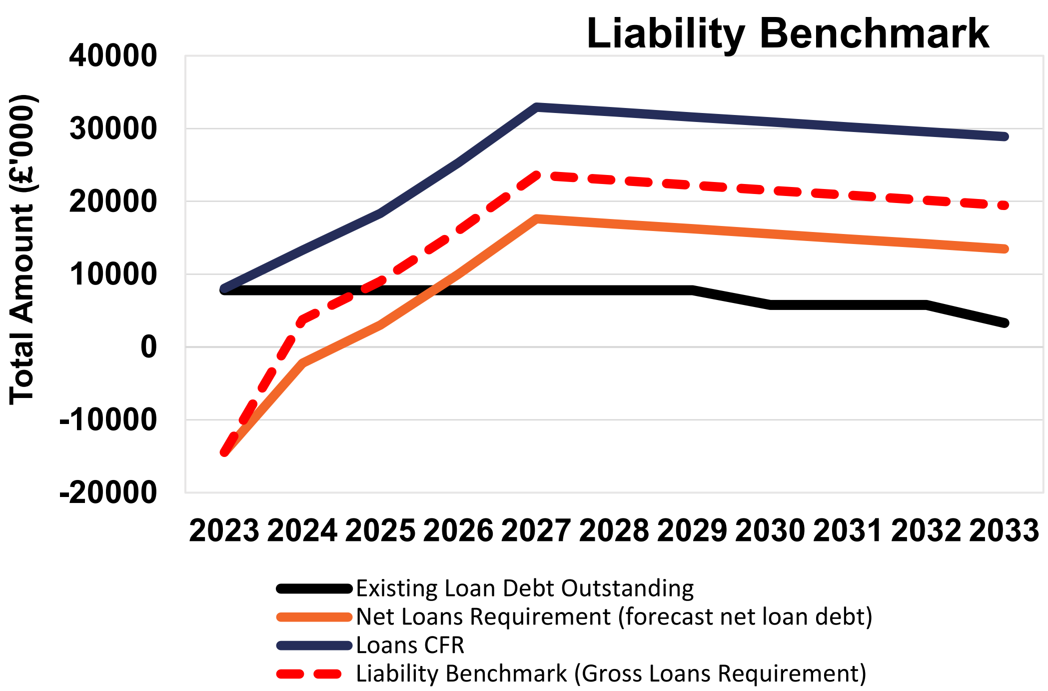
Capital Financing Requirement (CFR)	**2023/24 Revised Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**	**2026/27 Estimate £000**
CFR – as at 31 March				
Opening CFR	**8,052**	**13.296**	**18,354**	**25,295**
Movement in CFR	**5,244**	**5,058**	**6,941**	**7,646**
Closing CFR	**13,296**	**18,354**	**25,295**	**32,941**
Movement in CFR represented by				
Net financing need for the year	5,628	5,646	7,615	8,322
Less MRP and other Financing Movements	(384)	(588)	(674)	(676)
Movement in CFR	**5,244**	**5,058**	**6,941**	**7,646**

5.9 The third prudential indicator is the Liability Benchmark (LB). The liability benchmark is a measure of how well the existing loans portfolio matches the authority's planned borrowing needs.

5.10 The purpose of this prudential indicator is to compare the authority's existing loans outstanding (the black line) against its future need for loan debt, or liability benchmark (the red line).

5.11 The liability benchmark below indicates a future borrowing requirement over the life of this strategy.

5.12 The timing of actual borrowing arranged may differ from the liability benchmark depending on actual cash balances, the rate at which the capital programme is delivered and actual use of reserves and working capital.



6 Minimum Revenue Provision (MRP) Policy Statement

6.1 The Council is required to pay off an element of the accumulated general fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision).

6.2 DLUHC regulations have been issued which require the Council to approve an MRP statement in advance each year. A variety of options are provided to Councils within the guidance. Councils are permitted under the guidance to establish their own approach to setting MRP, and different approaches can be applied for different types of assets. The Council's principal responsibility is to ensure that it can demonstrate that whatever approach they adopt across their asset base it is prudent. Given the Council's decision to adopt a Commercial and Investment Strategy it was necessary to revise the MRP policy in 2020/21 to take account of investments which might feasibly be taken forward in accordance with the Commercial and Investment Strategy. The policy applicable for the current financial year onwards is as follows:

(1) For unsupported borrowing (including finance leases) undertaken to fund the Council's capital programme, excluding any capital expenditure approved by the Council's Investment Board for Investment Properties, MRP will be based on the estimated useful life of the assets to be purchased or acquired. Repayments made under the terms of finance leases shall be applied as MRP.

(2) For Investment Properties purchased or constructed (following a decision taken by the Council's Investment Board) the MRP charge shall be based on the difference between the value of the asset and the value of any outstanding unsupported borrowing secured to fund the original purchase of the asset. A calculation shall be undertaken at the end of each financial year to identify the difference between the value of the asset and the amount borrowed. Where a difference exists MRP shall be charged over a period commensurate with the period the Council expects to hold the asset as set out in reports presented to the Investment Board.

(3) For any loans made to third parties, including those made to the Local Authority Trading Company, no MRP shall be charged where the loan requirement requires the third party to make repayments on at least an annual basis over the life of the loan. In the unlikely event of the Council providing a maturity loan to a third party, MRP shall be charged in equal amounts over the life of the loan.

(4) Should the Council acquire an equity stake in any third party, the MRP charge will be for the lower of twenty years or the scheduled completion date of any projects funded by the third party using the proceeds from selling an equity stake to the Council.

(5) For investment in Property Funds which the Council, following consultation with its Treasury Advisors, assesses as meeting the definition of capital expenditure MRP shall be charged over the period the Council expects to hold the investment. The period over which MRP can be charged for this type of investment shall not be permitted to exceed 20 years. The property funds referred to elsewhere in this document do not meet the definition of capital expenditure.

6.3 It is important to note that DLUHC are currently consulting on potential changes to the guidance relating to setting the Minimum Revenue Provision. One potential outcome of the consultation is that government could bring forward changes to the regulations.

7 The Use of Council's Resources and the Investment Position

7.1 The application of resources (capital receipts, reserves etc) and temporary use of 'surplus cash balances' to both finance capital expenditure and other budget decisions to support the revenue budget reduces cash investment balances held (see below). Unless resources are supplemented with new sources (asset sales, capital grants, etc) then new borrowing will be required to fulfil the objectives as set in the Council's Business Plan. Detailed below are estimates of the year end balances for each resource.

Year End Resources	2023/24 Revised Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Fund balances / reserves	**13,000**	**12,600**	**11,600**	**11,500**
Expected investments	**14,600**	**14,800**	**14,500**	**15,000**

8 Affordability Prudential Indicators

8.1 The previous sections cover the overall capital and control of borrowing prudential indicators; also 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.

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

Financing Costs to Net Revenue Stream	2023/24 Revised Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/7 Estimate %
General Fund	**5.94**	**8.25**	**9.75**	**10.65**
Net Revenue Stream	**£16.857m**	**£18.097m**	**£17.405m**	**£17.466m**

8.3 Net Income from Commercial and Service Investments as % of net revenue stream. This indicator identifies the authority's reliance on income from Commercial and Service Investments such as rents from the Council's long-standing portfolio of non-operational assets managed to secure rental income and income from fees and charges earned from providing facilities for conferences and meetings (economic estates) and one commercial investment property.

Ratio of Income from Commercial and Service Investments to net revenue stream	2023/24 Revised Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
General Fund	**6.8**	**6.7**	**7.0**	**7.0**
Net Revenue Stream	**£16.857m**	**£18.097m**	**£17.405m**	**£17.466m**

9 Treasury Management Strategy

9.2 The capital expenditure plans set out in section 5 provide a summary of future level of spend. 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 service activity and the Council's capital strategy. This will involve both the organisation of 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.

9.3 The Council's treasury portfolio as at 31 March 2023 for borrowing and investments was £7.823m and £22.550m respectively. As of 31 December 2023, investments are £21.720m (see Appendix A attached) and borrowing £7.823m.

9.4 The Council's forward projections for borrowings are summarised below. The next table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement - CFR).

	2023/24 Revised Estimate £000	**2024/25 Estimate £000**	**2025/26 Estimate £000**	**2026/27 Estimate £000**
Debt at 1 April	**7,800**	**13,430**	**19,080**	**26,700**
Expected change in debt to fund capital programme (excluding Commercial and Investment Strategy schemes)	**4,630**	**3,650**	**1,620**	**350**
Borrowing to fund Commercial and Investment Strategy Schemes	**1,000**	**2,000**	**6,000**	**7,970**
Other long term liabilities (OLTL)	**23**	**0**	**0**	**0**
Expected change in OLTL	**(23)**	**0**	**0**	**0**
Actual gross debt at 31 March	**13,430**	**19,080**	**26,700**	**35,020**
Capital financing requirement (CFR) at 31 March	**13,296**	**18,354**	**25,295**	**32,941**
Borrowing less CFR – 31 March	**134**	**726**	**1,405**	**2,079**

9.5 At 1 April 2023 the Council's Debt position comprised other long-term liabilities relating to finance leases of £23k and external borrowing of £7.8m. These loans were taken out at prevailing market rates between 1994 and 2004. The term of these loans is between 25 and 50 years. Following the transfer of the Council's Housing Stock in 2007, which generated a significant capital receipt for the Council, the Council has retained investment balances which exceed the amounts borrowed. However, changes in prevailing interest rates since the loans were taken out mean that a high premium would be payable by the Council if it were to seek to repay the PWLB loans (£4.5m) early. The premiums to be applied are considered to be prohibitively high for early redemption to be regarded as a reasonable treasury management decision. Repaying the Barclays market rate loan of £3.3m may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment. The Council continues to keep this situation under review with the support of its appointed treasury management advisors. However, for the purposes of this strategy, it has been assumed that external borrowing of £7.8m brought forward, as at 1 April 2023, will continue to be carried forward.

9.6 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that long term borrowing is not undertaken for revenue or speculative purposes (in the sense of anticipating future upward movements in interest rates), other than where the borrowing fits in with the Council's approved Investment Strategy.

9.7 The Council notes that the Prudential Code published by CIPFA prohibits local authorities from borrowing in advance of need. This prohibition has been recently re-affirmed by DLUHC in its Statutory Guidance on Local Authority Investments which states that this prohibition extends to undertaking borrowing to fund the purchase of financial and non-financial investments, including investment properties. This is on the basis that in such circumstances local authorities would be borrowing 'purely in order to profit from investment of the extra sums borrowed'. Section 4 of the Council's Capital Strategy explains how the Council has had regard for this guidance and notes the Council's approach to determining whether the motivation behind any proposed investment is purely to profit from investment of any sums borrowed.

9.8 Interest repayments associated with the external debt (including finance leases) above are shown below.

YEARS	**INTEREST DUE £000**
2023/24	618,000
2024/25	905,100
2025/26	1,023,700
2026/27	1,183,000

9.9 The operational boundary 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.

Operational Boundary	**2023/24 Revised Estimate £000**	**2024/25 Estimate £000**	**2025/26 Estimate £000**	**2026/27 Estimate £000**
Debt	**12,430**	**16,080**	**17,700**	**18,050**
Other long term liabilities	**1,000**	**1,000**	**1,000**	**1,000**
Commercial Activities / Non Financial Investments	**1,000**	**3,000**	**9,000**	**16,970**
Total	**14,430**	**20,080**	**27,700**	**36,020**

9.10 The authorised limit is a key prudential indicator, which 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 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.

9.11 This is a 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 council's plans, or those of a specific council, although this power has not yet been exercised. The Council is asked to approve the following authorised limit.

Authorised Limit	**2023/24**	**2024/25**	**2025/26**	**2026/27**

	Revised Estimate £000	Estimate £000	Estimate £000	Estimate £000
Debt	**17,430**	**21,080**	**22,700**	**23,050**
Other long term liabilities	**1,000**	**1,000**	**1,000**	**1,000**
Commercial Activities / Non Financial Investments	**1,000**	**3,000**	**9,000**	**16,970**
Total	**19,430**	**25,080**	**32,700**	**41,020**

10 Prospects for Interest Rates

10.1 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. The following table gives Link Assets Service's central view.

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

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

10.3 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.

10.4 In the upcoming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

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

10.6 Links target borrowing rates are set two years forward (as they expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 08.01.24 p.m.	Target borrowing rate now (end of Q4 2025)	Target borrowing rate previous (end of Q3 2025)

5 years	4.53%	3.70%	3.80%
10 years	4.67%	3.90%	3.80%
25 years	5.19%	4.20%	4.20%
50 years	4.97%	4.00%	4.00%

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

10.8 The current forecast shown in paragraph 10.1, includes a forecast for Bank Rate to have peaked at 5.25%. The Council continues to benefit from what is a higher interest rate environment than has been the case in recent years. The Medium Term Financial Strategy (MTFS) reflects expected investment rate income in future years. This is expected to reduce from that observed in 2023/24 as existing cash balances are used to fund capital expenditure and the base rate begins to reduce.

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

11 Borrowing Strategy

11.1 As noted above in paragraph 9.5 the Council recognises that statutory guidance indicates that whilst the Council has the necessary powers to borrow in advance of need the government and CIPFA state it should refrain from doing so where such borrowing takes place purely in order to profit from investment of the extra sums borrowed. None of the Council's current borrowing was undertaken in advance of need.

11.2 The Council has previously maintained 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 have been used as an alternative funding measure. This strategy is considered prudent whilst investment returns are lower than the cost of borrowing and counterparty risk remains an issue to be considered.

11.3 The current MTFS assumes that external borrowing will be required over the four-year period to 31 March 2027. Assumptions about the level of external interest payable are reflected as part of the prudential indicators included in this document. Responsibility for deciding when to borrow externally, together with details of the amount to borrow and the term and type of any loan, rests with the Chief Finance Officer. The Chief Finance Officer's decision will be informed by advice from the Council's treasury management advisors and information regarding the progress of schemes set out in the capital programme. Any borrowing decisions will be reported to Cabinet through either the mid-year or annual treasury management reports.

11.4 When the Council borrows externally it will ordinarily do so using funds borrowed from the Public Works Loan Board, though this does not preclude the Council considering other sources of lending.

11.5 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.

11.6

Maturity structure of fixed interest rate borrowing 2024/25	Lower %	Upper %
Under 12 months	0	100
12 months to 2 years	0	100
2 years to 5 years	0	100
5 years to 10 years	0	100
10 years and above	0	100

Maturity structure of variable interest rate borrowing 2024/25	Lower %	Upper %
Under 12 months	0	100
12 months to 2 years	0	100
2 years to 5 years	0	100
5 years to 10 years	0	100
10 years and above	0	100

12 Debt Rescheduling / Repayment

12.1 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.

12.2 If rescheduling was done, it will be reported to the Cabinet at the earliest meeting following its action.

13 Annual Investment Strategy - management of risk

13.1 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, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

13.2 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"); and
- CIPFA Treasury Management Guidance Notes 2021.

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

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

13.5 Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

13.6 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.

13.7 Investment instruments identified for use in the financial year are listed below under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

13.8 **Specified Investments -** These investments are sterling investments (meeting the minimum 'high' quality criteria where applicable) of not more than one year maturity, or those which could be for a longer period but where the Council has the right to repay within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. Investment instruments identified for use in the financial year are as follows:

- term deposits with part nationalised banks and local authorities;
- term deposits with high credit criteria deposit takers (banks and building societies);
- callable deposits with part nationalised banks and local authorities;
- callable deposits with high credit criteria deposit takers (banks and building societies);
- money market funds (CNAV) / (LVNAV) / (VNAV);
- Debt Management Agency Deposit Facility (DMADF); and
- UK Government gilts, custodial arrangement required prior to purchase.

13.9 **Non-Specified Investments -** These are any other type of investment (i.e. not defined as specified above). Investment instruments identified in both "specified" and "non-specified" categories are differentiated by maturity date and classed as non-specified when the investment period and right to be repaid exceeds one year. Non-specified investments are more complex instruments which require greater consideration by members and officers before being authorised for use. Investment instruments identified for use in the financial year are as follows:

- term deposits with high credit criteria deposit takers (banks and building societies);
- term deposits with part nationalised banks and local authorities;
- callable deposits with part nationalised banks and local authorities;
- callable deposits with high credit criteria deposit takers (banks and building societies);
- Debt Management Agency Deposit Facility (DMADF);
- UK Government gilts, custodial arrangement required prior to purchase; and
- Property funds.

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

13.11 At present, fluctuations in the value of the external property funds do not impact on the council's revenue account, because they are held in an unusable reserve via the statutory override arrangements set out in IFRS9. The override was extended in early 2023 to 31 March 2025. It is unclear if the override will be extended beyond that date.

13.12 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. Short term cash flow requirements (up to 12 months) include payments such as, precepts, business rate retention, housing benefits, salaries, suppliers, interest payments on debt etc.

13.13 The current forecast shown in paragraph 10.1, includes a forecast for Bank Rate to have peaked at 5.25%.

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

Average earnings in each year	
2023/24 (residual)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%

13.15 Estimated investment income is £1,090,000 2023/24 and £750,000 in 2024/25. These estimates assume that none of the existing cash balances held by the Authority will be utilised to fund schemes approved by the Investment Board.

13.16 £4m of the Council's investments are held in externally managed pooled property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

13.17 As the Council's externally managed funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's medium to long-term investment objectives are regularly reviewed. Although the returns from these investments can be higher than short term investments there is an increased risk that capital values will rise and fall. The 2023/24 projected outturn for property fund income is £130,000 and the estimate for 2024/25 is £150,000.

13.18 **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.

	2024/25 £000	**2025/26 £000**	**2026/27 £000**
Maximum principal sums invested > 365 days	**10,000**	**10,000**	**10,000**

13.19 For its cash flow generated balances, the Council will seek to utilise its call accounts and short dated deposits (overnight to 180 days) in order to benefit from the compounding interest.

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

14 Creditworthiness Policy

14.1 The Council applies the creditworthiness service provided by 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:

- ''watches'' and ''outlooks'' from credit rating agencies;
- Credit Default Swaps spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

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

- yellow 5 years;
- dark pink 5 years for ultra-short dated bond funds with a credit score of 1.25;
- light pink 5 years for ultra-short dated bonds 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.

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

14.4 Typically, the minimum credit ratings criteria the Council will use will be 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

14.5 The Council's own bank currently meets the creditworthiness policy. However, should they fall below Link Group creditworthiness policy the Council will retain the bank on its counterparty list for transactional purposes, though would restrict cash balances to a minimum.

14.6 All credit ratings are monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Group 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 swaps against the iTraxx European Senior Financials benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

14.7 Sole reliance will not be placed on the use of Link Group Creditworthiness policy. In addition, this Council will also use market data and market information, information on any external support for banks to justify its decision making process.

14.8 To further mitigate risk the Council has decided that where counterparties form part of a larger group, group limits should be used in addition to single institutional limits. Group limits will be as set through the Council's Treasury Management Practices – schedules.

14.9 In relation to financial institutions, the Council currently only invests in UK banks and building societies, which provides sufficient high credit quality counterparties to meet investment objectives. It should be noted that in some cases these banks are subsidiaries of foreign banks, but these are of the highest credit quality.

15 External Service Providers

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

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

15.3 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The Council will engage specialist advisers for commercial-type investments.

APPENDIX A

INVESTMENTS AS AT 31/12/2023

BORROWER	AMOUNT £000	START DATE	MATURITY DATE	PERIOD IN DAYS	CURRENT INTEREST RATE %
Short Term Investments					
Barclays Bank*	3,450	16/06/14		Flexible Interest	4.85
National Westminster Bank	1,000	11/07/23	18/01/24	191	5.86
Lloyds Bank	1,000	20/07/23	18/01/24	182	5.59
Leeds Building Society	4,500	26/09/23	04/01/24	100	5.31
UK Debt Management Office	3,500	15/11/23	18/01/24	64	5.18
Yorkshire Building Society	3,000	01/12/23	22/02/24	83	5.11
Yorkshire Building Society	2,000	18/12/23	18/01/24	31	5.12
Total Short Term Investments	**18,450**				
Long Term Investments					
Property Funds (valuation at 31.12.23)	**3,270**	28th & 31/03/2022	N/A	N/A	3.87
Total Investments at 31/12/2022	**21,720**				

* Barclays Bank Call Account is operated on the basis of meeting more immediate/very short term needs of the Council eg. payment of salaries, suppliers, benefits etc. Therefore a level of balance is maintained dependent on the immediate and very short-term requirements of the Council.