2024/25 TREASURY MANAGEMENT STRATEGY, ANNUAL INVESTMENT STRATEGY AND MINIMUM REVENUE PROVISION POLICY

Report of the Deputy Chief Executive (Section 151 Officer)

1 INTRODUCTION AND PURPOSE OF REPORT

1.1 THE CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANY (CIPFA) TREASURY MANAGEMENT CODE OF PRACTICE

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

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

1.1.3 The second main function of the Treasury Management Service is to arrange the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially this is longer term cash flow planning to ensure 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 existing debt may be restructured to meet Council 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 expenditure 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 The Council has delegated the role of ensuring effective scrutiny of its Treasury Management Strategy to the Corporate, Resource Management and Governance Scrutiny Committee (CRMG). As such, the views of CRMG were sought and any opinions or suggestions made have been taken into account when formulating the Council's Treasury Management Strategies for 2024/25.

1.1.6 This comprehensive report sets out the Council's Treasury Management Strategies for 2024/25 which are constructed in full compliance with the CIPFA Treasury Management Code and the Council's Treasury Management Policy Statement and Practices.

AGENDA ITEM

1.1.7 A full summary of all the Capital and Treasury Prudential indicators contained in the report is provided in Appendix 1.

1.1.8 An Equalities Impact Assessment has been carried out on the Treasury Management Strategy; this is included at Appendix 6.

1.2 STATUTORY REQUIREMENTS

1.2.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent, and sustainable.

1.2.2 The Act requires the Council to set out specific treasury strategies for borrowing and investments along with its policy for setting aside minimum revenue provision to cover debt repayments associated with borrowing to fund capital investment.

1.2.3 The strategies and policy are also prepared in accordance with the Department for Levelling Up, Housing and Communities (DLUHC) MRP Guidance and Investment Guidance.

1.2.4 The Prudential and Treasury Management (TM) Codes require local authorities to undertake financial planning for periods longer than the three years required for prudential and treasury indicators. As an example, the 2024/25 Capital Programme and Capital Strategy includes schemes and resources for financial years 2024/25, 2025/26 and 2026/27. In addition, information about approved schemes that span beyond the three years is also included, which allows for longer term treasury planning. As plans for future capital schemes are developed, funding streams identified and expenditure profiles established, the Council will bring these schemes into their future financial planning.

1.3 CIPFA TREASURY MANAGEMENT CODE & PRUDENTIAL CODE - changes which will impact on future The Treasury Management Strategy (TMSS)/ An Investment Strategy (AIS) reports and the risk management framework.

1.3.1 CIPFA published the revised Codes in December 2021 and stated that revisions needed to be included in the reporting framework from the 2023/24 financial year. This Council therefore must 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.

1.3.2 The revised Treasury Management Code requires all investments and investment income to 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.

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 an authority'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.

1.3.3 The revised Treasury Management Code requires the Council to implement the following:

1. Adopt a liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;

2. Long-term treasury investments, (including pooled funds), are classed as commercial investments unless justified by a cash flow business case;

3. Pooled funds are included in the indicator for principal sums maturing in years beyond the initial budget year;

4. Amendment to the knowledge and skills register for officers and members involved in the treasury management function, proportionate to the size and complexity of the treasury management conducted by each authority;

5. Reporting to Members quarterly. Specifically, the Deputy Chief Executive and Section 151 Officer is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. This is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and instead reported as part of the Council's integrated revenue, capital, and balance sheet monitoring; and

6. Environmental, social and governance (ESG) issues to be addressed within an authority's treasury management policies and practices (TMP1).

1.3.4 The main requirements of the Prudential Code relating to service and commercial investments are:

1. The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;
2. An authority must not borrow to invest for the primary purpose of commercial return;
3. It is not prudent for local authorities to make any investment or spending decision that will increase the General Fund Capital Financing Requirement (CFR), and so may lead to new borrowing, unless directly and primarily related to the functions of

the authority, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
4. An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream; and
6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

1.3.5 The Council's Capital Strategy or Annual Investment Strategy should include:

1. The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;

2. An assessment of affordability, prudence, and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services);

3. Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;

4. Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);

5. Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy); and

6. State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return;

1.3.6 As this TMSS and AIS deals solely with treasury management investments, the categories of service delivery and commercial investments will be addressed as part of the Capital Strategy report.

1.4 **REPORTING REQUIREMENTS**

CAPITAL STRATEGY

1.4.1 The CIPFA Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

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

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

1.4.3 The Council's Capital Strategy for 2024/25 is reported separately from the Treasury Management Strategy and Annual Investment Strategy 2024/25.

1.4.4 There has been increased focus from DLUHC and CIPFA on 'commercial' (non-treasury) investments made by local authorities, making it clear that borrowing should not be used to fund such activity. Commercial non-financial investments for the purposes of the Code are identified as those where income generation is the primary objective of the investment, as opposed to delivering service benefits, such as regeneration. The Capital Strategy sets out the Council's capital investment plans, including its ambition to redevelop and improve the town centre in appropriate detail so that Members can properly assess the particular risks in this area.

1.4.5 Treasury management investments represent the placement of cash in relation to the s12 Local Government Act 2003 Act investment powers, so the residual cash held in the bank resulting from the Council's day to day activities. These are invested under the Security, Liquidity and Yield (SLY) principles.

1.4.6 Investment in commercial non-financial investments, especially in property, do not form part of treasury management activities carried out by the treasury management team of the Council. Accordingly, the TMSS and AIS for 2024/25 does not deal with expenditure on, or investing in, non-financial investments, but solely on treasury management investments. This will give Members the focus to provide for greater critical examination and understanding of the Council's treasury management strategies and policies for 2024/25.

1.4.7 This Council has not engaged in any commercial investments and therefore has no non-treasury investments.

TREASURY MANAGEMENT REPORTING

1.4.8 The Council will receive and approve three main reports in 2024/25, which incorporate a variety of polices, estimates and actuals. These reports are required to be adequately scrutinised by a delegated Committee before being recommended to the Council. This role is undertaken by the Corporate**,** Resource Management and Governance Scrutiny Committee which has responsibility for scrutinising certain Council functions and activities, including maintaining an overview of the Council's governance, risk management and financial arrangements.

1.4.9 **Prudential and Treasury Indicators and Treasury Strategy (this report)**
The first and most important report is a forward-looking report which sets the scene for the year and it 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 (TMSS) (how the investments and borrowings are to be organised); and
- An Investment Strategy (AIS) (the parameters on how investments are to be managed).

1.4.10 **Mid-Year Treasury Management Report**
This report updates Members with the progress on the treasury and capital position, amending Prudential Indicators as necessary and whether the treasury strategy is

meeting the Council's objectives or requires any policy revision due to economic or other factors.

1.4.11 **Annual Treasury Report**
This report provides a comprehensive retrospective review for the financial year of all treasury policies, plans, activities, and results.

1.4.12 **Scrutiny**
The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Corporate, Resource Management and Governance Scrutiny Committee (CRMG).

1.4.13 **Quarterly reports**
In addition to the three major reports detailed above, quarterly reporting (end of June and end of December) is also required. These additional reports will not be taken to full Council but to Cabinet and CRMG. The reports, specifically, should comprise updated Treasury/Prudential Indicators.

1.5 TREASURY MANAGEMENT STRATEGY FOR 2024/25

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

CAPITAL
- The Capital Plans and associated Prudential Indicators.
- The Minimum Revenue Provision (MRP) Policy.

TREASURY MANAGEMENT
- 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 Annual Investment Strategy (AIS).
- The Creditworthiness Policy; and
- The Policy on use of External Service Providers.

1.5.2 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.

1.6 TRAINING

1.6.1 The CIPFA Treasury Management Code requires the responsible officer (Section 151 Officer) to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny.

1.6.2 Furthermore, the Code also states that 'all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making'.

1.6.3 The scale and nature of this is dependent on the size and complexity of the Council's treasury management needs. The Council will consider how to assess whether treasury management staff and Members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

1.6.4 As a minimum, the Council will carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and Members.
- Require treasury management officers and Members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the Council).
- Have regular communication with officers and Members, encouraging them to highlight training needs on an ongoing basis.

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

1.6.6 Members received annual treasury management training on 21 November 2023 and further training will be arranged as required.

1.6.7 The training needs of treasury management officers are periodically reviewed through the annual employee Performance, Development and Review process.

1.6.8 A formal record of the training received by officers central to the Treasury function will be maintained by the Deputy Chief Executive and Section 151 Officer. Similarly, a formal record of the treasury management/capital finance training received by Members will also be maintained by the Deputy Chief Executive and Section 151 Officer.

1.7 TREASURY MANAGEMENT CONSULTANTS

1.7.1 The Council uses the Link Group as its external treasury management advisors.

1.7.2 The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon the external service providers.

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

2 MRP POLICY 2024/25

2.1 The Council is required to settle an element of its accumulated General Fund Capital Financing Requirement (CFR) each year by way of a revenue charge (the Minimum Revenue Provision, 'MRP'). Local Authorities may also provide additional 'Voluntary Revenue Provision' if they wish to do so.

2.2 DLUHC guidance recommends the preparation of an annual statement of policy on making MRP for submission to the Council Meeting for approval. The terms of the original statement may be revised during the year subject to the revised statement being approved by the Council Meeting at that time. The guidance presents four 'ready-made' options for calculating MRP, but other options are not ruled out provided they are consistent with the statutory duty to make prudent provision.

2.3 This statement of policy is effective from 1 April 2024, relating to the financial year 2024/25 and is unchanged from the current year's policy.

2.4 In November 2021 the DLUHC proposed changes to the MRP Regulations to address issues that some authorities are not fully compliant with the duty to make a prudent revenue provision resulting in underpayment of MRP. The original consultation contained a proposal stating that capital receipts could not be used in place of the revenue charge. There were serious concerns raised in response and a subsequent consultation to address these were issued in June 2022, allowing capital loans to be exempt from the need to charge MRP with the condition that authorities should make MRP equal to any loss recognised with respect to a capital loan. In December 2023, DLUHC issued its response to the second consultation, which addresses the concerns that were raised. The revisions now propose that non-commercial capital loans may be exempt from the need to charge MRP, which means that there will be no impact on the Council's current approach to providing MRP. It is anticipated that the revised Regulations will take effect from 1 April 2024.

2.5 The Council's MRP Policy Statement will be reviewed on an annual basis and no changes are being introduced for 2024/25.

2.6 The Council's approach to calculating MRP is set out in Section 5 for approval.

3 <u>CAPITAL PLANS AND PRUDENTIAL INDICATORS 2024/25 to 2026/27</u>

3.1 The Council's capital expenditure plans are the key driver to the long-term borrowing aspect of treasury management activity. The capital expenditure plans and the affordability of these are reflected in a number of prudential indicators. These are designed to assist in understanding the link between capital expenditure plans and the underlying need to borrow for treasury management purposes and provide an indication of the impact of the capital investment plans on the Council's overall finances.

3.2 **Relevant Prudential Indicators for Approval**.

3.2.1 **Capital Expenditure Plans Prudential Indicator**

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the medium-term financial planning cycle.

Future Government grant funding allocations beyond 2024/25 are relatively unknown. The 2024/25 three-year Programme reflects this and only contains schemes where funding is confirmed and approved prudential borrowing schemes. It should be noted that there is £62.707m committed to approved schemes beyond 2026/27. This will be included in the programme once plans and phasing are firmly determined.

Members are asked to approve the capital expenditure forecasts.

Capital Expenditure by Portfolio	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
Communities, Culture & Sport	8.101	12.539	0.500
Economy, Regeneration & Housing	100.991	36.406	28.834
Finance and Resources	27.251	1.850	1.674

Capital Expenditure by Portfolio	2024/25 £m	2025/26 £m	2026/27 £m
Parks, Highways & Transport Services	18.912	19.313	6.224
Total Capital Expenditure	**155.255**	**70.108**	**37.232**
Non HRA	**115.147**	**43.875**	**8.398**
HRA	**40.108**	**26.233**	**28.834**

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

The table below summarises the above capital expenditure plans and how these plans are intended to be financed by capital or revenue resources. Any shortfall of specific resources results in a borrowing requirement for the year.

Capital Expenditure	2024/25 Non HRA £m	2024/25 HRA £m	2025/26 Non HRA £m	2025/26 HRA £m	2026/27 Non HRA £m	2026/27 HRA £m
Total Capital Expenditure	115.147	40.108	43.875	26.233	8.398	28.834
Financed By:						
Capital Grants	60.239	2.498	27.051	4.830	6.184	2.249
Capital Receipts	0.340	3.705	1.500	3.840	0.500	9.328
Capital Contributions	0.200					
Revenue Contribution	0.944	15.232	0.156	14.403		14.713
Borrowing Requirement for the Year	**53.424**	**18.673**	**15.168**	**3.160**	**1.714**	**2.544**

The Council has set out an ambitious long-term vision for the future of the Borough. There is significant capital investment planned for housing and highways as well as further regeneration of Stockport's Town Centre, including further development phases of Stockport Exchange and Town Centre West area, which will be delivered by the Mayoral Development Corporation (MDC).

The Council has approved significant prudential borrowing to support this capital investment which includes a recyclable equity and loan facility of £100m to support the MDC delivery strategy. The prudential borrowing will have a subsequent impact on the Council's prudential indicators, in particular the Capital Financing Requirement (CFR) and Minimum Revenue Provision (MRP). The Council's prudential indicators are reviewed and updated in line with the capital programme to reflect the investment.

3.2.2 The Council's Borrowing Need: The Capital Financing Requirement – CFR Prudential Indicator

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR measures a vital component of the Council's Capital Strategy; the amount of historic (cumulative) capital spending that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need for a capital purpose. Any capital expenditure above which has not immediately been paid for through receipts, grants and contributions will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which reduces the CFR in line with each asset's life.

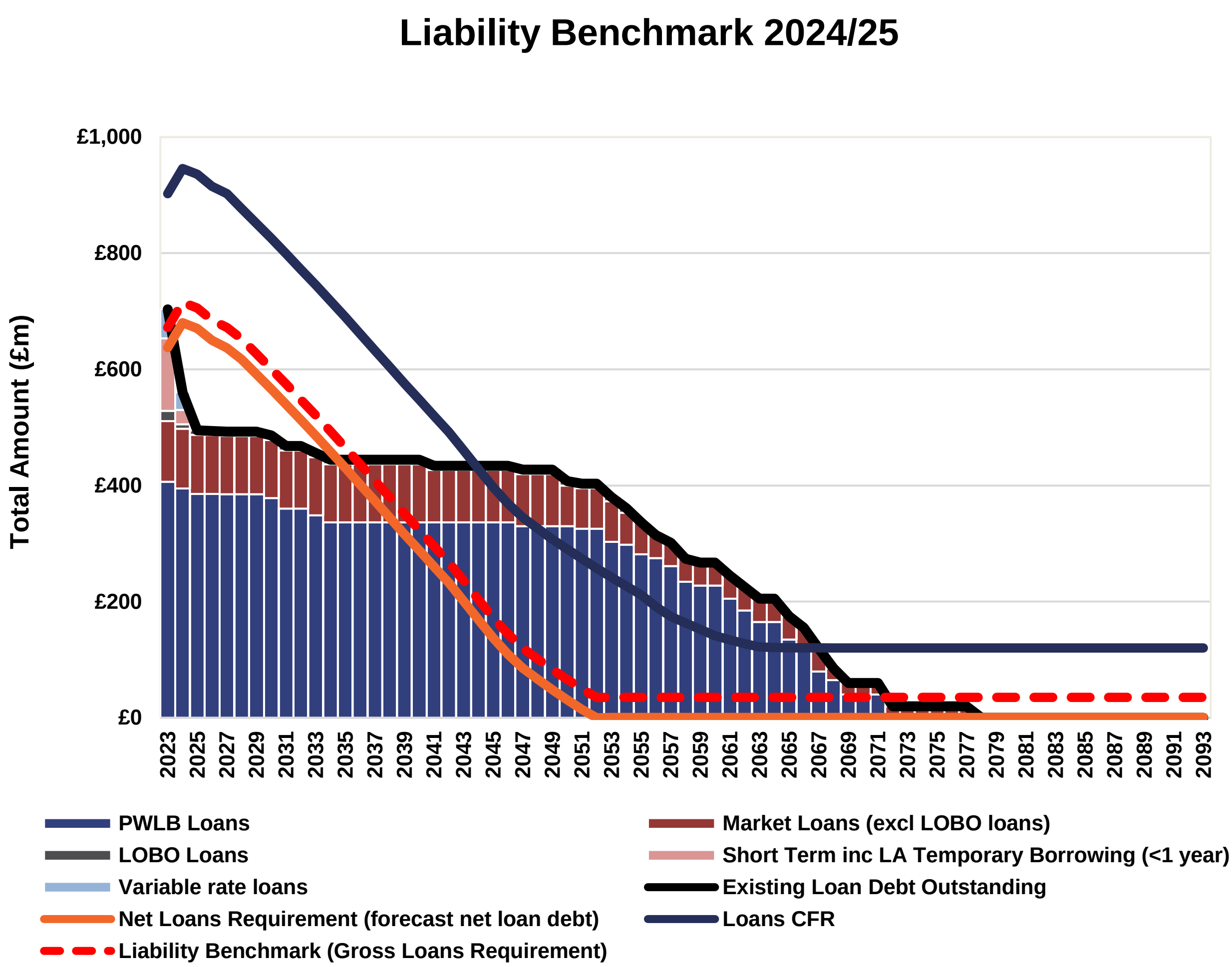
The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for them. The Council currently has £13.700m of such schemes within the CFR.

The Council is asked to approve the CFR projections below.

Capital Financing Requirement (CFR)	2024/25 £m	2025/26 £m	2026/27 £m
Non HRA CFR b/f	742.696	765.135	751.992
Borrowing requirement for the year (above)	53.424	15.168	1.714
Less MRP	(30.985)	(28.311)	(24.811)
Non HRA CFR c/f	**765.135**	**751.992**	**728.895**
HRA CFR b/f	159.954	178.627	181.787
Borrowing requirement for the year (above)	18.673	3.160	2.544
Less MRP	0.000	0.000	0.000
HRA CFR c/f	**178.627**	**181.787**	**184.331**
TOTAL CFR c/f	**943.762**	**933.779**	**913.226**

3.2.3 A third treasury management prudential indicator for 2024/25 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. The liability benchmark is a measure of how well the existing loans portfolio matches the Council's planned borrowing needs. The purpose of this prudential indicator is to compare the Council's existing loans outstanding (the black line) against its future need for loan debt, or liability benchmark (the blue (dashed) line). If the black line is below the blue (dashed) line, the existing portfolio outstanding is less than the loan debt required, and this shows the Council will need to borrow to meet the shortfall. If the black line is above the blue (dashed) line, the Council will (based on its current plans) have more debt than it needs, and the excess will have to be invested. The chart therefore tells the Council how much it needs to borrow, when, and to want maturities to match its planned borrowing needs.

3.2.4 **The Council's Liability Benchmark for 2024/25**



3.2.5 The Liability Benchmark is a projection of the amount of loan debt outstanding that the authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows. This is shown by the gap between the authority's existing loans that are still outstanding at a given future date and the authority's future need for borrowing (as shown by the Liability Benchmark).

3.2.6 It therefore shows how closely the existing loans book fits the future needs of the Council based only on its current plans. The shortfall shown against the CFR, £199.279m, will need to be met by future borrowing. Refinancing risk, interest rate risk and credit risk can be minimised or reduced by ensuring that the existing loans portfolio shows a profile close to the Liability Benchmark.

3.2.7 In particular, the Liability Benchmark identifies the maturities needed for new borrowing in order to match future liabilities. It therefore avoids borrowing for too long or too short. Local authorities should not use the CFR as their benchmark of borrowing needs, as this could result in overborrowing because the Council has cash flows and balances that keep actual debt (net of treasury investments) well below the CFR. Borrowing needs are based on cash flows, not the CFR, accepting the need for a reasonable but not excessive holding of short-term investments for liquidity management.

3.2.8 The Liability Benchmark makes no assumption about the level of future prudential borrowing in unknown capital budgets. This avoids making large assumptions that may prove to be spectacularly wrong, but the main reason is that it enables the benchmark to be compared like for like with the existing loans portfolio to identify future borrowing and investment needs arising from the authority's existing plans.

3.2.9 **Maturity structure of borrowing**
This indicator (given in paragraph 6.5 later in the report) is closely related to the Liability Benchmark, which provides a projection of future debt outstanding around which to set the upper and lower limits for each maturity range. The Council has historically sought to spread their debt maturities in order to manage refinancing risk and interest rate risk. The CIPFA Code argues that without the liability benchmark's forecast of debt outstanding based on existing debt and current plans only, it is impossible to know what maturity profile to aim for. The Council has nevertheless produced the debt maturity indicator in the past by building in enough capacity in each band to allow for borrowing to be taken in a number of ways during the financial year, for example, depending on the movement in interest rates, cash availability or if capital plans change. The Liability Benchmark does however assist in providing the methodology for producing maturity ranges appropriate to the authority's own committed borrowing profile, however it is fair to argue that plans change and therefore the indicator perhaps is not as rigid as CIPFA suggests.

3.3 The Capital Strategy 2024/25

3.3.1 Since the publication of the revised CIPFA Prudential Code in December 2017, local authorities have been required to produce an annual Capital Strategy.

3.3.2 The aim of the Capital Strategy is to optimise the availability and effective use of resources to support capital investment and provide a framework that delivers capital projects that support and facilitate the achievement of the Council's priority outcomes.

3.3.3 The Capital Strategy sets out the long-term context in which capital expenditure and investment decisions are being made and giving due consideration to both risk and reward, and the impact on the achievement of priority outcomes. With increasing commercialism, the Capital Strategy also considers the overall impact on the affordability of borrowing for capital investment against the overall financial position of the Council.

3.3.4 The framework is underpinned by a number of guiding principles including accountability and affordability to help ensure that the Council delivers a capital programme that is affordable, financially prudent, and financially sustainable.

4. AFFORDABILITY PRUDENTIAL INDICATORS

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

4.2 Relevant Prudential Indicators for Approval.

4.2.1 Estimates of the Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the proportion that financing costs (borrowing and other long term obligation costs net of investment income) are of the Council's net revenue streams.

The estimates of financing costs include current commitments and the proposals included in the Medium Term Financial Plan Report.

	2024/25	2025/26	2026/27
Non HRA	10.71%	10.58%	10.52%
HRA	9.91%	10.75%	10.69%

4.2.2 Estimates of the Incremental Impact of Capital Investment Decisions on Council Tax

This indicator illustrates the revenue financing costs associated with proposed changes to the three-year capital programme recommended in the Cabinet Revenue Budget and Capital Programme Report elsewhere on this agenda, compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three-year period.

Incremental impact of capital investment decisions on the Band D Council Tax

	2024/25 £	2025/26 £	2026/27 £
Council Tax Band D	£30.78	£8.37	£0.95

4.2.3 Estimates of the Incremental Impact of Capital Investment Decisions on Housing Rent levels

Similar to the Council tax calculation, this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in the Cabinet Revenue Budget Capital Programme Report elsewhere on this agenda, compared to the Council's existing commitments and current plans, expressed as a discrete illustrative impact on weekly rent levels. This indicator shows the revenue impact on any newly proposed changes, although any discrete impact will be constrained by rent controls.

Incremental impact of capital investment decisions Housing Rent levels

	2024/25 £	2025/26 £	2026/27 £
Weekly Housing Rent Levels	**£2.28**	**£0.37**	**£0.30**

5 MINIMUM REVENUE PROVISION POLICY (MRP) STATEMENT 2024/25

5.1 **General Principles and Practices**
The Council is required to pay off an element of accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision 'MRP'), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision 'VRP').

5.2 The Council is recommended to approve the following MRP Statement.

5.3 **Link to Asset Life/Economic Benefit**

5.3.1 Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP will normally be determined by reference to asset life, economic benefit or DLUHC Guidance.

5.3.2 Asset Life and the period over which to charge MRP will be determined under delegated powers. Where possible and permitted by DLUHC Guidance, those periods will be consistent with the periods set out in the Council's depreciation policy.

5.3.3 To the extent that expenditure cannot be linked to the creation/enhancement of an asset and is of a type that is subject to estimated life periods that are referred to in the DLUHC guidance, these periods will generally be adopted by the Council.

5.3.4 Where certain types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure.

5.3.5 Whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

5.4 **Methods for Calculating MRP**

The following alternative methods for calculating MRP may be used under delegated powers where this is deemed appropriate. All methods, with the exception of the approach taken to Previously Supported General Fund Borrowing are based on Asset Life/Economic Benefit. Alternatives include but are not limited to:

5.4.1 **The Annuity Method**
This calculation seeks to ensure the revenue account bears an equal annual charge (for principal and interest) over the life of the asset by taking account of the time value of money. Since MRP relates only to 'principal', the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to prevailing or average Public Works Loan Board (PWLB) rates.

5.4.2 **Equal Instalments of Principal**
MRP is an equal annual charge calculated by dividing the original amount of borrowing by the useful life of the asset.

5.4.3 **Previously Supported General Fund Borrowing**
General Fund Borrowing that was previously supported through the RSG system will be provided for in equal annual instalments over a 50-year period commencing 1 April 2015. As at 1 April 2024, the value of this borrowing will be £145.065m and the equal annual minimum revenue provision is £3.538m; the final instalment of which will be provided for by no later than 31 March 2065.

In the event of transfers of Capital Financing Requirement between the General Fund element and Housing element and additional voluntary revenue provision being made, the annual MRP charge will be adjusted to ensure that full provision will continue to be made by no later than 31 March 2065.

5.4.4 **Bespoke Repayment Profiles**
MRP is, for example, based on a pre-determined profile linked to a credit arrangement such as a Finance Lease.

5.5 **Voluntary Revenue Provision**
The Council has the option of making additional Voluntary Revenue Provision (VRP) in addition to MRP. The Council may treat VRP as 'up-front' provision (having a similar impact to the early repayment of debt) and thus recalculate future MRP charges accordingly. The Council may in some circumstances apply VRP to relatively short-life assets/expenditure in order to facilitate a reduction in the future base revenue budget needed to fund capital financing costs.

5.6 **Local Exceptions to the Guidance**
The Council reserves the right to determine useful life periods and prudent MRP in certain circumstances or where the recommendations of the DLUHC guidance are not appropriate to local circumstances. Examples include:

Assets under Construction
No MRP charge will be made until the financial year after that in which an item of capital expenditure is fully incurred and, in the case of a new asset, comes into service use.

Loans to third parties
The Council has considered the Statutory Guidance, which recommends a 25-year repayment charge for loans to third parties and concluded that this provision is not necessary. The Council considers an MRP charge is not necessary in respect of any loans made to third parties (including those made to group companies) as the debt liability is covered by the existence of a debtor; typically long-term depending on the life of the loan. In the event of non-repayment, the Council will make MRP equal to any loss recognised with respect to the capital loan.

Borrowing in Lieu of Capital Receipts
The Council has concluded that provision is not necessary for capital expenditure incurred in lieu of capital receipts. Any such schemes will be classified by the Corporate Leadership Team (CLT) as 'Borrowing in Lieu of Capital Receipts'. The Corporate Leadership Team will also determine which capital receipts will be ring-fenced to the scheme and as the receipts are achieved, they will be applied to repay the debt.

5.7 **The Application of Capital Receipts in Lieu of MRP**

Where the Council has received uncommitted and unapplied Capital Receipts, it retains the option to set aside those Capital Receipts as part of its arrangements for making 'prudent' provision for debt repayment rather than using them for capital financing purposes.

As Capital Receipts may form part of the Councils arrangements for making 'prudent' provision, setting aside Capital Receipts in this manner can be carried out in lieu of MRP whereby the MRP charge will be reduced by an amount equal to that set aside from Capital Receipts.

5.8 **HRA Capital Financing Requirement (CFR)**

MRP will equal the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations (SI 2003/3146), as if they had not been revoked. This approach is consistent with paragraph 7 of the DLUHC Guidance on MRP.

The basic MRP charge relating to the HRA CFR is therefore nil. However, the Council may make 'Voluntary Revenue Provision' provided such an approach is prudent and appropriate in the context of financing the HRA capital programme and is consistent with the delivery of the HRA Business Plan.

6 TREASURY MANAGEMENT STRATEGY FOR 2024/25 (TMSS)

The capital expenditure plans set out in Section 3 provide details of the service activity of the Council. The Treasury Management Service ensures that the Council's cash is organised in accordance with the relevant professional codes, so that suffucient cash is available to meet its service activity. This will involve both the organisation of the cash flow, and where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

6.1 CURRENT PORTFOLIO POSITION

6.1.1 The Council's forecast treasury portfolio position at 31 March 2024, with forward projections are summarised in the table below. The table details the actual external debt (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement, CFR), highlighting any over or under borrowing as at 31 March.

Gross Borrowing and the CFR	**31.03.24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
Gross Borrowing	730.288	816.085	848.113	866.071
Other Long-term Liabilities	13.700	13.700	13.700	13.700
Total Gross External Debt	743.988	829.785	861.813	879.771
TOTAL CFR	**902.651**	**943.762**	**933.779**	**913.226**
Under Borrowing	158.662	113.977	71.965	33.455

It should be noted that the gross borrowing position in the table above assumes that future years borrowing requirements will be fully funded and as such the under borrowing position reduces from its present level.

6.1.2 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:

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium-term debt will only be for a capital purpose, the Council needs to ensure that its debt does not, except in the short term, exceed the total of Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This is a key indicator of prudence. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

Where the gross debt is greater than the capital financing requirement the reasons for this should be clearly stated in the annual treasury management strategy (AIS).

For the purposes of the Prudential Code, debt or gross debt refers to the sum of borrowing and other long-term liabilities, as illustrated in the table above.

6.1.3 The Deputy Chief Executive (Section 151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the medium-term financial plans report.

6.2 **TREASURY INDICATORS WITHIN THE PRUDENTIAL CODE - LIMITS TO BORROWING ACTIVITY**

6.2.1 **The Council is asked to approve the following limits.**

6.2.2 **The Operational Boundary for External Debt**

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. The Operational Boundary has been set at a level higher than the CFR to allow the Council some flexibility to forward fund its borrowing requirement should market rates mean it is economically advatageous to do so.

Operational Boundary	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
Debt	940.300	930.300	910.300
Other Long-term Liabilities	13.700	13.700	13.700
Total	**954.000**	**944.000**	**924.000**

6.2.3 **The Authorised Limit for External Debt**

A further key prudential indicator represents a control on the maximum level of debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Authorised Limit	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
Debt	960.300	950.300	930.300
Other Long-term Liabilities	13.700	13.700	13.700
Total	**974.000**	**964.000**	**944.000**

6.2.4 In previous years the Council was limited to a maximum HRA CFR through the HRA self-financing regime; this imposed a limit of £146.947m. However the Government abolished the HRA debt cap in October 2018.

6.3 PROSPECTS FOR INTEREST RATES

6.3.1 The Council has appointed the Link Group as external treasury adviser to the Council and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 8 January 2024.

6.3.2 The following table gives a summary of the Link Group central view. PWLB forecasts are based on PWLB certainty rates (gilt yields plus 80 bps).

		Bank Rate	Average Earnings			PWLB Borrowing Rates (including Certainty Rate adjustment)			
			3 month	6 month	12 month	5-Year	10-Year	25-Year	50-Year
March	**2024**	5.25%	5.30%	5.20%	5.00%	4.50%	4.70%	5.20%	5.00%
June	**2024**	5.25%	5.30%	5.10%	4.90%	4.40%	4.50%	5.10%	4.90%
Sept	**2024**	4.75%	4.80%	4.60%	4.40%	4.30%	4.40%	4.90%	4.70%
Dec	**2024**	4.25%	4.30%	4.10%	3.90%	4.20%	4.30%	4.80%	4.60%
March	**2025**	3.75%	3.80%	3.70%	3.60%	4.10%	4.20%	4.60%	4.40%
June	**2025**	3.25%	3.30%	3.30%	3.20%	4.00%	4.10%	4.40%	4.20%
Sept	**2025**	3.00%	3.00%	3.10%	3.10%	3.80%	4.00%	4.30%	4.10%
Dec	**2025**	3.00%	3.00%	3.10%	3.10%	3.70%	3.90%	4.20%	4.00%
March	**2026**	3.00%	3.00%	3.10%	3.10%	3.60%	3.80%	4.20%	4.00%
June	**2026**	3.00%	3.00%	3.10%	3.10%	3.60%	3.70%	4.10%	3.90%
Sept	**2026**	3.00%	3.00%	3.10%	3.10%	3.50%	3.70%	4.10%	3.90%
Dec	**2026**	3.00%	3.00%	3.10%	3.20%	3.50%	3.70%	4.10%	3.90%
March	**2027**	3.00%	3.00%	3.10%	3.20%	3.50%	3.70%	4.10%	3.90%

6.3.3 A Summary Overview of The Future Path of Bank Rate

i. Link’s central forecast for interest rates was previously updated on 7 November and reflected a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least the second half of the year 2024. We expect rate cuts to start when both the Consumer Price Indices (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 Gross Domestic Product (GDP) releases have surprised with their on-going robustness).

ii. 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.

iii. 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.

6.3.4 Forecasts for PWLB rates and gilt and treasury yields

The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. Gilt yield curve movements have broadened in recent weeks; at the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve.

6.3.5 **The Balance of Risks to the UK economy**
The overall balance of risks to economic growth in the UK is to the downside.

6.3.6 **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 gilts high for longer).

- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- **Geopolitical risks**: for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran, North Korea which could lead to increasing safe-haven flows.

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

- Despite the recent tightening to 5.25%, the **Bank of England** allows inflationary pressures to remain elevated for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than is currently projected.

- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Projected **gilt issuance, inclusive of natural maturities and quantitative tightening,** could be too much for the markets to comfortably digest without higher yields consequently.

6.3.8 **UK Interest Rates**

i. **Investment returns**
Average earnings figures are provided in the table above based on movements in Bank rate. There may be opportunities to lock in attractive returns arising from the current elevated yield curve before it starts to turn downwards later in 2024.

ii. **Borrowing interest rates**.
Market expectations are for the MPC to keep Bank Rate at 5.25 until the second half of 2024, to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. We do not think that the MPC will increase Bank Rate above 5.25%.

iii. **PWLB Borrowing for capital expenditure.**
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.

Economic and interest rate forecasting remains difficult with so many influences weighing on UK gilt yields and PWLB rates. The above forecasts, (and MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year.

6.4 BORROWING STRATEGY 2024/25

6.4.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels as prevailing inflation concerns continue to be addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

6.4.2 This is a treasury management policy that has been implemented by the Council for a considerable time now and has, as such, saved the Council significant sums in interest costs in recent years. Much has been written in previous treasury management reports about maintaining an internally borrowed position of this size, i.e. it is reliant on the continued availability of Council balances and reserves and temporary market loans.

6.4.3 This is perhaps much more approprite in the current interest rate environment as we head into 2024/25. Bank rate is expected to remain at 5.25% through to September 2024 and so in-turn, short-term borrowing rates are currently high and at the same time PWLB rates are also elevated.

6.4.4 In line with the Council's plans for capital investment in the Borough (paragraph 3.2.1), there are a number of substantial capital spending projects, incorporating a total of £72.097m prudential borrowing, that have been included in the prudential and treasury indicators and the Council's borrowing limits for 2024/25. As such the Council is likely to externalise some of its internal borrowing position in 2024/25 and almost certainly need to take on significant external borrowing (short or long-term) to fund this spending during 2024/25.

6.4.5 From a practical standpoint when looking to borrow the Council will need to continue to focus on optimising its cashflow forecasts, and given the still relatively elevated level of rates right across the curve at present, seek to fund either temporarily from local authorities (most likely) or with short-dated loans from the PWLB, if raising short-term loans becomes difficult. Members will see from the interest rate forecast in 6.3.2 that we expect both short- and longer-term rates to be somewhat lower over the duration of the forecast.

6.4.6 Nonetheless, if certainty becomes paramount within the debt management strategy, we will look to optimise any longer dated borrowing requirement.

6.4.7 The general situation is for volatility in bond yields to endure as investor fears and confidence level and flow between favouring relatively more 'risky' assets i.e. equities, or the safe haven of government bonds. As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

6.4.8 If the Council decides it wishes to reduce its exposure to long-dated debt, the more recent increase in yields could provide further scope to repay loans prematurely (both market and PWLB) whilst the high discount rates prevail. However, this seems unlikely at this point in time given the amount of temporary borrowing being undertaken.

6.4.9 The long-term (beyond 10 years) forecast for Bank Rate remains at 3% and reflects Capital Economics' research that suggests artificial intelligence 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 need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed Local Authority (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. Leading up to Christmas there was a significant shortage of loans available in the LA to LA market. As demand has far outstripped supply rates have become very expensive. The situation is being closely monitored in the lead up to year-end however it is hoped that things will ease in the intervening period.

6.4.10 If the Council does opt to take PWLB borrowing, in the first instance it will take short-term qualifying loans at the lower Housing Revenue Account (HRA) PWLB rate which started on the 15 June 2023 for those authorities with a HRA (standard rate minus 60 bps).

6.4.11 **New Financial Institutions as a Source of Borrowing and/or Types of Borrowing**

Long-term borrowing rates will also be considered in 2024/25 from alternative market lenders if they are at a significant enough margin below the equivalent PWLB forecast rate, which will mean the Council would generate savings once other costs, such as brokerage, have been deducted.

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

- Local authorities (primarily shorter dated maturities out to 3 years or so as generally still cheaper than the Certainty Rate);
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a ‘cost of carry’ or to achieve refinancing certainty over the next few years);
- UK Municipal Bonds Agency; and
- UK Infrastructure Bank.

6.4.12 The Council will aim to maintain an appropriate balance between internal and external borrowing during 2024/25.

6.4.13 Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Deputy Chief Executive (Section 151 Officer) will monitor the interest rate market and adopt a pragmatic approach to changing circumstances.

Sensitivity of the forecast: In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. The Council officers, in conjunction with its treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- if it were felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowings will be postponed; and
- if it were felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

6.4.14 In the event that PWLB borrowing is undertaken in 2024/25 probably due to liquidity shortages that may become entrenched in the short-term market, trigger rates for new borrowing have been set in the table below and represent the lowest forecast rate in each period for each quarter. Please note these are based on PWLB certainty rates however if new borrowing was undertaken at the HRA rate, levels would be 40 basis points lower.

Term	Q1	Q2	Q3	Q4
5 year	4.40%	4.30%	4.20%	4.10%
10 year	4.50%	4.40%	4.30%	4.20%
25 year	5.10%	4.90%	4.80%	4.60%
50 years	4.90%	4.70%	4.60%	4.40%

6.4.15 It is likely that any PWLB borrowing undertaken would be done in the one to two year period; this would be an interim measure until long-term rates are expected to fall back during 2025. As a guide, the current 1-year Certainty Rate at the time of writing (08.01.24) is 5.29% and so close to Bank rate, although it has been much higher in recent weeks. Whilst levels in this period are currently lower at times than short term loans (certainly at the HRA PWLB rate), it should be noted that PWLB loans must be taken for a minimum period of 1 year and in that time (by the mid 2024/25 financial year) Bank Rate is expected to start to fall. There is therefore some judgement required as to whether it is more advantageous to take higher short-term borrowing knowing this is likely to fall as Bank rate is expected to be cut later in 2024, or to take cheaper short-dated PWLB borrowing now which will effectively look more expensive with a reduction in short-term rates occurs. Of course, should liquidity dry up in the short-term markets the Council will need to take other forms of borrowing as a necessity.

6.4.16 It is however generally expected that the Council will favour delaying longer term borrowing until rates have fallen in line with current forecasts. Target borrowing rates have therefore been set (a little under two years forward, to the end of quarter three 2025) when borrowing rates are expected to be significantly lower than they are now (and will be throughout 2024/25). Trigger rates are as follows:

Term	Current Rate (at 08.01.24 p.m.) £	Target Borrowing Rate (end of Q3 2025
5 year	4.53%	3.70%
10 year	4.67%	3.90%
25 year	5.19%	4.20%
50 year	4.97%	4.00%

6.4.17 Please note rates around the 25-year period are the peak of the yield curve. In the UK Pension Funds buy up long dated gilts to match the investment term they are looking for; hence the price of the 50 year rises (because it is in demand) and the yield for that reason is lower. It therefore follows that the 30-year gilt yields in comparison are higher than the 50 year (they are not as sought). The same goes for the short end. In essence, there is less demand for the medium term than there is for the short and long end. Since there is an inverse relationship between the price and yield it leaves the medium term with the highest yields which in turn, the PWLB rates are derived from.

6.4.18 **Approved sources of long- and short-term borrowing**

On Balance Sheet	Fixed	Variable
PWLB	×	×
UK Municipal Bond Agency	×	×
Local Authorities	×	×
Banks	×	×

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

6.5 TREASURY INDICATORS WITHIN THE TREASURY MANAGEMENT CODE

TREASURY LIMITS ON ACTIVITY

6.5.1 Maturity Structure of Borrowing

The local authority will set, for the forthcoming financial year, both upper and lower limits for the maturity structure of its borrowing. The amount of projected borrowing that is maturing in each period, expressed as a percentage of total projected borrowing, for the periods in question is as follows:

Maturity Structure of fixed interest rate borrowing 2024/25	Lower	Upper
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	40%
5 years to 10 years	0%	45%
10 years to 20 years	0%	40%
20 years to 30 years	0%	50%
30 years to 40 years	0%	60%
40 years to 50 years	0%	60%
50 years and above	0%	60%

6.5.2 The Council's fixed rate borrowing is typically very long term, and as a large proportion of borrowing is in the usual 'ten years and above' maturity period. The Council has therefore broken the typical bands into periods in excess of ten years into several ranges, e.g., 10-20 years, 20-30 years, 30-40 years, 40-50 years, and 50 years and above.

6.5.3 This indicator covers all borrowing, i.e. fixed and variable rate. Where the maturity date of borrowing is uncertain, for example, in the case of Lenders Option Borrowers Option (LOBO) loans, the maturity would normally be determined by reference to the earliest date at which the lender can require repayment (therefore treating a LOBO's maturity as the next possible call or 'option date'). However, the Council has also opted to use the maturity date also having a strong possibility of the 'most likely date'.

6.5.4 The Council currently has a £7.5m of LOBO loan with options in the 2024/25 financial year. This would therefore be considered the maturity date (2024/25) in terms of the Treasury Management Code. To remind Members, LOBO loans are long-term loan instruments at a fixed interest rate with option dates built in (agreed at intervals at the outset). What this means in practice is that the lender can opt to request an increase to the interest rate on those option dates (call the loan) and the borrower (the Council) can either accept the new interest rate or repay the loan. Whist interest rates (until fairly recently) had been low for many years, there was little chance of a lender requesting an increase as the interest rate on the LOBO was significantly higher than the market rates.

6.5.5 During 2023/24 the Council had £17.5m of LOBO loans, however as both short and long-term interest rates have now risen significantly, a £10m LOBO loan was 'called' on its interest payment/option date in December 2023, meaning the lender (in this case Dexia) requested a 70 basis point increase to the interest rate. The Council chose to repay the loan as current forecasts would suggest that long-term rates would have fallen below this revised level by the end of 2025. The Council feels the probability of the remaining LOBO loan being called will diminish in the coming months when interest rates begin to fall. Given therefore that the remaining LOBO loan of £7.5m could run for many years, together with the uncertainty as to what will happen to interest rates in the future, the maturity structure of borrowing above allows for LOBO loans to mature in all periods. A level of movement has also been allowed in the above limits in the event that the Council takes forward long-term borrowing during 2024/25 and also takes its full borrowing requirement in 2024/25 as either variable or fixed rate borrowing. Please note, it has been assumed that the Council will not fully externalise its internally borrowed position and fully fund its CFR in 2024/25 in the above limits.

6.5.6 Where indicators for the maturity structure of borrowing are revised during the financial year, the time periods for under 12 months and for 12 months to 2 years shall refer to the time periods within 12 months of the start of the financial year/from 12 months to 2 years respectively (and not from the point of revision during the financial year).

6.5.7 There is no longer a specific recommended indicator in respect of interest rate exposures in the Treasury Management Code. Authorities are asked to explain their strategy for managing interest rate risks as part of their capital/investment strategy.

6.5.8 As such, the council uses a debt related treasury activity limit for variable rate borrowing. The purpose of this is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if this is set to be too restrictive, it will impair the opportunities to reduce costs/improve performance. The indicator is detailed in Appendix 1 as follows:

Upper limit on variable interest rate exposure:
This identifies a maximum percentage limit for variable interest rates based upon the gross debt position.

6.5.9 The Council favours certainty in its debt portfolios and consequently all its long-term PWLB borrowing is at fixed rates. Traditionally local authorities are financially risk averse because of the responsibilities attached to public money and greatly value revenue budget stability. The volatility of variable rate loans can be a major risk to council tax levels, so assuming a neutral view on the level and direction of long-term interest rates, the Council has tended to borrow mainly long-term, fixed-rate loans.

The Council also tends to maintain very long-term loan portfolios because it is financing mainly long-life assets; infrastructure assets, land, and buildings.

6.5.10 The upper limit for variable rate interest exposure has been set at 40%, being the highest proportion of total debt that can be subject to variable interest rates. As detailed in paragraph 6.4.5 above, the Council will be relying to some extent on short-term borrowing in the 2024/25 financial year; consequently, this limit ensures such borrowing can be comfortably accommodated. Short-term borrowing (for periods up to 12 months) can be treated as variable as it requires replacing frequently.

6.5.11 This indicator has also been calculated to allow for LOBO loans to be treated as both variable or fixed rate borrowing. As these loans could effectively be ‘called’ (and therefore subject to possible refinancing), within 12 months or indeed fixed to maturity. So, for the purposes of meaningful indicators in this area, this debt can be assumed to be fixed or variable.

6.5.12 For the purposes of the Code, the indicator for variable rate debt has in recent years remained at 40% to accommodate LOBOs, and to a greater degree, short-term borrowing. In practice however, the level of variable rate debt has been much less than 40%. Members will recall that in 2016/17 and 2017/18 that £60m of LOBO loans (£30m Barclays and £30m RBS sold to Phoenix Life Assurance) were converted into vanilla[1] long-term loans with fixed maturity dates and no options. Although consequently there are significantly less LOBO loans now that could be deemed as variable borrowing, this indicator has remained at 40% to allow for a greater proportion of temporary borrowing in the portfolio should it be required during 2024/25.

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

Interest Rate Exposures (Upper Limits)	2024/25 %	2024/25 %	2025/26 %
Limits on variable interest rates based on gross debt	40%	40%	40%

6.6 POLICY ON BORROWING IN ADVANCE OF NEED

6.6.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

6.6.2 In determining whether borrowing will be undertaken in advance of need the Council will:

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- Ensure the on-going revenue liabilities created, and the implications for the future plans and budgets have been considered;
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- Consider the merits and demerits of alternative forms of funding;
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and

[1] Vanilla is the most basic or standard version of a financial instrument; it is the opposite of an exotic instrument, which alters the components of a traditional financial instrument and is more complex.

- Consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

6.6.3 Borrowing in advance will be made within the constraints that:

- It will be limited to no more than 50% of the expected increase in borrowing need (CFR) over the three-year planning period, unless circumstances exist which indicate a clear case/financial advantage to the Council; and
- Would not look to borrow more than 36 months in advance of need.

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

6.7 DEBT RESCHEDULING

6.7.1 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.

6.7.2 The reasons for any rescheduling to take place will include:
- The generation of cash savings and/or discounted cash flow savings;
- Helping to fulfil the treasury strategy; and
- To enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

6.7.4 All rescheduling will be reported to the Cabinet at the meeting following its action.

7 ANNUAL INVESTMENT STRATEGY 2024/25 (AIS)

7.1 INVESTMENT POLICY

7.1.1 The 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).

7.1.2 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.

7.1.3 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. 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.

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

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

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

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

4. This Council has defined the list of types of investment instruments that the treasury management team are authorised to use. Investment instruments identified for use in the financial year are listed in Appendix 2 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices (Schedules); however these are included in the Appendix for information.

   Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.

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

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 40%.

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table and limits detailed in Appendix 2.

7. **Transaction limits** have not been set for each type of investment.

8. This Council will set a limit for its investments which are invested for **longer than 365 days, at £80m** (see Appendix 2).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating of AA- from Fitch or equivalent** (see paragraph 7.4).

10. This authority has engaged external consultants, (see paragraph 1.7), to provide expert advice on how to optimise an appropriate balance of security, liquidity, and

yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in sterling.

12. As a result of the change in accounting standards for 2023/24 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government (MHCLG), concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.03.23). More recently, a further extension to the over-ride to 31.03.25 has been agreed by Government and has the effect of allowing any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31.03.25; this is intended to allow authorities to initiate an orderly withdrawal of funds if required. In addition, IFRS9 impacts the write-down in the valuation of impaired loans.

7.1.5 This authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 7.5.3). Regular monitoring of investment performance will be carried out during the year.

7.1.6 The Counterparty framework is aimed at ensuring there are sufficient investment options available to place funds with good quality counterparties/instruments in the event that the credit markets deteriorate. The critical objective in the 2024/25 has been to provide an investment strategy to Members that also provides the treasury function with sufficient options and names to be able to operate in normal circumstances. This will allow some flexibility to be available should the investment markets become more difficult. This approach will allow officers flexibility, i.e. to restrict the pool of available counterparties (approved by Members) if markets are riskier; officers may in this event restrict all investments to Money Market Funds, the use of Treasury Bills or short Gilts may similarly be worthwhile. The Treasury Manager will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any amendments will be reported, with supporting reasons in the next available opportunity. The treasury team will continue to monitor markets on a constant basis throughout 2024/25 and will keep Members informed if situations should warrant any change in view in the future.

7.2 CREDITWORTHINESS POLICY 2024/25

7.2.1 It is the Council's policy to place appropriate parameters in terms of credit quality, to organisations with whom it invests.

7.2.2 This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies; Fitch, Moody’s and Standard and Poor’s. The credit ratings of counterparties are supplemented with the following overlays:

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

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

Yellow	5 years *
Dark Pink	5 years for Ultra Short Dated Bond Funds with a credit score of 1.25
Light Pink	5 years for Ultra Short Dated Bond Funds with a credit score 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

* Please note that the yellow category is for UK Government debt or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt (see Appendix 2)

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
up to 5yrs	up to 5yrs	up to 5yrs	up to 2yrs	up to 1yr	up to 1yr	up to 6mths	up to 100 days	

7.2.4 Where a colour coded band is not provided for a particular investment instrument, the minimum criteria to be applied in detailed in Appendix 2.

7.2.5 The Link creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue superiority to just one agency's ratings.

7.2.6 Typically the minimum credit ratings criteria the Council use will be a short-term rating (Fitch or equivalents) of F1 and long-term rating 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.

7.2.7 All credit ratings will be monitored on an on-going basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link 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 Swap against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by the Link Group. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

7.2.9 Significant levels of downgrades to short and long-term credit ratings have not materialised since the pandemic in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

7.2.10 Although bank credit default swap (CDS) prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

7.2.11 Ratings Criteria and comparisons are explained for the benefit of Members briefly in Appendix 3.

7.3 **COUNTRY LIMITS**

7.3.1 The Council has determined that it will only use approved counterparties from other countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent). The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 4. This list will be added to or deducted from by officers should ratings change in accordance with this policy.

7.3.2 The Council has not imposed a country limit on the UK as its country of domicile. The UK sovereign rating is currently AA- being the minimum level for other countries. This aims to provide some flexibility in the event that the UK's rating is downgraded further.

7.3.3 The Council has not implemented sector limits as the investment portfolio varies considerably in size during the year and any such policy is likely to be unworkable given the parameters already in place. Due care will be taken to consider the exposure of the Authority's total investment portfolio to non-specified investments, countries, groups, and sectors.

7.4 **UK SOVEREIGN RATING**

7.4.1 The UK sovereign rating is currently on the lowest acceptable level suggested for approved countries. The current country limits allow for investments in countries whose sovereign rating is AA- from FITCH (or equivalent).

7.4.2 Other limits to provide flexibility if the UK's rating were to be downgraded further, (though this currently appears to be unlikely) from the current level and fall below AA- then special dispensation would be immediately implemented for the Council to invest with UK banks with a sovereign rating below this AA- threshold (this would not apply to any other countries).

7.5 **INVESTMENT STRATEGY**

7.5.1 The Council's in-house managed funds will be made with reference to core balance and cash-flow requirements and the outlook for short-term interest rates (up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024, so an agile investment strategy would be appropriate to optimise returns.

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

7.5.3 **Investment returns expectations.** The current forecast shown in paragraph 6.3.2 suggests Bank Rate peaked at 5.25% in Q4 2023 and a fall to 4.75% is expected in Bank rate by end of Q2 2024.

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:

2024/25	4.55%
2025/26	3.10%
2026/27	3.00%
2027/28	3.25%
Longer-term	3.25%

(The longer-term forecast in later years is for periods of 10 years into the future).

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts. If the Council expects to place investments for longer periods than 100 days, then the average figures above will be adjusted as appropriate.

7.5.4 Forecast investment levels, based on expectations for Bank rate, are provided in the table below.

		Average Earning Rates		
		3-Month	**6-Month**	**1-Year**
March	**2024**	5.30%	5.20%	5.00%
June	**2024**	5.30%	5.10%	4.90%
Sept	**2024**	4.80%	4.60%	4.40%
Dec	**2024**	4.30%	4.10%	3.90%
March	**2025**	3.80%	3.70%	3.60%
June	**2025**	3.30%	3.30%	3.20%
Sept	**2025**	3.00%	3.10%	3.10%
Dec	**2025**	3.00%	3.10%	3.10%
March	**2026**	3.00%	3.10%	3.10%
June	**2026**	3.00%	3.10%	3.10%
Sept	**2026**	3.00%	3.10%	3.10%
Dec	**2026**	3.00%	3.10%	3.20%
March	**2027**	3.00%	3.10%	3.20%

7.5.5 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, Money Market Funds, and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

7.5.6 Without taking any new long-term external borrowing, investments in excess of 365 days are unlikely in 2024/25 as the Council will not have resources to commit funds for longer term durations. However, as recognised in the Borrowing Strategy in paragraph 6.4.4 the Council could externalise some of its borrowing in 2024/25 and take on additional long-term funding to fund major capital regeneration projects. If this is the case the Council may have ‘non-core’ cash which it will look to invest over a longer time frame, particularly if the Council has borrowed ahead of need and spending on these capital schemes will be phased. This scenario would mean the Council would consider longer term investments at enhanced levels and this may involve considering alternative investment products, as detailed in paragraph 7.9.

7.5.7 The budgeted return of 4.55 % for 2024/25 assumes an average investment duration of up to three months. This represents the Council's typical investment duration which is predominantly at the short end of the curve and fairly liquid to cater for cashflow needs. This return will be revised upwards if the Bank Rate starts to increase earlier, or if the Council places significant investments for longer periods than 3 months.

7.5.8 With all of this in mind there may be opportunities to lock in attractive returns during 2024 arising from the current elevated yield curve before it starts to turn downwards later in 2024 and 2025. It is important to note, however, that the extent of future falls is not expected to take it back to the ultra-low levels seen through much of the past decade. As such, investing in the money markets should provide a solid basis of underlying performance for the Council's day-to-day investment portfolios, and one which should certainly be stronger than that seen in recent years.

7.5.9 We do not expect that the longer end of the yield curve (12-month average earnings) will move up further than rates already available. Now that Bank rate has peaked at perhaps a lower point than some were predicting a few months ago, rates are somewhat less than they have been with the next move to Bank rate now expected to be down. There will of course be banks that pay higher than the 'average', just as there will be banks that pay below the rate. Each entity's own view on rates, its funding requirements and other factors will all determine available rates.

7.5.10 The Treasury team has advocated a 'laddered' investment approach for a while now; especially throughout 2023 when interest rates were rising. This approach helps overall performance improve, while the steady stream of maturities it provides aids liquidity considerations as well as the flexibility to adjust further to changes in market sentiment, and thus rates. However, if, as we expect, Bank rate has peaked, consideration in the first half of 2024/25 would be to lock-in to investments where possible prior to expected rate cuts.

7.5.11 At this 'peak point', there remains the incentive to extend maturity profiles where possible, as this will help cushion performance once markets turn and begin to price in expected Bank Rate falls.

7.5.12 The fundamentals of investing remain unchanged. Internal circumstances will drive decisions, while diligent monitoring of counterparty creditworthiness remains to the fore and, where funds are utilised, ongoing scrutiny will be maintained. Fundamentals must still prevail, i.e., is the investment appropriate for the Council's needs. Whether the Council is managing a short-term focussed, cashflow-driven investment portfolio or considering a wider range of options, appropriateness will be central to each and every investment decision.

7.5.13 In a changing interest rate environment, the Council will consider each of its investment counterparties and where their funding 'sweet spots' are. This will look to combine the maturity limits the investment strategy imposes on them. The aim here is to try to maximise the use of each counterparty, i.e. if a counterparty is a better relative payer for longer-term deposits, it may not be appropriate to fill its exposure allocations with shorter-term investments and vice-versa.

7.5.14 In a similar vein, the Council will review any notice accounts that it is or regularly invests in. Are the rates linked to a benchmark, i.e. Bank Rate, Sonia etc., or are they subject to movement at the bank's discretion? Again, the focus is on appropriateness of such investments within the overall portfolio. In some instances, they may remain an attractive opportunity but in others, it might be best to serve notice and then consider options at maturity. While current market pricing is indicative of higher rates in the future, this could yet change through any notice period served.

7.6 **Environmental, Social & Governance (ESG) Considerations:**

7.6.1 Members will be aware that the revised CIPFA Treasury Management Code in December 2021 required authorities to implement a high level Environmental, Social, and Governance (ESG) strategy for their Treasury Management investments.

7.6.2 To remind Members, ESG investing refers to a set of standards for an institution's behaviour used by the Council as a socially conscious investor, to screen potential investments. For an example, Environmental criteria consider how an institution safeguards the environment, including corporate policies addressing climate change, which may be of specific interest to the Council having declared a climate emergency.

7.6.3 The Council set out its current approach to ESG investments in the Mid-Year Treasury Management Strategy Review Report for 2023/24, which outlined current difficulties the Council is encountering in assigning ratings metrics to ESG investments, and which is perhaps crucial to the process, given that this is the Council's key tool for managing treasury risk. The following paragraphs reiterate the current position which is broadly unchanged from that recently reported.

7.6.4 The Council will consider ESG investments as part of its investment portfolio going forward. However, investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt Security, Liquidity and Yield (SLY) principles. As such, ethical issues, i.e. the green agenda, must play a subordinate role to those priorities.

7.7 ESG Strategy

7.7.1 The Council's Treasury Management service will seek to make investments in institutions with high Environmental, Social, and Governance (ESG). The Council will therefore use ESG factors to evaluate the extent to which an institution, and thus, an investment in that institution, impacts in each of the three areas:

- Environmental refers to an institution's impact on the environment, including its contributions to climate change, carbon footprint, water use, resource conservation, pollutants, and clean technology use;
- Social refers to its relationships with employees, suppliers, customers, and communities, as well as its contributions toward social good, for instance, human rights, diverse hiring practices, workplace safety, labour practices, data security, and employee and community engagement; and
- Governance refers to an organisation's structure, ethics, and management, which include board diversity and independence, executive compensation, transparency and anti-corruption policies, and shareholder rights.

7.7.2 In order to incorporate ESG criteria into the decision making process, the Council will seek accessible and comparable ESG ratings to help better understand an institution's ESG performance (still to determine how). Leaders in this space include Morgan Stanley Capital International (MSCI), Sustainalytics, and Thomson Reuters. Although each firm has its own data processing model and classification system.

7.7.3 The ESG investment strategy the Treasury Team selects will be dependent on the Council's existing processes and values, as motivations surrounding ESG factors. The Council has a 'Stockport Climate Change Strategy' and has declared a climate emergency, therefore against this backdrop the Treasury Team has determined that it will favour implementing, where possible, Carbon Disclosure Ratings (CDP) to its investments, if this is feasible. However, how the Treasury Team progress towards achieving ESG in their cash and liquidity management strategies/embedding ESG and climate related issues is still to be determined.

7.7.4 Increased focus on corporate sustainability raises the question of how treasury can contribute to sustainability objectives, whilst addressing the need to manage risk and liquidity first. Liquidity management should focus on risk management, as our primary responsibility to Council taxpayers is to aim to preserve capital and provide liquidity rather than delivering a higher risk to return outcome. Our emphasis on prudent risk management will therefore be expanded where possible to incorporate consideration of Environmental, Social and Governance (ESG) factors in our credit assessment through a process of ESG Integration. By incorporating ESG integration in this way, material ESG considerations will become an integral part of our security analysis alongside fundamental financial considerations.

7.7.5 At this point the Treasury Team has determined that its objective will be to report annually on our responsible investment activities and our aim will be the following:

- Material ESG considerations will become an integral part of our risk analysis alongside fundamental financial considerations; and
- We will develop ESG ratings for issuers and create sector specific weightings that reflect the materiality of ESG factors.

7.7.6 At this point in time however the Council has determined that it is too early in the process to apply ESG ratings/metrics and the following paragraphs explain the reasons why.

7.7.7 Problems with the immediate implementation of ESG Metrics

1. The objective is for the Council to incorporate Environmental, Social and Governance (ESG) considerations into its investment processes, however unlike elements such as credit risk, these are far more subjective and thus require an individual approach to identify and manage as part of an investment strategy. Broad-based ‘out of the box’ solutions may provide some insight, but these will need finessing to ensure that they are reflective of the Council’s views. Furthermore, while the coverage of specific ESG data points is becoming more widespread, like factors such as Credit Default Swaps, coverage is by no means universal. Accordingly, any policy will also need to adopt an approach that can incorporate both ‘known’ and ‘unknown’ assessments.

2. The Financial Conduct Authority (FCA) recently announced a new consultation on a voluntary Code of Conduct for data and rating providers, aimed at increasing transparency and trust in this area. This is being coordinated by the International Regulatory Strategy Group and the International Capital Market Association. The consultation ran until October 2023, with the Code expected to be updated and finalised by the end of 2023. This follows an earlier consultation, conducted by HM Treasury on whether such providers should become encapsulated in the UK’s regulatory regime on a formal basis, in the same way that banks and other financial market participants are already.

3. The voluntary Code of Conduct is there to act as an intermediary phase before the providers of ratings/metrics come under full regulatory oversight. In addition, the FCA also ran a consultation on Sustainability Disclosure Requirements and investment labelling, whose Policy Statement outcome is also expected in the

coming months. Note that this focusses on funds and investment products, rather than individual counterparties.

4. Earlier on it was mentioned that the three main players in the market for ESG ratings are currently Morgan Stanley Capital International (MSCI), Sustainalytics, and Thomson Reuters. This is one of the things that the FCA consultation is looking at; is there enough competition in the market to make it a transparent one or is the level of domination by some players (essentially MSCI and Sustainalytics) just so great as to distort things, thus weighing on the effectiveness and integrity of the data that investors are looking to use. As to what the FCA can do is another matter. However, the strong likelihood is that these entities will come under direct supervision by the FCA and part of this could see them having to spin off some of the advisory operations that they have from the 'rating bits'. Again, the issue here is that not only are there only one or two big players, but they also have advisory operations, so, from the outside, there could be a very significant conflict of interest going on here.

5. Adding to your list of 'players' there are also each of the credit rating agencies, as well as Bloomberg and then a number of more bespoke operators, who, rather than providing a broad assessment of ESG will focus on specific areas, such as CDP (a CDP score is a snapshot of a company's environmental disclosure and performance Carbon Disclosure Ratings) that would likely be of specific interest to the Council as it aligns to its mandate for climate change.

6. This also plays into another major area of concern about the whole field, that of transparency, relating to the methodologies that the various bodies use and how they outline their processes to investors, so that said investors can clearly understand what the 'ratings'/'data' actually represents and how it has been compiled. For example, credit ratings are very objective and while there might be some slight differences between agency assessments, they all pretty much use the same information, assess it in similar ways and, more often than, not, come up with very similar ratings. The rating grading system is also pretty similar across the three major rating agencies, meaning that investors can easily understand how an entity is rated, whether looking at Fitch, Moody's, or S&P.

7. However, ESG is very much more subjective to start with, uses a wealth of potential data options to consider, some of which may, or may not be provided by the entities, and a key issue for regulators is that the providers can (and do) change their methodologies (i.e. the focus) on a relatively regular basis, due to the subjectivity of how an E, S or G risk may impact on the valuation of a company, i.e. are they following market trends, or a more robust, repeatable process. The former is very difficult for an investor to use with any certainty, while the latter (as with credit ratings) is very much not.

8. The outcome of these consultations, through both this year and next, will potentially change some aspects of ESG 'risks' and reporting. This, therefore, necessitates some caution in the Council's approach in the near term, especially given that following routes and solutions in their present form may mean the whole process has to be reassessed at some stage in the relatively near future. Nevertheless, while these outcomes add some uncertainty to the process, it does not mean that the Council should ignore ESG factors when formulating their investment strategy for next year and indeed its application now.

7.7.8 **Developing a Policy Further**

a. As a starting point, it is important that there is full appreciation of what ‘ESG’ means in wider investment market terms and the potential tools that are available. Primarily, its focus is on exposure and management, i.e., what environmental, social and governance ‘risks’ a counterparty is exposed to, and how it manages them. These two processes can either be reviewed in isolation or combined to produce some form of ‘score’ or ‘rating’. Importantly, this is different from Socially Responsible Investing, where investors will typically apply negative screens or filters to their investment options, or Sustainable Investing, where investors are looking for investments that will provide sustainable and beneficial societal ‘impacts’ alongside a financial return. While these elements can be discussed and incorporated into an ‘ESG’ investment approach, they are potential parts, rather than encompassing the whole requirement.

b. Moreover, it is important to appreciate that an ESG policy is a corporate level position that outlines what it means to Stockport MBC, which is then implemented within Treasury. To combine ‘responsible treasury management’ with effective monitoring, management and reporting of ESG risks is likely to require a combination of red lines and benchmarks. However, this is a very subjective matter, so there is no ‘out of the box’ solution. As such, the key is understanding where ESG ‘risks’ lie, how they are represented in current activity, and how they may influence what the Council wishes to do in the future, and what consequences, whether intended, but more importantly, unintended, may materialise from taking different approaches.

c. This framework requires significant care, so that any policy does not impinge on the primary goal of security. Another important issue is that different aspects of an investment portfolio will be more subject to certain types of ESG risk. For example, in day-to-day cashflow operations, the focus will be Governance, as this has the potential for damaging consequences over the short term. As noted in a 2022 Fitch report, out of 950 rated banks, none had environmental factors that were ‘credit relevant’, only 20 for social, but 169 for Governance. A more specific example can be seen regarding Royal Bank of Canada, which, according to the most recent Banking on Climate Chaos report, was the world’s largest fossil fuel funder in 2022, yet it has an ‘environmental’ relevance score of just over 1 from Fitch, suggesting that this risk pillar has little relevance to either the sector or the bank specifically. This may be at odds with other aspects of what the Council wishes to achieve and why a framework needs both red lines and benchmarks.

d. It is also important to stress that not every ‘good’ investment is necessarily a good investment, meaning that security and liquidity considerations must be considered alongside those related to ESG. As such, at present, the focus is on achieving an appropriate framework, with the potential addition of ‘ratings’ or ‘scores’ to be incorporated once there is greater clarity on the scope of regulatory changes that are expected to be introduced. Furthermore, as with credit ratings, some ESG providers do offer a limited access to their headline scores for entities. As an interim measure, the Council could look to gather accessible scores and other pertinent research on entities that they consider ‘creditworthy’ (note, not all entities will be covered) and then update this on a regular basis, so that an ESG score can be used alongside other considerations when we make day to day Treasury investment decisions. However, the level of access is limited and the process to gather information would no doubt be significantly time consuming.

7.8 Current ESG Investments

7.8.1 As the regulatory backdrop unfolds, Link has stated it will make assessment of all appropriate providers in compiling its own direct feed service to clients. This is envisaged to encompass both scores, weighted individually to each client's own views, alongside wider research, and rationales to allow clients to make more holistic investment decisions across their portfolios. Section 7.8.9 below however outlines the issues they are facing in coming up with a scoring method and hence the reasons for the delay to the process.

7.8.2 The Treasury Team will update Members in due course on the outcome of the FCA exercise and the progress it makes towards establishing a clear risk framework in order to select counterparties for ESG investments.

7.8.3 The Mid-Year Treasury Management Report 2023/24 acknowledged that whilst it will take time to develop clear parameters for investment in ESG, as a starting point the Council will seek to invest in the following fund, where the Investment Portfolio and Treasury Strategy allow. The Treasury Manager is in the process of opening this new fund:

Standard Chartered United Nations Sustainable Development Goals Account

- Standard Chartered have launched a Sustainable Account which enables investors to contribute to sustainable development, while maintaining daily access to their cash.

- Understanding the difficulties that investors face in balancing their liquidity management needs with a commitment to sustainability, the Sustainable Account allows investors the flexibility of an account where they can retain access to their cash for day-to-day liquidity requirements as well as use surplus cash to support the United Nations Sustainable Development Goals (SDGs).

- Cash placed into the Sustainable Account is referenced against projects aligned with the Bank's Green and Sustainable Product Framework. This framework guides what qualifies as 'green' and 'sustainable' and is mapped against the SDGs. Developed with the support of Sustainalytics ratings/metrics, (one of the main providers of environmental, social and governance (ESG) research and ratings detailed earlier in the report. The Treasury Team will be able to see the impact of the Sustainable Finance assets that their deposits are referenced against by referring to the Bank's Sustainable Finance Impact Report.

- The Green and Sustainable Product Framework addresses some of the world's biggest long-term threats, including climate change, financial exclusion and lack of access to healthcare and education. By choosing this account, the Council can play a part in financing progress towards solving some of these challenges.

- This investment will have the same credit rating as if investing directly with Standard Chartered Bank and at the time of writing meets the Council's investment criteria for a maximum 6-month investment duration.

- Deposits can be made in periods from 1 month out.

- Rates earned on the investment are comparable to market rates.

7.8.4 In addition the Council has also identified an ESG Money Market Fund as follows and again is in the process of opening:

HSBC ESG Liquidity Fund (AAA rated)
This is a Money Market Fund that focuses on ESG Performance of those issuers the fund invests in and is the first Money Market Find to follow an industry Best in Class strategy to ESG investing. The fund approaches sustainable investment by using ESG scores to identify better performing ESG issuers and also applies sector specific screens to identify and exclude issuers commonly identified in corporate sustainable investment policies, i.e., thermal coal extraction, thermal coal power generation etc. In line with the Council's objectives on climate change, the investment process focuses on engaging with issuers to ensure they are on course to meet targets set by the Paris Accords. Their engagement aims to ensure that Scope 3 emission data (on a company's value chain) is published according to agreed frameworks or industry best practices, and they advocate that any bank in the investable universe become signatories to the Net Zero Banking Alliance.

7.8.9 **Link – incorporating ESG Scores to Creditworthiness Assessment**

a. Link Asset Services are looking at ways in which to incorporate these factors into their creditworthiness assessment service; measuring ESG ratings/metrics is by far the biggest issue for Treasury incorporating ESG into its investment process. They are continuing to review the market in terms of providers, their methodologies, and outputs, as well as waiting on the outcome of an FCA consultation process, which could conceivably have a material impact on the market going forward.

b. Link are also looking at how to provide an overall rating and something that would address key areas clients have specific interest in. One option would be to simply give clients access to the output of a provider, explain how this output is put together, so clients can easily understand what it reflects, and then overlay this with their own requirements to allow it to be an appropriate part of their investment decision-making process. The other option is to take the raw data from a provider, and then work with clients as to how they wish to frame this in terms of their own views on ESG. This way, you get a far more bespoke assessment of the ESG factors and can then work them to your own needs, rather than simply accept what a provider thinks is the correct balance. The former would likely be cheaper and easier to implement, but it has its shortfalls compared to the latter.

c. The aim therefore is to provide a direct feed to clients, ideally working alongside ratings. Part of this may also be about how the Council wants to use the information. Will it be in terms of 'red lines', i.e. entities that fail a part of our requirements are automatically excluded, or would it be used to show something like the 'carbon impact' of our portfolio and how this has changed over time. Discussions are still afoot on the level of the detail provided and whether it is simply a 'rating', or access for us to develop our own individual 'score' etc. In terms of the providers, Link have had discussions with all the main suppliers and as to what the final decision will be, will depend to some extent on the outcome of the FCA consultation as well as what services each provider offers, making sure that it is actually appropriate for what the Council wants.

d. There is also the issue that not all entities are necessarily assessed by any/all providers, a bit like CDS prices, but worse especially if not a full-blown mainstream bank.

e. Overall, the whole process is somewhat delayed and, unfortunately, somewhat more complicated than providing things like credit ratings. The objectivity and focus are key as not only do different providers have a different bias as well as basis to their approach; each Council may also have a different objective in incorporating

'ESG' into their investment process. Link hope to have a service provision in place, but as to the timing of that, is very difficult for us to say at this stage with any certainty.

f. In the meantime, the Council will look to further develop its own approach and decide what considerations it would like to take into account as we look to incorporate such factors into our investment processes. Key here is to make sure that there is a full understanding of what the data signifies and importantly, what it does not. The danger is in imposing red lines on who to deal with that then runs contra to security, liquidity, and yield, with the unintended consequence of actually increasing the overall (financial) risk profile of the investment portfolio.

g. Members will be updated on the progress of this and the feasibility of including these investments as part of the Council's investment portfolio in the Treasury mid-year review report for 2024/25 where hopefully some progress will have been made by Link.

7.9 **Alternative Investments**

7.9.1 There are now several alternative types of investment opportunities, but each would involve a fundamental change to the Council's investment strategy of recent years and would include taking on a different level of risk to that which Members have approved in the past. If the treasury team were in a position to consider such investment, they would provide an explanation that enables members to understand the rationale and the change in risk exposure involved. This could involve the use of some of the instruments cited in 7.9.3 below, as well as a different approach to how and where monies are invested in more traditional money markets.

7.9.2 **The Council will not look at just the return but at the product** considering what is 'under the bonnet' if contemplating pooled investment vehicles. This applies to any investment opportunity. It is not enough that other councils are investing in a scheme. The treasury management team is tasked through market rules to understand the product and appreciate the risks before investing. The Financial Conduct Authority has flagged up that the main risks in the investment industry are firms designing products that*:*

- aren't in the long-term interest of consumers;
- don't respond to their needs;
- a lack of transparency on what's being sold;
- a poor understanding by consumers of risk; and
- a shift toward more complex structured products that lack oversight.

7.9.3 **Alternative investment instruments**

The particular asset classes include the following:

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

7.9.4 There are varying degrees of risks associated with investments based on a wider array of asset classes and these need comprehensive appreciation. It is not just credit risk that needs to be understood, but liquidity and interest rate/market risk as well, although these can often be intertwined. Any option in which an investor hopes to generate an elevated rate of return will almost always introduce a greater level of risk. By carefully considering and understanding the nature of these risks, an informed decision as to the appropriateness of an investment can be taken. It is also important to appreciate that there is a myriad of different fund options available, with each having its own particular approach to investing. The Council will always look to consider a range of different approaches when determining which will be most suited to their needs, and always remember the need for on-going monitoring of any new or existing positions taken.

7.9.5 **Challenger Banks**

The Council has not included Challenger Banks in their counterparty list so far. At present, they do not have credit ratings and so therefore fall outside the Council's investment strategy criteria. However, we expect that some of these entities may get ratings in coming years and will therefore continue to keep this area under review.

7.10 POLICY ON USE OF FINANCIAL DERIVATIVES

7.10.1 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans).

7.10.2 The Council will only use financial derivatives (such as swaps, forwards, futures, and options) either on a standalone, or embedded basis, where it can be clearly demonstrated that as part of the prudent management of the Council's financial affairs the use of financial derivatives will have the effect of reducing the level of financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. This will be determined in liaison with the Council's external advisors.

7.10.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit if applicable.

7.10.4 At all times the Council will comply with CIPFA accounting practice, advice and guidance, relevant statutory powers, and any legal opinion on the use of derivatives.

7.11 **The Council is asked to approve the following treasury indicator.**

Investment treasury indicator and limit

Total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year end.

The Council is asked to approve the treasury indicator and limit.

Maximum principal sums invested >365 days	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
Long-term Investments	£80m	£80m	£80m

As discussed earlier in the report, this long-term investment limit has been set at £80m for 2024/25. Since it is possible that the Council may opt to take long-term borrowing to fund major capital schemes during 2024/25 (should it find advantageous terms), this indicator will allow the Council the capacity to invest the funds over a longer time frame, where spend on these schemes may be phased or where it may be advantageous to borrow ahead of need; particularly where interest rates are lower but forecast to rise. This will also mean the Council's investment portfolio will be lengthened and this in turn will enhance return in line with the yield curve.

8. END OF YEAR INVESTMENT REPORT

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

9. TREASURY MANAGEMENT SCHEME OF DELEGATION

The Council's constitution reflects the following roles and responsibilities:

9.1 **The Council:**

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

9.2 **The Cabinet:**

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

9.3 **Corporate, Resource Management & Governance (CRMG) Scrutiny Committee:**

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

9.4 **Treasury Management Role of the Section 151 Officer, the Deputy Chief Executive:**

- 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; and
- recommending the appointment of external service providers.

The above list of specific responsibilities of the S151 officer in the 2021 Treasury

Management Code did not change. However, implicit in the 2021 changes in both codes, was a major extension of the functions of this role, especially in respect of non-financial investments (which CIPFA has defined as being part of treasury management). The specific roles of this officer (the Deputy Chief Executive, Section 151 Officer) were extended to include a series of new roles in respect of the Capital Strategy and a specific role in respect of investment in non-financial assets. CIPFA has extended the definition of treasury management and investments to include non-financial assets, which, at the same time, it terms as being non-treasury investments.

Section 151 Officer additional roles are as follows:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments, and treasury management, over a longer timeframe than the current three-year programme (this will be determined in accordance with local priorities);
- 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 authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities;
- provision to Members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans, and financial guarantees if applicable;
- ensuring that Members are adequately informed and understand the risk exposures taken on by the Authority;
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above; and
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:
    1. Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios.
    2. Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments.
    3. Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making.
    4. Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken.
    5. Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

10. INTERNAL CONSIDERATIONS

10.1 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

10.1.1 The financial implications are covered in the body of the report.

10.1.2 There are no further financial and risk considerations arising from the report. This report is produced as a finance report and discusses in detail risk mitigation processes which are at the heart of Treasury Management Policy. Treasury Management Risk Management is the practice of planning for unexpected expenditures. It is primarily about mitigating and avoiding the impact of the changing financial environment on the Council's cash flow objectives.

10.2 LEGAL CONSIDERATIONS

10.2.1 The Council will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. In framing its credit and counterparty policy under Treasury Management Practice (TMP1) *Counterparty credit risk management*, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may affect with the Council, particularly with regard to duty of care and fees charged.

10.2.2 The Council recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to manage the risk of these impacting adversely on the Council.

10.2.3 There are no Legal and Governance implications to consider as a result of the report and recommendations.

10.3 HUMAN RESOURCES IMPACT

10.3.1 The Council recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge, and skills.

10.3.2 The Council will also ensure that Members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

10.3.3 The present arrangements, including a knowledge and skills schedule, are detailed in the relevant Treasury Management Practice (TMP). This *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (the TM Code) revision for 2021 introduces strengthened requirements for skills and training.

10.3.4 There is no impact to the workforce or the workforce of partner organisations as a result of the report and recommendations.

10.4 EQUALITIES IMPACT

A full Equalities Impact Assessment is undertaken at the end of this report.

10.5 ENVIRONMENTAL IMPACT

10.5.1 Sections 7.7 and 7.8 of the report provide a detailed explanation of the way the Council is looking to incorporate environmental considerations in the Council's Investment Strategy for 2024/25.

10.5.2 Environmental, Social and Governance (ESG) issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits and there is a diversity of market approaches to ESG classification and analysis.

10.5.3 This means that a consistent and developed approach to ESG for the Council in its treasury management dealings is challenging. This report has outlined in detail current considerations, thinking and approach as the Council develops its ESG treasury policy further. This report has also discussed how to establish ESG ratings further as this is the most prevalent issue to resolve in embodying ESG within Treasury Management in 2024/25 which is an ongoing process as this stage.

10.5.4 ESG investment policies and treasury management practices will be consistent with the Council's own relevant policies where possible, for example, climate change policies.

11 CONCLUSIONS AND RECOMMENDATIONS

11.1 The Council Meeting is recommended to approve:

- The Minimum Revenue Provision Policy for 2024/25;
- The Capital Expenditure forecasts and Capital Financing Requirement projections;
- The Treasury Management Strategy 2024/25;
- The Treasury and Prudential Indicators and limits 2024/25-2026/27; and
- The Annual Investment Strategy 2024/25.

BACKGROUND PAPERS

There are none.

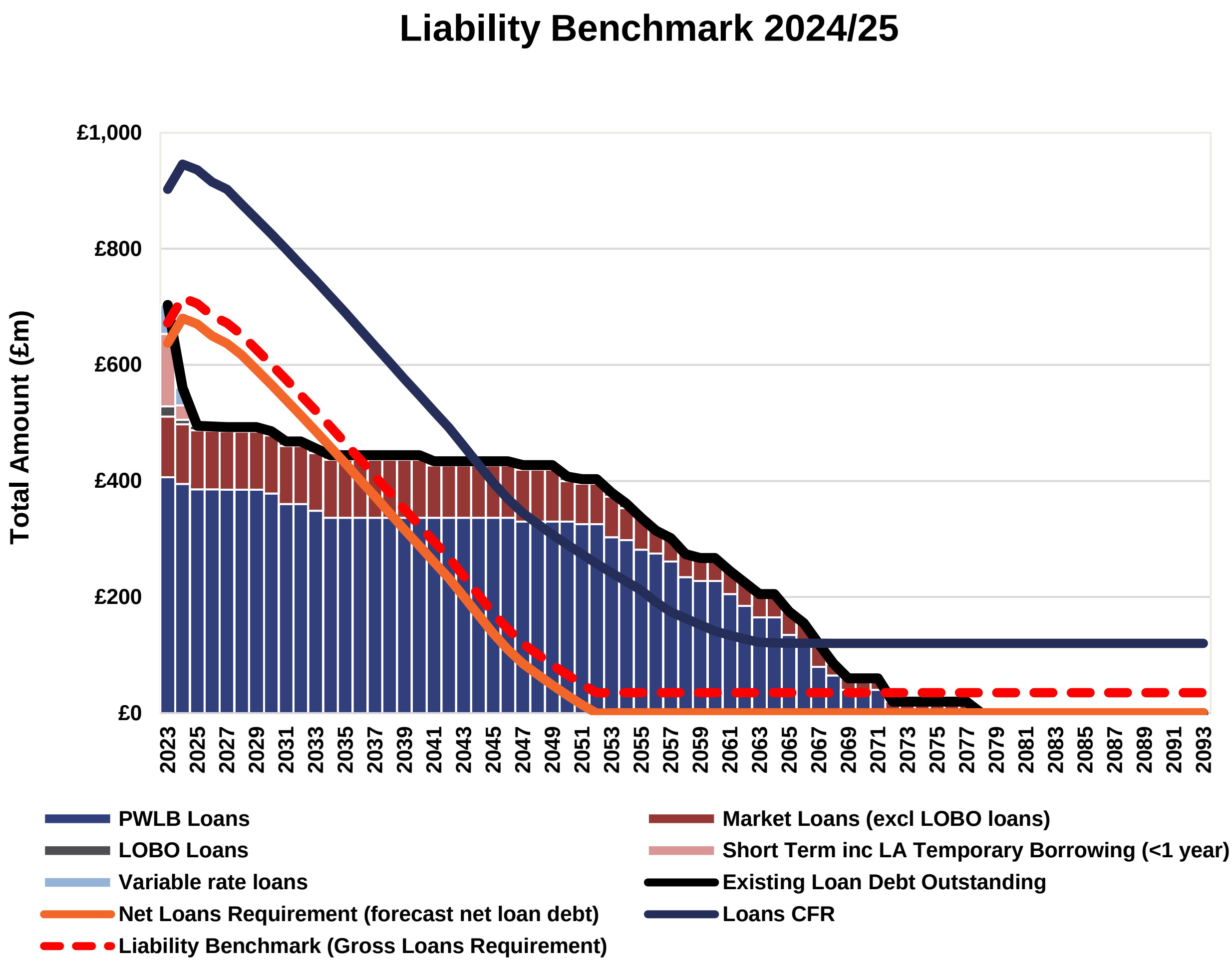
Anyone wishing to inspect the above background papers or requiring further information should contact Lorna Soufian on Tel: 0161 474 4026 or by email on lorna.soufian@stockport.gov.uk

APPENDIX 1

Prudential and Treasury Indicators 2024/25 - 2025/26

Capital Indicators

	Budget 2024/25 £M	Budget 2025/26 £M	Budget 2026/27 £M
Capital expenditure	155.255	70.108	37.232
Capital Financing Requirement (CFR)	943.762	933.779	913.226
Annual change in CFR	41.111	(9.983)	(20.553)
In-year borrowing requirement (excluding MRP)	72.097	18.328	4.258
Ratio of financing costs to net revenue stream (non HRA)	10.71%	10.58%	10.52%
Ratio of financing costs to net revenue stream (HRA)	9.91%	10.75%	10.69%
Incremental impact of capital investment decisions:			
Increase in council tax (band change) per annum	£30.78	£8.37	£0.95
Increase in average housing rent per week	£2.28	£0.37	£0.30



Treasury Indicators

	2024/25 Budget £M	2025/26 Budget £M	2026/27 Budget £M
Authorised limit for external debt	974.000	964.000	944.000
Operational boundary for external debt	954.000	944.000	924.000
Gross external debt	829.785	861.813	879.771

Maturity Structure of fixed rate borrowing upper and lower limits

Period	2024/25 Lower	2024/25 Upper
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	40%
5 years to 10 years	0%	45%
10 years to 20 years	0%	40%
20 years to 30 years	0%	50%
30 years to 40 years	0%	60%
40 years to 50 years	0%	60%
50 years and above	0%	60%

Interest Rate Limits

	2024/25 Budget %	2024/25 Budget %	2025/26 Budget %
Upper limit of variable interest rates based on gross debt	40%	40%	40%

Principal Sums

	2024/25 Budget £M	2024/25 Budget £M	2025/26 Budget £M
Upper limit for principal sums invested over 365 days	80	80	80

APPENDIX 2

ANNUAL INVESTMENT STRATEGY

CREDIT AND COUNTERPARTY RISK MANAGEMENT

SPECIFIED & NON-SPECIFIED INVESTMENTS 2024/25

SPECIFIED INVESTMENTS

All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable. Definitions of equivalent credit ratings are given in Appendix 3.

NON-SPECIFIED INVESTMENTS

These are any investments which do not meet the Specified investment criteria. A maximum of £80m will be held in aggregate in non-specified investments, for a maximum duration of 5 years.

The use for each investment class is 'in house' only.

A variety of investment instruments will be used, subject to the credit quality of the institution and depending on the type of investment made it will fall into one of the Specified of Non-Specified categories.

The criteria in this appendix is intended to be the operational criteria in normal times. At times of heightened volatility, risk and concern in financial markets, this strategy may be amended by temporary operational criteria further limiting investments to counterparties of higher creditworthiness and/or restricted time limits.

COLOUR BAND CREDIT CRITERIA

The Council will use counterparties within the following durational bands:

- Yellow 5 years **
- Dark Pink 5 years for enhanced money market funds (EMMF) credit score of 1.25
- Light Pink 5 years for enhanced money market funds (EMMF) credit score of 1.50
- 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.

** This category is for AAA rated Government debt only or its equivalent, constant NAV money market funds and collateralised deposits where the collateral is UK Gov Debt.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are as follows:

Please note all investment classes listed in the table meet the Specified Investment criteria; the only difference making an investment category non-Specified are for durations exceeding 1 year (i.e. credit criteria is not reduced for non-specified investments, in fact the opposite is true as counterparties identified under the orange band or above for investment durations of 1 year or more are of higher credit quality, implied by the recommended longer duration colour).

<table>
<tr><td colspan="5">SPECIFIED & NON-SPECIFIED INVESTMENTS

SPECIFIED (INVESTMENTS UNDER 1 YEAR)
NON-SPECIFIED (INVESTMENTS EXCEEDING 1 YEAR)</td></tr>
<tr><td></td><td colspan="2">Minimum Credit Criteria/Colour Band</td><td>Max % of total investments/or £ limit per investment type</td><td>Maximum Maturity Period</td></tr>
<tr><td>Debt Management Agency Deposit Facility (DMO)</td><td colspan="2">AAA</td><td>100%</td><td>6 months</td></tr>
<tr><td>Term Deposits: Local Authorities (including Combined Authorities and other government public authorities, e.g. Police, Fire and Waste Authorities)</td><td colspan="2">NA</td><td>100%</td><td>Up to 5 years</td></tr>
<tr><td rowspan="7">Term Deposits: Banks & Building Societies</td><td colspan="2">Yellow</td><td>£60m</td><td>Up to 5 years</td></tr>
<tr><td colspan="2">Purple</td><td>£80m</td><td>Up to 2 years</td></tr>
<tr><td colspan="2">Blue</td><td>100%</td><td>Up to 1 year</td></tr>
<tr><td colspan="2">Orange</td><td>100%</td><td>Up to 1 year</td></tr>
<tr><td colspan="2">Red</td><td>100%</td><td>Up to 6 months</td></tr>
<tr><td colspan="2">Green</td><td>100%</td><td>Up to 100 days</td></tr>
<tr><td colspan="2">No Colour</td><td colspan="2">NOT TO BE USED</td></tr>
<tr><td>Term Deposits: wholly owned subsidiary bank or building society explicit guarantee from parent or Government[1]</td><td colspan="4">As above (criteria for Term Deposits with Banks & Building Societies)/or explicit Gov guarantee (Sovereign Rating AA-)</td></tr>
<tr><td colspan="5">Term Deposits with Nationalised Banks & Building Societies operating with Government guarantees</td></tr>
<tr><td>UK Nationalised Banks/Part Nationalised Banks (UK Sovereign Rating) [2]</td><td colspan="2">Blue</td><td>£20M</td><td>Up to 1 year</td></tr>
<tr><td>Government guarantee (explicit) on ALL deposits by high credit rated (sovereign rating) countries[3]</td><td colspan="4">Sovereign Rating AA-/Sovereign Rating of UK</td></tr>
<tr><td colspan="5">Other Instruments</td></tr>
<tr><td>Collateralised Deposit[4]</td><td colspan="2">UK Sovereign Rating</td><td>£50m</td><td>3 years</td></tr>
<tr><td rowspan="7">Certificates of deposit (or Corporate Bonds) issued by banks and building societies (and banks and building societies covered by Government (explicit) guarantee)</td><td rowspan="7">Sovereign Rating AA-</td><td>Yellow</td><td>£60m</td><td>Up to 5 years</td></tr>
<tr><td>Purple</td><td>£80m</td><td>Up to 2 years</td></tr>
<tr><td>Blue</td><td>100%</td><td>Up to 1 year</td></tr>
<tr><td>Orange</td><td>100%</td><td>Up to 1 year</td></tr>
<tr><td>Red</td><td>100%</td><td>Up to 6 months</td></tr>
<tr><td>Green</td><td>100%</td><td>Up to 100 days</td></tr>
<tr><td>No Colour</td><td>NA</td><td>NOT FOR USE</td></tr>
<tr><td>UK Government Gilts</td><td colspan="2">UK Sovereign Rating</td><td>100%</td><td>5 years</td></tr>
<tr><td>Bonds issued by multilateral development banks</td><td colspan="2">AAA</td><td>100%</td><td>6 months</td></tr>
<tr><td>Bonds issued by a financial institution which is explicitly guaranteed by UK Gov, e.g. National Rail</td><td colspan="2">UK Sovereign Rating</td><td>100%</td><td>1 year</td></tr>
<tr><td>Sovereign Bond Issues (other than UK Gov)</td><td colspan="2">AAA</td><td>100%</td><td>1 year</td></tr>
<tr><td>UK Treasury Bills</td><td colspan="2">UK Sovereign Rating</td><td>100%</td><td>5 years</td></tr>
<tr><td colspan="5">Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs):</td></tr>
<tr><td>Government Liquidity Funds</td><td colspan="2">UK Sovereign Rating</td><td>100%</td><td>Liquid</td></tr>
<tr><td>Money Market Funds CNAV</td><td colspan="2">AAA</td><td>100%</td><td>Liquid</td></tr>
<tr><td>Money Market Funds LVNAV</td><td colspan="2">AAA</td><td>100%</td><td>Liquid</td></tr>
<tr><td>Money Market Funds VNAV</td><td colspan="2">AAA</td><td>100%</td><td>Liquid</td></tr>
<tr><td>Ultra-Short Dated Bond Funds (with a credit score of 1.25)</td><td colspan="2">AAA/Dark Pink</td><td>100%</td><td>Liquid</td></tr>
<tr><td>Ultra-Short Dated Bond Funds (with a credit score of 1.50)</td><td colspan="2">AAA/Light Pink</td><td>100%</td><td>Liquid</td></tr>
<tr><td>Bond Funds</td><td colspan="2">AAA</td><td>100%</td><td>Liquid</td></tr>
<tr><td>Gilt Funds</td><td colspan="2">UK Sovereign Rating</td><td>100%</td><td>Liquid</td></tr>
<tr><td colspan="5">Structured Deposits</td></tr>
<tr><td>Fixed term deposits with variable rate and variable maturities: Structured Deposits</td><td colspan="2">Yellow</td><td>£40m</td><td>Up to 5 years</td></tr>
<tr><td>Property Funds</td><td colspan="4">A full risk evaluation of any fund will be undertaken prior to investment in conjunction with the Link Group and reported to Members</td></tr>
<tr><td>Ethical Investments</td><td colspan="4">A full risk evaluation of any option will be undertaken prior to investment in conjunction with the Link Group and reported to Members</td></tr>
</table>

<u>Notes</u>

1 If a deposit is to be placed with subsidiary of a parent bank and the subsidiary does not have a credit rating in its own right, then details of the guarantee from the parent must be sought prior to the investment being placed. The Council will only rely on unconditional guarantees.

2 Currently refers to the Royal Bank of Scotland PLC and National Westminster Bank PLC (ring-fenced banks).

3 Specifically applies to Approved Countries detailed in Appendix 4 with a minimum AA- sovereign rating. Please note, should the UK sovereign rating be downgraded by the credit rating agencies below AA-, special dispensation will allow the Council to continue to invest with UK banks and financial institutions that otherwise meet its investment criteria.

4 As collateralised deposits are backed by collateral of AAA rated local authority LOBOs, this investment instrument is regarded as being a AAA rated investment as it is equivalent to lending to a Local Authority.

If forward deposits are to be made, the forward period must be included as part of the deal period (i.e. for deposits of less than one year, the deal period should not exceed one year in aggregate).

INDIVIDUAL FINANCIAL LIMITS (SPECIFED & NON-SPECIFIED INVESTMENTS)

Institution	Financial Limit £m
DMO	No Limit
Banks (including nationalised and part nationalised)	10
UK Building Societies	10
UK Central Government	No Limit
UK Local Authorities (including Combined Authorities and other government public authorities, e.g. Police, Fire and Waste Authorities)	10
Collateralised Deposit (Local Authority backed)	10
Multilateral Development Banks	10
Money Market Funds (and other OCEIs)	10

CORPORATE BOND FUNDS, CORPORATE BONDS, EQUITY FUNDS & PROPERTY FUNDS

These types of funds are essentially VNAV (Variable Net Asset Value) funds, i.e., NAV changes on a daily basis. The Link Group does not have a specific duration or monetary limits on these investment instruments. As such it is suggested that investment into these types of instruments requires a medium-term investment strategy (2-5 years+) to achieve a reasonable amount of return, both income and capital gain, enhancing returns against the conventional deposits. Please note that not all these funds are rated by agencies, so risk analytics must be carried out on an individual fund by fund basis, focusing on, for example, portfolio holdings, diversification of assets, past returns, fund manager experience, fees, asset class forecasts etc.

If considering investing into individual corporate bonds the Council will use the same criteria as that for individual financial institutions. Corporate Bonds are usually grouped by credit rating as follows:

- Investment-grade bonds (BBB or higher)
- High yield/Speculative/Junk bonds (BB and below) **assumed to have a high level of risk and therefore not considered**

Corporate Bonds as an asset class are at the higher end of the risk curve. They have high market risk as the price of the bonds moves day to day and will move with greater volatility than, say, gilts as they have a lower credit rating. Liquidity risk is high as it would be difficult to sell a bond whose issuer is perceived to be performing poorly. Credit risk is high as very few, if any, Corporate Bonds would have the same credit quality as a Gilt or Supranational.

Please note investing in a Property Fund would constitute capital expenditure.

WHOLLY OWNED SUBSIDIARIES

Institutions who do not have an individual credit rating but who are wholly owned (subsidiary):

Applies to:
Institutions that do not have an individual credit rating but who are wholly guaranteed by a parent institution, which meets the Council's minimum lending criteria, for that particular type of institution, or who are wholly guaranteed by the UK Government.

In this instance the parent institution or guarantor's creditworthiness will be taken as the basis for the investment.

Investment limits will apply to both the Parent and its guaranteed subsidiary in total, i.e. the subsidiary in this case will account for its parent's credit limit; one limit will apply as the subsidiary effectively does not have its own limit or credit rating.

UK Government guarantees can apply to any institution.

GROUP LIMITS

Group limits apply where a number of financial institutions are under one ownership i.e., are part of the same banking group; in this instance the 'Group' limit is the same as the individual limit for any one institution within that group, as financial exposure should be limited to the Group as a whole.

DETERMINING INSTITUTIONS UNDER THE SAME OWNERSHIP

In determining which banks are part of the same banking group reference will be made to the Credit Ratings list provided by the Link Group.

This list should not be used as a prescriptive list as it is simply impossible to monitor the mergers and acquisitions of all banks and institutions on a global level. FITCH ratings also take this view and do not supply a prescriptive list of all groups. However, it should be noted that the Link Group endeavour to keep this as up to date as possible for merger/acquisition activity in the market.

CONSIDERING DEGREE OF OWNERSHIP & COUNTRY OF SOVEREIGNTY

Regarding the degree of ownership of banks and in particular looking at UK institutions, rating agencies specify where the banks are domiciled but this is not to say that this country will support the bank in the event of default. The banks themselves also do not tend to specify which country would support them as the circumstances surrounding a default and how a default would unfold is unknown.

As the degree of ownership is not known either, 'Groups' covers any financial institutions in the same/related group despite degree of ownership.

Looking at the Banking Act 2009 this highlights the powers that can be used in the UK if needed. It states that the objective is to protect and enhance stability, protect UK funds etc.,

1. ‘bank’ means a UK institution which has permission under Part 4 of the Financial Services and Markets Act 2000 to carry out regulated activity of accepting deposits.

2. ‘UK institution’ means an institution which is incorporated in or formed under the law of any part of the UK.

Therefore:

If a bank in the UK is set up as a subsidiary in the UK, in that it is established as such as a legal entity in the UK, then despite its parentage and the country of origin, it should be recognised as a UK bank. This is the case for Santander UK PLC and so the Sovereign rating to be applied would be that of the UK.

If, alternatively, the Bank has a branch in the UK and does not meet the above criteria, then the Bank is effectively extending its base platform into another country through a branch network and should be recognised in the Country where its head office resides, i.e. the First Abu Dhabi Bank has branches in the UK however it is domiciled in the UAE - the Sovereign rating to be applied would be that of the UAE.

The Link Group 'Credit List' issued on a Friday each week gives counterparties per sovereign country to clarify where uncertainties arise, so for example,

Santander UK PLC is part of the Banco Santander Group; when making an investment one should refer to the Sovereign rating of the UK as it is a UK subsidiary of a Spanish bank with whom the investment would be placed. When investing with Santander UK PLC up to the individual limit of £10m, no further investments may be made within the Banco Santander Group for the duration of the investment; the same would apply when investing with Banco Santander except the Sovereign rating in this instance would be that of Spain.

If uncertainty exists to the Sovereign Country, the dealer must check with the Link Group prior to making any investment.

It should however be noted that the Treasury Manager will, for the most part, manage the Counterparty list and banks will be listed according to their Group structure and Sovereign Country. It is only expected that in cases where there is a need for an additional bank to be added at short notice, i.e. when there is a shortage of Counterparties with whom an investment can be made, that a reserve dealer would make the necessary checks.

SPECIFIED V. NON-SPECIFIED

With the unceasing flow of investment products and their increasing sophistication it is more difficult to categorise many investment instruments definitively as Specified or Non-Specified. The Council will determine that split given the following: -

- the level of expertise and experience available in house in the treasury management function;
- the level of expertise and experience available through support provided by external consultants or other services;
- the degree of research and understanding required to fully understand all the risks attached to an investment instrument;
- the nature of controls that need to be put in place to manage those risks;
- how complex, or otherwise, it would be for the treasury management team to use an investment instrument in practice in the first place, and then to manage it; and
- the level of staff resource available to the treasury management function the level of expertise and experience of councillors in treasury management.

APPENDIX 3

CREDIT RATING COMPONENTS

The Link Group creditworthiness service uses ratings from all three major rating agencies, namely; Fitch, Moody's, and S&P. Each agency has its own credit rating components to complete their rating assessments.

FITCH

Long Term Rating
These generally cover maturities of up to five years. Given the larger time horizon over which the long-term rating is determined, the emphasis is on the assessment of the on-going stability of the institution's prospective financial condition, for example, the sensitivity to fluctuations in market conditions, the capacity for maintaining profitability or absorbing losses in a difficult operating environment.

Short Term Rating
These cover obligations which have an original maturity not exceeding one year. The short-term rating places greater emphasis on the liquidity necessary to meet financial commitments. However a short-term rating alone could be insufficient when viewed in isolation. The long-term rating adds an important dimension in evaluating the vulnerability of an institution to rapid changes in economic conditions and therefore gives a better perspective on overall creditworthiness. It must be remembered, though, that the long-term rating of any financially weak institution with strong external support is susceptible to any diminution, actual or perceived, in that support, as occurred when the state guarantee to the German Landesbanks was terminated on 18 July 2005.

MOODY'S

Long Term Rating
Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honoured as promised.

Short Term Rating
Moody's short-term ratings are opinions of the ability of issuers to honour short-term financial obligations. Ratings may be assigned to issuers, short-term programs or to individual short-term debt instruments. Such obligations generally have an original maturity not exceeding thirteen months, unless explicitly noted.

STANDARD & POOR'S

Standard & Poor's' ratings comprise of two components;

Long Term Rating
Long Term credit ratings are based, in varying degrees, on the following considerations:

Likelihood of payment - capacity and willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation.

Nature of and provisions of the obligation.

Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganisation, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Issue ratings are an assessment of default risk but may incorporate an assessment of relative seniority or ultimate recovery in the event of default.

Short Term Rating

Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days-including commercial paper. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations.

COMPARISON OF RATINGS

Nearest equivalent comparisons are made in the tables below.

Short Term			**Long Term**		
Fitch	**Moody's**	**S&P**	**Fitch**	**Moody's**	**S&P**
F1+	P-1	A-1+	AAA	Aaa	AAA
			AA+	Aa1	AA+
			AA	Aa2	AA
F1		A-1	AA-	Aa3	AA-
			A+	A1	A+
			A	A2	A
F2	P-2	A-2	A-	A3	A-
			BBB+	Baa1	BBB+
F3	P-3	A-3	BBB	Baa2	BBB
			BBB-	Baa3	BBB-
B		B	BB+	Ba1	BB+
			BB	Ba2	BB
			BB-	Ba3	BB-
			B+	B1	B+
			B	B2	B
			B-	B3	B-
C		C	CCC+	Caa1	CCC+
			CCC	Caa2	CCC
			CCC-	Caa3	CCC-
			CC+	Ca	CC+
			CC	Ca	CC
			CC-	Ca	CC-
			C+	C	C+
			C	C	C
			C-	C	C-
D		D	DDD	D	DDD
			DD	D	DD
			D	D	D

APPENDIX 4

APPROVED COUNTRIES

FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

AAA	AA+	AA	AA-
Australia	Canada	Abu Dhabi (UAE)	Belgium
Denmark	Finland		France
Germany	USA		Qatar
Netherlands			UK
Norway			
Singapore			
Sweden			
Switzerland			

Explanation of Sovereign Ratings

The above uses Fitch as a basis for Country sovereign ratings. Below provides a guide as to what the relative ratings mean.

AAA: Highest credit quality.
'AAA' ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.

AA: Very high credit quality.
'AA' ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.

A: High credit quality.
'A' ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.

BBB: Good credit quality.
'BBB' ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.

BB: Speculative.
'BB' ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business, or financial flexibility exists which supports the servicing of financial commitments.

B: Highly speculative.

'B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

CCC: Substantial credit risk.
Default is a real possibility.

CC: Very high levels of credit risk.
Default of some kind appears probable.

APPENDIX 5

ECONOMIC UPDATE

1. The third quarter of 2023/24 saw:

- A 0.3% m/m decline in real GDP in October 2023, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30 September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
- A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September 2023 to 7.2% in October, although the ONS 'experimental' rate of unemployment has remained low at 4.2%;
- CPI inflation generally continuing on its downward trajectory, from 8.7% in April 2023 to 4.6% in October and 3.9% in November; however, there was a small rise to 4% in December;
- Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November 2023 was the lowest rate since January 2022;
- The Bank of England holding Bank Rate at 5.25% in November and December 2023; and
- A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

2. The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October 2023 fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.

3. However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November 2023 to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7 (scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December 2023, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.

4. The 0.3% m/m fall in retail sales volumes in October 2023 means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.

5. Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with the Halifax house price index recently pointing to a 1.7% year on year increase whilst Nationwide's December 2023 data pointed to a -1.8% year on year decrease. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.

6. Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost of living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.

7. The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October 2023 will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September 2023 to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.

8. The fall in wage growth occurred despite labour demand being stronger in October 2023 than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.

9. CPI inflation fell from 6.7% in September 2023 to 4.6% in October, and then again to 3.9% in November (with a small rise to 4% in December 2023). Both falls (in Oct and Nov) were bigger than expected and showed there are clear signs of easing in domestic inflationary pressures. It is expected that the small rise in December 2023 was a 'temporary blip' at the close of the year. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%); that's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.

10. The Bank of England sprung no surprises with its December 2023 Monetary Policy Committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that 'further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures'; and it stuck to the familiar script, saying that policy will be 'sufficiently restrictive for sufficiently long' and that 'monetary policy is likely to need to be restrictive for an extended period of time'. In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.

11. Looking ahead, Capital Economics forecast that the recent (generally) downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February 2024. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.

12. The fall in UK market interest rate expectations in December 2023 has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January, with further declines likely if the falling inflation story is maintained.

13. Investors' growing expectations that the US Federal Reserve will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from \$1.21 in November 2023 to \$1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.

14. The further fall in 10-year real gilt yields in December 2023 has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

15. In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06.04.23	27.12.23	06.04.23	06.04.23	05.04.23
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06.07.23	07.07.23	23.10.23	23.10.23	23.10.23
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

16. MPC meetings November and December 2023

- On 2 November 2023, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14 December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about 'sticky' inflation remained in place.
- Nonetheless, with UK CPI inflation now at 4% and core inflation beginning to moderate, markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.
- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

APPEIDIX 6

EQUALITIES IMPACT ASSESSMENT

Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy 2024/25

Title: **Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy 2024/25 (TMS, AIS & MRPP)**	**Date: 1 February 2024**
	Stage: Final
	Service Area: Corporate and Support Services
	Lead Officer: Lorna Soufian

Stage 1: Do you need to complete an Equality Impact Assessment (EIA)?
Not all policies will require an EIA: these key questions will help you to decide whether you need to conduct an EIA (see guidance notes at the end of this form).

The following EIA is required as the Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy 2024/25 (TMS, AIS & MRPP) is a key strategic policy of the Council.

The Council's priorities (outlined in the Council Plan) guide how the Council's funds are allocated and prioritised; the TMS, AIS & MRPP is accordingly focused on these principles. A separate EIA has been produced on the Council's priorities and as such it is not within the scope of this EIA to consider where money is allocated.

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

The second main function of the Treasury Management Service is to arrange the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially this is longer term cash flow planning to ensure 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 existing debt may be restructured to meet Council risk or cost objectives.

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

The Treasury Management Strategy (TMS) includes a number of treasury and prudential indicators together with a broad over-arching requirement to specify the Council's Capital Financing Requirement (CFR), which denotes the Council's underlying need to borrow for capital purposes, in addition, the Council must ensure that external debt is kept within sustainable, prudent limits.

Treasury Management therefore creates the link between the Council's CFR and the structure of its external debt. Like the Council's borrowing limit (Operational Boundary) these are of direct relevance to the day-to-day financial management of the Council. Due to the size, complexity and importance of the income generated from treasury management activities, it is important that all associated risks are assessed and managed. The Strategy reflects practices for controlling interest rate exposure, the maturity structure of the Council's borrowing and the risks associated with investment.

Policy Aims:

To provide a strategy based upon the latest CIPFA Treasury Management Code of Practice, which enables the Financial Management Service to operate the Council's treasury management function within the parameters approved by the Council. The policy aims to establish the Council's Treasury Management operating framework for the 2024/25 financial year, which includes specific criteria in respect of both borrowing and investment activities.

The intention of the TMS, AIS & MRPP is to set out how the capital spending plans are to be considered and in conjunction with this, develop an integrated treasury management strategy. The Strategy does this by setting out the policies and objectives of the Council's treasury management activities for the forthcoming financial year and thus assists the Council in achieving its overall approved policies, strategies, and plans.

The TMS, AIS & MRPP supports:

- Effective financial planning and management contributes to the transformation, development, and improvement of the Authority.
- Organising treasury management activities in line with the Council's approved policies, strategies, and plans.
- Producing a TMS, AIS & MRPP ensures that resources are available when needed and the effective management of liquidity means there are no additional unbudgeted costs, so that the Council's business/service objectives are not compromised.
- Making the most of opportunities to improve the yield from the Council's investments within appropriate risk parameters.
- Utilising treasury management performance measures to assess the effectiveness of the treasury management function by using a combination of performance indicators, trend analysis, benchmarking, and year on year comparison.
- Demonstrating value for money of the treasury management function and generating efficiencies.
- Ensuring that the Council's financial standing is robust, stable, and sustainable, including the maintenance of cash balances; the Annual Investment Strategy (AIS) will lay down principles to determine the amount of funds that can be prudently committed, relevant considerations include the relationship between overall funds and foreseeable spending needs, together with the need to make provision to maintain adequate reserves.

This TMS, AIS & MRPP is split into two distinct areas:

Capital

- the capital plans and the prudential indicators.
- the minimum revenue provision (MRP) strategy.

Treasury Management

- 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.

Stage 2: What do you know?
An EIA should be based upon robust evidence. This stage will guide you through potential sources of information and how to interpret it. Understanding the current context is a key stage in all policy making and planning (see guidance notes at the end of this form).

The terms/scope of these policies and statements are driven by statute and best practice.

Regulatory Framework
The Council's treasury management activities are regulated by statute, professional codes and official guidance. The Local Government Act 2003 (the Act) provides the powers to borrow and invest as well as providing controls and limits.

Under the Act, Communities and Local Government has issued Guidance on Local Government Investments to structure and regulate the Council's investment activities.

The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 - Statutory Instrument (SI) 3146 (plus subsequent amendments), develops the controls and powers within the Act. The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities.

The Prudential Framework for local authority capital investment introduced through the Local Government Act 2003 supports the Council's strategic plans for Capital Investment at a local level.

The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services (the Code of Practice).

CIPFA revised the Code of Practice in December 2017 following developments in the marketplace and the introduction of the Localism Act for English local authorities. The Code was predominantly revised to respond to the increase in commercial local authority investment activity. CIPFA made further revisions in December 2021 to the CIPFA Treasury Management Code and Prudential Code; the required reporting changes and the risk management framework have been fully implemented in this TMSS/AIS report for 2024/25. It is clear that these requirements again reflect CIPFA's intention to move authorities to a more risk-averse outlook in respect of investment matters.

The Council has adopted the CIPFA Code of Practice and operates its treasury management service in compliance with the Code and the above legislative and regulatory framework.

The Council is solely responsible for the treasury management strategies and policies as it only concerns treasury management activity within the Council.

The Strategy and policies are implemented by the Council (Corporate and Support Services, Finance) following approval by the Council Meeting.

The Treasury Management Strategy provides a framework within which the Council will operate its Treasury Management function covering lending and borrowing activities and the management of cash flows. In addition to specifying limits and providing guidance with regard to borrowing and lending activities, the statements also aim to ensure that investments are only placed with suitable counterparties. The principle that overrides all others is that the security of the council's money outweighs all consideration of returns.

The Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy have all been drafted in accordance with statute and best practice guidance. Best practice guidance has been developed and improved by CIPFA on an on-going basis since 1992. Updates and revisions have been the subject of careful development and consultation at a national level with all major stakeholders (for example, local and central government, the audit commission, financial institutions, treasury management advisers and specialists etc).

Factors to ensure success:

- Adherence to the principles and guidance set out in the Strategy Statement.
- Stability in planning frameworks together with regular reviews of treasury management activity and performance.

Factors which may make it difficult to achieve these outcomes:

- Volatility in financial markets and the wider economy making it difficult to make optimum borrowing and lending decisions.
- Having sufficient access to counterparties with a strong credit rating to enable the Council to protect its investments.

Stage 2a: Further Data and Consultation

If you feel that the data and past consultation feedback you have is not sufficient to properly consider the impact before a decision is made then you may wish to supplement your evidence base with more data or further consultation. This should be proportionate to the scale of the decision and will depend on the gaps *in your current understanding* *(see guidance notes at the end of this form).*

The TMS, AIS & MRPP is based on the Council's priorities as detailed in the Council Plan.

Equality legislation requires the Authority to address equality needs of different groups of people (relating to race, gender and disability) in the design and delivery of its services. The Treasury Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy 2024/25 does not directly impact on any of the services provided to the Council's stakeholders or how those services are structured. However the success of the Policy will have an impact on the extent to which sufficient financial resources are available to fund services to all members of the community.

In the consideration of the Council's Treasury Management Strategy and its equality obligations the Council will be mindful of the equality implications within the Borough of both the policy and any subsequent amendments.

The Council does not knowingly invest in non-ethical investments.

Stage 3: Results and Measures

As a result of what you have learned in Stage 2 what will you do to ensure that no group is unfairly and unlawfully impacted upon as a result of the proposed change(s)? *(see guidance notes at the end of this form)*

The Treasury Management operation is monitored regularly throughout the year and reported alongside performance information. This Treasury Management Policy Statement specifies formal reporting arrangements of the Deputy Chief Executive (Section 151 Officer) to Committee/Council, to include a strategy report (this report) at the start of the financial year, a mid-year strategy review report and an annual review report at the financial year-end. The reports give a mechanism for reviewing the Council's policies and for assessing the effectiveness of the previous year's treasury management activities and the on-going performance of the treasury management function.

The CIPFA Treasury Management in Public Services Code of Practice, places emphasis on regular reporting on treasury management strategy and performance and scrutiny of treasury management strategy and policy to a specific named body. The Council has accordingly delegated the role of ensuring effective scrutiny of its Treasury Management Strategy to the Corporate, Resource Management and Governance Scrutiny Committee. In line with the Code, the Cabinet and CRMG have received annual training and updates since the 2009/10 financial year.

In addition to the regular treasury management reporting cycle detailed above, a consultation report is taken to CRMG on formulation of the Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy prior to writing the report. Subject to the boundaries established by Statute, Regulation and the Code of Practice, this report seeks the views of CRMG on

- The Council's approach to borrowing.
- The Council's approach to the investment of surplus funds and the management of risk (AIS).
- The Council's MRP Policy and the Council's approach to providing for the repayment of debt.

The treasury management reporting arrangements consider the frequency of reporting, the level of detail reported and also the level within the Council in which reporting takes place. The reporting arrangements detailed above are the minimum, with additional reporting undertaken as deemed necessary.

Treasury Management reports ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

Regular and meaningful management information on day-to-day activities is also an essential characteristic of the Council's treasury management function. The form and frequency of management reports reflects the scope and nature of the Council's treasury management activities throughout the financial year.

Regular treasury management reporting would also identify any emerging impacts, should they arise.

The Council has created appropriate methods by which the performance of its treasury management activities can be measured which assists in judging whether it is gaining value for money from the resources devoted to these activities, particularly in meeting its wider business and service objectives. The Council aims to achieve an appropriate balance between risk containment and value for money and believes that the overriding need for effective risk management should be reflected in its Treasury Management Policy Statement and Treasury Management Practices, Treasury Management Strategy & Annual Investment Strategy and various performance reports and reviews.

Performance measurement is a process designed to calculate the effectiveness of the Council's investment portfolio's returns and borrowing costs, and the application of the resulting data for the purposes of comparison with the performance of other portfolios (or managers), or with recognised industry standards or market indices.

The benefits and applications of performance measurement include:
- using past experience beneficially to future treasury management policies and practices;
- by developing an appreciation of the factors influencing performance, improving the future processes of treasury decision-making;
- allowing the Council to assess the potential for adding value through changes to the existing ways in which a portfolio is managed;
- demonstrating an awareness of the need to review regularly the value attached to the treasury management function, and enhancing accountability;
- enhancing the information available to the Council when seeking to review an existing manager's performance or when selecting a new manager; and
- permitting an informed judgement and decision about the merits or otherwise of using new treasury management instruments or techniques.

The Council has a number of approaches to evaluating treasury management decisions-
- quarterly reviews carried out by the treasury management team;
- monthly review/position report to the Deputy Chief Executive (Section 151 Officer);
- reviews with treasury management consultants;
- annual review as reported to Committee;
- comparative reviews; and
- strategic, scrutiny and efficiency best value reviews.

Periodic reviews during the financial year
The Deputy Chief Executive (Section 151 Officer) holds timely treasury management review meetings with the Treasury Management Group throughout the financial year, to review actual activity against the Treasury Management Strategy Statement.

Reviews with external treasury management consultants
The treasury management team holds periodic reviews with external treasury management consultants to review the performance of the investment and debt portfolios.

Annual Review after the end of the financial year
Following on from the Mid-Year Report; an Annual Treasury Report is submitted to the Council each year after the close of the financial year which reviews the performance of the debt/investment portfolios. This report contains the following: -
- total debt and investments at the beginning and close of the financial year and average interest rates;
- borrowing strategy for the year compared to actual strategy;
- investment strategy for the year compared to actual strategy;
- explanations for variance between original strategies and actual;
- debt rescheduling done in the year;
- actual borrowing and investment rates available through the year;
- comparison of return on investments to the investment benchmark; and
- compliance with Prudential & Treasury Indicators.

Scrutiny of Treasury Management Strategy & Policy
Consultation and Review is sort during the year through the Corporate, Resource Management and Governance Scrutiny Committee on treasury management reports, the Treasury Management Policy Statement and Treasury Management Practices. Treasury management performance and policy setting is subject to prior scrutiny.

Comparative reviews

When data becomes available, comparative reviews are undertaken to see how the performance of the authority on debt and investments compares to other authorities with similar size portfolios (but allowing for the fact that Prudential & Treasury Indicators are locally set). Data used will be sourced from: -

- Greater Manchester Treasury Management Group

Stage 4: Decision Stage *Once your plan/policy is fully developed it will need to go through the correct scrutiny and approval channels: the EIA should be included as part of this (see guidance notes at the end of this form).*
This pro forma will accompany the 2024/25 Treasury Management Strategy, Annual Investment Strategy and Revised Minimum Revenue Provision (MRP) Policy report at the Cabinet Meeting on 30 January 2024 and the Council Meeting on 22 February 2024.