CONSULTATION REPORT 2025/26 TREASURY STRATEGY

Report of the Director for Finance S151 Officer

1. INTRODUCTION AND PURPOSE OF REPORT

1.1 This report seeks the views of the Corporate, Resource Management and Governance (CRMG) Scrutiny Committee on the development of the council's Treasury Management Strategy Statement (TMSS), Annual Investment Strategy (AIS) and Minimum Revenue Provision (MRP) Policy for 2025/26, to be considered for approval at the Cabinet Meeting on 4 February 2025 and the council Meeting on 27 February 2025.

2. BACKGROUND

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

2.2 The Act requires the council to set out its Treasury Management Strategy for borrowing and an Annual Investment Strategy which details the council's policies for managing its investments and for giving priority to the security and liquidity of those investments; these are submitted to council for approval ahead of the financial year to which they relate.

2.3 An underlying requirement of the CIPFA Treasury Management in Public Services Code of Practice, among others, is the affirmation of effective management and control of risk as the prime objective of the council's treasury management activities. The Code further advocates developing lending policies to counteract risk, i.e. use of market data in addition to credit ratings, greater consideration of diversification policy, having regard to country, sector, and group limits. The Code places emphasis on regular reporting on treasury management strategy and performance and scrutiny of treasury management strategy and policy to a specific named body.

2.4 The council has accordingly delegated the role of ensuring effective scrutiny of its Treasury Management Strategy to the CRMG Scrutiny Committee. In line with the Code, the Cabinet and CRMG receive annual training and updates on Treasury Management.

2.5 The TMSS and AIS is a comprehensive report that identifies specific expected treasury activities for the forthcoming financial year, which is constructed in full compliance with the CIPFA Code. The formulation of the Strategy is made in light of the anticipated movement in both fixed and short-term variable interest rates; the report therefore refers to detailed background information which informs the proposed policies, forward triggers and limits contained in each Strategy based on leading market forecasts.

2.6 The TMSS, AIS and MRP Policy is developed in conjunction with the council's treasury management advisers and includes information on the council's loan and investment portfolio position, forward borrowing requirement, interest rate forecasts and prudential indicators. The report cannot be finalised until February 2025 because it is partially dependent on Cabinet's budget proposals. In addition, the interest rate forecasts and economic outlook which also influence the strategy need to be as up to date as possible and therefore close to publication.

2.7 This consultation is based on the central borrowing and investment activities of the council for the forthcoming financial year only and does not detail the Capital Plans or the Prudential and Treasury Management Indicators which are required by statute to be set under the CIPFA Code and will form part of the final strategy statement for 2025/26.

2.8 To assist the consultation process, Members may find it useful to refer to the current TMSS, AIS and MRP Policy for 2023/24 approved by the council Meeting on 22 February 2024 which can be found at this link below:

Current Year TMSS, AIS and MRP Policy 2024/25

2.9 The Treasury Management Mid-Year Update Report for the current year elsewhere on this Agenda provides a further update against the original 2024/25 strategy.

2.10 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; and
- The council's MRP Policy and the council's approach to providing for the repayment of debt.

2.11 Opinions expressed will be given due consideration prior to finalising the Strategy Statements to be considered by the Cabinet Meeting on 4 February 2025. Economic forecasts will be materially updated once we have further updates regarding the current uncertainty in the economy. Section 8 of the report gives some context as to the current economic situation in the UK.

2.12 Members will be aware that 2024 has been volatile; market pricing no longer expects Bank rate to be cut again in December 2024 from 4.75%. November's Bank rate cut was helped by the better-than-expected September inflation figures.

2.13 The latest influence on market thinking has come from the Autumn Budget; the larger than expected overall package and the potential impact it could have on growth and inflation in the coming years has seen markets dial back their rate cut expectations over the next twelve months.

2.14 Ongoing volatility underlines how sentiment remains uneasy and how current positions could well change on the back of domestic and international data releases, as well as central bank events. The table in 8.2 of the report includes Link's economic forecast which was revised in light of the Autumn Budget and the November Monetary Policy Committee (MPC) meeting which included updated bank economic forecasts, and also the US elections results. In the most recent forecast

2.15 Link increased its forecasted Public Works Loan Board (PWLB) rates from previous levels and also slowed Bank rate cut projections' this is because they see policy announcements by the Government to be inflationary, at least in the near term. On the investment front, the money market curve remains inverted, where longer-term yields are lower than short-term, reflecting the markets' Bank Rate cut expectations. However, sentiment is volatile as the next move and overall extent of the downside shift remains in question.

3. LEGISLATIVE FRAMEWORK

3.1 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. The Act also requires the council to set out specific strategies in relation to key aspects of its treasury management operations before the start of each financial year, specifically for borrowing and investments along with its policy for setting aside MRP to cover debt repayments associated with borrowing to fund capital investment.

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

3.3 In line with these various requirements this strategy includes:

- The Annual Borrowing Strategy, including the council's Policy on Borrowing in Advance of Need (TMSS).
- The Annual Investment Strategy (AIS); and
- The Annual MRP statement.

3.4 In conjunction with the Treasury Management Policy Statement and the detailed Treasury Management Practices, these provide the policy framework for the engagement of the council with the financial markets in order to fund its capital investment programme and maintain the security of its cash balances.

4. CIPFA TREASURY MANAGEMENT CODES AND GUIDANCE

4.1 The CIPFA Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which provides:

- 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.

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

4.3 The council will provide and update on its Capital Strategy separately from the Treasury Management Strategy and Annual Investment Strategy. The Capital Strategy will build on this year's strategy and be a high-level corporate document dealing with the key areas of strategic context, corporate priorities, capital investment ambition, available resources, affordability, capacity to deliver, risk appetite, risk management and determination of an appropriate split between non-financial and treasury management investments in the context of ensuring the long-term financial sustainability of the council.

4.4 The Capital Strategy will also focus on 'commercial' (non-treasury) investments, in appropriate detail so that Members can properly assess the particular risks in this area. Commercial non-financial investments for the purposes of the Code are identified as those focused on income generation, whereas the council would argue none of its commercial type investments have been entered into solely for the purposes of income generation, but rather for the council's ambition to redevelop and improve the town centre. The Capital Strategy will be reported to Cabinet on 4 February 2025 alongside the budget reports for 2025/26.

4.5 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 2025/26 will 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 2025/26.

4.6 <u>ROLE OF SECTION 151 OFFICER</u>

4.6.1 The specific roles of this officer, the Director for Finance S151 Officer were extended in 2019/20 to include a series of new roles in respect of the Capital Strategy and also 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.

5. <u>TREASURY MANAGEMENT REPORTING 2025/26</u>

5.1 The council is currently required to receive and approve, as a minimum, three main reports each year:

- **The Treasury Management Strategy Statement (TMSS), Annual Investment Strategy (AIS) and MRP Statement**. A forward-looking report which sets the scene for the forthcoming financial year.

- **The Mid-Year Review Report** on the current strategy which updates Members on the treasury and capital position.

- **The Annual report**. A retrospective review at the end of the financial year.

- In addition to the three major reports detailed above, from 2023/24 **quarterly reporting** (end of June/end of December) were also introduced. These reports however are not taken to full council but to Cabinet and CRMG. The reports, specifically, should comprise updated Treasury/Prudential Indicators.

6. OBJECTIVES OF THE TREASURY MANAGEMENT STRATEGY

6.1 The council's Treasury Management Strategy is designed to achieve the following objectives:

- To ensure the security of the principal sums invested which represent the council's various reserves and balances.
- To ensure that the council has access to cash resources as and when required.
- To minimise the cost of the borrowing required to finance the council's Capital Investment programme; and
- To maximise investment returns commensurate with the council's policy of minimising risks to the security of capital and its liquidity position.

7. SETTING THE TREASURY MANAGEMENT STRATEGY FOR 2025/26

7.1 In setting the treasury management strategy, the council must have regard to the following factors which will have a strong influence over the strategy adopted:

- Economic forecasts.
- The level of the approved Capital Programme which generates the borrowing requirement.
- The current structure of the council's investment and debt portfolio; and
- Prospects for interest rates and market liquidity.

8. UK ECONOMIC CONTEXT AND INTEREST RATES

8.1 To assist consideration of the council’s Borrowing Strategy, a detailed commentary outlining current expectations for the economy is included in the following paragraphs. The final strategy report will reflect the latest information available in January 2025. Economic forecasts in this report are based on those of the Bank of England

8.1.1 The Bank of England’s MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In the UK, the main measure of inflation faced by consumers is the Consumer Price Index (CPI)

8.1.2 Over the past couple of years the Bank of England have raised interest rates to slow down price rises (inflation). Inflation has fallen significantly over the past 18 months and fell back to the MPC 2% target in May and June 2024. This was in part due to the fading impacts of global shocks like the war in Ukraine and Covid and in part due to higher interest rates.

8.1.3 In August, inflationary pressures had eased enough for the Bank of England to cut Bank rate from 5.25% to 5%, and again in November to 4.75%. The risks of higher inflation remain so the Bank needs to be careful not to cut interest rates too much or too quickly. Over the coming years the Bank needs to ensure that inflation will continue to stay low; they have been using higher interest rates for the past couple of years to help slow down price rises as higher interest rates work by reducing demand for goods and services in the economy, which helps slow the rate of inflation. The best contribution the Bank can make to support economic growth and people's prosperity is by making sure we have low and stable inflation.

8.1.4 The announcement of the most recent inflation figures gave surprise to the markets showing an unexpected fall in CPI inflation from 2.2% in August to 1.7% in September. This was partly due to a large drop in services inflation from 5.6% to 4.9%, however it should be noted, part of the improvement was due to a big fall in airfares inflation. Nonetheless, the fall below the 2.0% target for the first time since April 2021 was a positive sign, driven primarily by the 3.9% month on month fall in fuel prices.

8.1.5 The MPC's remit is clear that the inflation target applies at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework recognises that there will be occasions when inflation will depart from the target as a result of shocks and disturbances. Monetary policy will ensure that CPI inflation returns to the 2% target sustainably in the medium term.

8.1.6 Gross Domestic Product (GDP)[1] growth provides a single indicator of the economy's performance. It broadly captures the change in the value of economic activity across the whole economy. The UK fell into recession at the end of 2023, when the economy shrank in the last two quarters. The latest data shows a 0.5% increase in GDP growth in Q2 (April to June 2024) from the previous quarter. A 0.7% increase change from the same quarter a year ago and a 0.3% annual change.

8.1.7 The UK has achieved the strongest growth of the G7 nations in the first half of the year, however, economists have warned that growth may slow in the second half of the year as high interest rates impact activity. On the other hand, the International Monetary Fund (IMF) has recently upgraded its projection for UK growth this year by 0.4% to 1.1%; this is the largest upward revision for any advanced economy and suggests falling inflation and interest rates will stimulate demand. The IMF's improved view of UK performance is a significant increase on its July projection of 0.7% growth this year, and up by 0.6% from its April assessment. Its projection of 1.5% of GDP growth in 2025 remains unchanged.

8.1.8 The US economy meanwhile is projected to have grown by 2.5% this year, an increase of 0.2% on the July projection, before falling back to 2.2% in 2025.

8.1.9 By contrast, the Euro area is projected to grow by just 0.8% this year, down 0.1%, rising to 1.1% next year, a downgrade of 0.3%.

8.1.10 The IMF's more optimistic view of the UK economy comes after official figures showed a return to growth in August following two months of stagnation, and a dip in inflation below the Bank of England's target of 2% last month for the first time in three-and-a-half years.

[1] Headline GDP data is published on a quarterly basis, e.g. for Q1 (Jan-March), Q2 (April-June), Q3 and Q4. GSP growth rates are calculated by comparing to GDP in one quarter with GDP in the previous quarter or the same quarter a year ago.

8.1.11 The structural deterioration in the fiscal situation meant a tight grip on the public finances in the Budget on 30 October was necessary. Fiscal policy was tightened, but with higher spending fully funded by higher taxes. The Chancellor is aiming to generate around £40bn in tax rises and spending cuts in order to deliver some targeted public spending increases and build some headroom into forecasts for the coming years. The Chancellor also changed the calculation of government debt to allow her to increase borrowing for investment in infrastructure projects

8.1.12 Recent above inflation public sector pay deals that have been agreed by the new government may prevent wage growth from slowing next year to the rates of 3-3.5% analysts believe are consistent with the 2% inflation target.

8.1.13 After weather disrupted Q2, July's 0.5% month on month rise in retail sales volumes was largely driven by two sectors and only partially reversed June's 0.9% month on month fall. However, lower inflation continues to support real incomes and bolsters consumer confidence, which should strengthen retail sales later this year.

8.2 2025/26 PROSPECTS FOR INTEREST RATES

8.2.1 In planning the treasury management strategy, the council will consider the prevailing and forecast interest rate situation. Regular forecasts of interest rates are provided by Link Asset Services, treasury management advisors to the council, who assist the council in formulating a view on interest rates. The following table provides the current central view for short term (Bank Rate), short-term investment rates and longer fixed interest rates.

		Bank Rate	Average Earnings Rates			PWLB Certainty Borrowing Rates **			
			3-Month	**6-Month**	**1-Year**	**5-Year**	**10-Year**	**25-Year**	**50-Year**
March	2025	4.50%	4.50%	4.40%	4.40%	4.90%	5.10%	5.50%	5.30%
June	2025	4.25%	4.30%	4.20%	4.20%	4.80%	5.00%	5.40%	5.20%
September	2025	4.00%	4.00%	3.90%	3.90%	4.60%	4.80%	5.30%	5.10%
December	2025	4.00%	4.00%	3.90%	3.90%	4.50%	4.80%	5.20%	5.00%
March	2026	3.75%	4.00%	3.90%	3.90%	4.50%	4.70%	5.10%	4.90%
June	2026	3.75%	3.80%	3.80%	3.80%	4.40%	4.50%	5.00%	4.80%
September	2026	3.75%	3.80%	3.80%	3.80%	4.40%	4.50%	4.90%	4.70%
December	2026	3.50%	3.80%	3.80%	3.80%	4.20%	4.40%	4.80%	4.60%
March	2027	3.50%	3.50%	3.50%	3.50%	4.10%	4.30%	4.70%	4.50%

8.2.2 The rates shown reflect the PWLB Certainty rate discount on PWLB loans of 20 basis points[2]. The PWLB lending facility is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury and provides loans to local authorities. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps)

8.2.3 The link in paragraph 2.8 to the current year borrowing strategy and the interest rate forecasts for short and longer-term borrowing therein reflect the original forecasts (from February 2024) for the current year's treasury strategy. Members will be aware that the actual/current forecasts for UK rates detailed in the table above, are now higher than the initial view for interest rates for the 2024/25 financial year.

[2] Basis point (BP) refers to a common unit of measure for interest. One basis point is equal to 1/100th of 1%, or 0.01%, and is used to denote the percentage change in a financial instrument.

8.2.4 The above revised forecasts have been based on several assumptions, all of which are potentially subject to market challenge in due course.

8.2.5 The MPC cut Bank Rate from 5.25% to 5% on 1 August 2024, choosing to reduce rates whilst the headline CPI measure of inflation was at 2%, but with services inflation still running at a heady 5.7%, and the labour market remaining tight, there is the possibility that the path of inflation in the coming months may not necessarily be in one direction. Bank rate was subsequently cut to 4.75% in November 2024.

8.2.6 Chancellor Reeves gave the Autumn Budget on 30 October where we learnt more about the Government's fiscal policies which further informed the MPC's November Quarterly Monetary Policy Report. The tax rises, spending policies and expenditure cuts were included in a fuller and more complete analysis of how the economy is going to be positioned in 2025 and 2026.

8.2.7 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 the on-going conflicts between Russia and Ukraine and Israel and Gaza/Lebanon also have the potential to have a wider and negative economic impact.

8.3 Investment and borrowing rates 2025/26

8.3.1 Short-term rates

Current interest rate forecasts suggest Bank rate will finish 2024 at 4.75%, with further rate cuts expected throughout 2025 (reaching 4% by December). The explanations provided below following the Budget on 30 October, suggest that Bank rate cuts may now be slower than the current forecast suggests as there is increased risk of inflation rising again.

8.3.2 PWLB rates

The general situation is for volatility in bond yields to persist as investor fears for inflation and/or recession ebb and flow. The overall longer-run trend is for gilt yields and PWLB rates to remain high in the near-term, given the extent to which market expectations are already priced in and then to fall back through 2025.

8.4 A Summary Overview of the Future Path of the Economy and Bank Rate

8.4.1 The key headline from the Budget on 30 October was the £70bn a year in additional spending. That means that spending on government services will rise by 1.5% in real terms (on average) in the coming years; up from 1% in the March budget. However, much of this increase is front loaded, meaning that 'unprotected' government departments still face problems beyond 2025/26, with budgets falling 1.1% in real terms (on average). Extra spending will be paid for by circa £40bn a year increase in taxes and a circa £32bn a year increase in borrowing. The majority of the extra tax revenue (£25bn) will come from raising employer's national insurance contributions (NICs) with most of the rest made up by changes to capital gains, inheritance tax and 'efficiency savings'.

8.4.2 The Chancellor also changed the fiscal rules to allow her to borrow more to invest. The first rule now aims to balance day-to-day government spending with tax revenues in 2029/30. On that metric the Office of Budget Responsibility (OBR) estimated £9.9 billion of headroom. The second rule aims to have debt falling as a share of GDP by 2029/30, but the Chancellor changed the definition of debt to Public Sector Net Financial Liabilities (PSNFL). On this measure, the OBR estimates £15.7 billion of headroom. The upshot is that because spending will rise by substantially more than taxes, the budget loosens fiscal policy relative to the previous government's plans, although it does still tighten over the next five years.

8.4.3 Because there is a big increase in spending in the next couple of years, economic growth is stronger. The OBR estimates that the budget lifts growth by about 0.6% in 2025/26, but this is a temporary impact which fades over the next few years. In the longer-term, the increase in employers' NICs reduces longer term growth by about 0.1%, as fewer people are employed, but the increase in government investment will eventually raise productivity. It was also noted that while raising tax and spending by the same amount is relatively neutral for overall growth, the makeup of growth will be affected. An increase in NICs will eventually feed through to lower wages and working hours, which will dampen consumer spending. It is also expected that the large increase in government spending will 'crowd out' private sector investment, meaning that the rise in government investment is offset by a fall in business investment.

8.4.4 As a result economists are estimating that gilt issuance would be close to £300bn this financial year. If the DMO sells that many gilts in 2024/25, it would be the second-heaviest year for issuance on record, after the 2020/21 financial year which saw the COVID-19 pandemic and circa 6% increase on what was previously anticipated. There is evidently also a strong chance inflation will pick up again over the coming months as well. The argument goes along the lines that the Government has a blind spot in that it talks of big initiatives with the requisite big spending, but there was nothing on where the workers are coming from to deliver all this additional activity. Indeed, Capital Economics wrote a piece prior to the Budget noting the large shortfall in the construction industry workforce needed to deliver the annual 300,000 properties the government is currently committed to delivering. That shortfall was estimated to be approx. 300,000 workers.

8.4.5 There has been a subsequent shift upwards in gilt yields since the budget (meaning PWLB prices have increased by approximately 20 basis points or more in all periods); the view being that there will be a further boost to inflation in the near-term, and for employee wages to remain high despite the employer NI increases as there will be a lot of infrastructure-type but with minimal increase in supply of labour.

8.4.6 The OBR now expects inflation will average 2.6% in 2025, compared with a previous 1.5% forecast, and whilst revising up growth projections modestly for 2024 and 2025, it lowered them for 2026 and 2027. That will definitely give the Bank of England's MPC something to think about and monitor in the coming weeks and months. The market is no longer expecting a further rate cut in December 2024.

8.4.7 Short-term market levels in the local-to-local authority market have been inflated more recently due to more restricted supply of lenders meaning short term levels from 6 months out to 1 year are similar or above PWLB rates.

8.4.8 The above forecasts, (and MPC decisions), will be liable to further amendment.

9. AN AGILE TREASURY STRATEGY IS REQUIRED FOR 2025/26

9.1 Core to Treasury Management policy in the current times and following into the next financial year, is to be prepared and be organised to be agile, with the premise not to find the council constrained from acting appropriately when opportunities and threats arise in respect of its integrated treasury management strategy.

9.2 Ever since the Financial Crisis of 2008 we have become more accustomed to more frequent exceptional events. More recently there has been both Brexit and Covid and last year an exceptional combination of war in Europe, an energy provision crisis, sky-high inflation and record low unemployment. This year also sees an intensifying war in the Middle East and new Governments.

9.3 In particular, at this point, the council needs to focus on cashflow, liquidity and having a good estimate as to where its cash backed reserves and balances are going to trend over the coming three to five years. Ideally the council will also look to maintain a balance of Money Market Fund, notice and deposit accounts liquid investment for cashflow management and also where balances allow, laddered investments with high credit quality counterparties.

9.4 Most pertinent to the Treasury Team will be 'agile' treasury management or operating within a treasury framework which facilities flexibility for treasury strategy. This is emphasised in the sharp shift in economic conditions in the last two years, namely the rapid increase in interest rates and gilt yields/PWLB rates and the changing circumstances as to when these might fall back.

10. BORROWING STRATEGY 2025/26

10.1 The council has an extensive capital programme for 2025/26 to 2027/28 and there is a total of £281.654m of planned expenditure on capital schemes over the three years, which will be largely funded by grant income (£103.854m) and prudential borrowing (£109.237m). The major schemes within the three-year programme include housing schemes; HRA General Capital and New Build Schemes (£108.330m) and loans to Stockport Homes for Affordable Homes (£10.175m). Regeneration schemes; Weir Mill Development (£13.500m), the Academy of Living Well (£19.311m) and Cheadle Eco Business Park (£18.203m). Highways schemes; SEMMMS A6 to Manchester Airport Relief Road (£18.343m) and A34 Major Road Network OBC Preparation (£23.244m). Other significant schemes include Marple Community Hub (£14.053m) and the School Estates Capital Programme Schemes (£17.157m).

10.2 These are the latest spending profiles for schemes, but it must be stressed that these are complex projects which are reviewed regularly to ensure that the programme reflects a realistic spending profile as they develop. Based on current forecasts there is clearly a significant amount of funding required to finance the Capital Programme in the next three years and the council will be unable to do this without taking some form of external borrowing.

10.3 The council has been maintaining an under-borrowed position for some time. 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.

10.4 The council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the council's long-term plans change is a secondary objective.

10.5 It is clear we are in a position with high short-term and long-term borrowing rates, these are expensive due to a shortage of liquidity in short-term markets and gilts yields having risen post Budget (PWLB rates where the Government on lends to local authorities is priced at a margin above the applicable gilt). The next 12 months look to be more expensive for PWLB rates and short-term levels are expected to stay elevated into April 2025 (past the financial year-end) but should then ease up through Summer 2025. The council's spending plans therefore need to remain robust, as does the profiling of this spend in the light of the context outlined within the report.

10.6 That said, for new borrowing that needs to go ahead it is clear that avoiding fixing long-term loans at high rates would be a priority, but as a lot of authorities would no doubt also follow this strategy it remains a supply issue as to whether there will be enough liquidity in the short-term markets to sustain the current level of temporary borrowing, and more so any additional borrowing. It is likely that short-term borrowing will be a good option from April to December 2025 as Bank rate falls but may again become problematic in Q4. It should also be noted that there are usually opportunities to pick up short-term loans at sub-market levels from time to time if liquidity is good.

10.7 HM Treasury introduced a new HRA rate for PWLB lending on 15 June 2023, solely for the use in the HRA and intended primarily for new housing delivery. The Autumn Budget 2024 confirmed that the availability of this rate has now been extended to March 2026. This HRA PWLB rate applies an interest rate of the gilt yield plus 40 basis points (0.40%); in effect this is the PWLB Certainty lending rate less 0.40%. In the next three years Capital Programme, there is currently circa £25m prudential borrowing for New Build schemes which are therefore potentially eligible to fund at the PWLB at the HRA rate. This is likely to be cheaper than short-term borrowing rates given where forecasts currently are.

10.8 Ideally the council will need a very clear picture of what borrowing we require and when, as this is clearly the trickiest time to navigate our financing strategies that we have faced in many years.

10.9 The council will not look to externalise its entire borrowing requirement during 2025/26 but will aim to maintain a balance between internal and external borrowing.

10.10 Nevertheless, it is expected that volatility in gilt yields and therefore PWLB rates will be present throughout the next financial year, with rates being very reactive to market and world events; rates can rise and fall very quickly in a matter of days as there are so many variables at play.

10.11 If greater value can be obtained in borrowing for shorter maturity periods, the council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could be undertaken for the purpose of certainty, where that is desirable, or for flattening the profile of the maturity profile, or in the absence of liquidity in the short-term markets to sustain the level of borrowing required.

10.12 Borrowing from alternative market lenders could be considered where this can be demonstrated to be cheaper than equivalent PWLB lending rates for the same loan period, however given where long-term rates are expected to be next year this is thought unlikely at this juncture.

11 TARGET PWLB BORROWING RATES FOR 2025/26

11.1 The council will set target PWLB Certainty rates for its long-term borrowing strategy. For new borrowing these are set as the lowest forecast rate in each period in the table in 8.2.1 above. For 1-to-2-year PWLB borrowing, rates will be more reflective of Bank rate.

PWLB Borrowing	Target Borrowing Rate			
	Q1	**Q2**	**Q3**	**Q4**
5 years	4.80%	4.60%	4.50%	4.50%
10 years	5.00%	4.80%	4.80%	4.70%
25 years	5.40%	5.00%	5.20%	5.10%
50 years	5.20%	5.10%	5.00%	4.90%

11.2 As we have a positive yield curve underpinning the interest rate forecasts at present, those target rates will roll forward in line with the interest rate forecast and will be subject to Link Asset Services 'Longer Interest Rate Strategy Group' meetings held once a quarter in line with the Bank of England Quarterly Inflation Reports (Feb, May, August, November), where forecasts will be reviewed.

11.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Director for Finance S151 Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- If it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed; and
- If there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

12 SUMMARY APPROACH

12.1 Internal borrowing (run down investments) will continue where possible to reduce the amount of expensive external borrowing required.

12.2 Use will be made of the forward Balance Sheet Review to monitor the sustainability of this policy and in the current climate keep this under regular review, i.e. taking into account slippage/reprofiling of capital programme etc.

12.3 Short term/short-dated borrowing from other local authorities is likely to remain favourable.

12.4 There has been significant inter-authority lending during the last few financial years which shows reasonable availability at present, but this needs to be continually monitored within a sensible/manageable balance of short-term loans.

12.5 PWLB rates are high so considerable planning is required throughout the forecast period in terms of all borrowing. Rates are volatile so trigger points will be set for long term borrowing activity as opportunities can come and go quickly.

12.6 Consideration of alternative sources of finance will be given where savings can be made, i.e. a Private Placement (PP) and/or Bond Market if appropriate; Municipal Bonds Agency (UKMBA) or other financial institutions (pension funds, banks).

12.7 If the availability of short-term loans becomes in short supply or indeed expensive, the council will first look to take short term PWLB loans at the HRA rate (40 basis points under the Certainty Rate).

12.8 If the council has qualifying infrastructure projects within the Capital Programme, consideration will be given to applying to the UK Infrastructure Bank (opened in 2021) for a loan. For any infrastructure schemes that the council may have, they may be eligible for a loan at a rate lower than PWLB levels, however the interest rate is unclear at this stage without making an application for a specific scheme.

12.9 The UK Infrastructure Bank (UKIB) is a new, government-owned policy bank, focused on increasing infrastructure investment across the United Kingdom The two objectives of the bank are to help tackle climate change, particularly meeting the government's net zero emissions target by 2050, and to support regional and local economic growth through better connectedness, opportunities for new jobs and higher levels of productivity.

12.10 The council will also consider short-term loans from the PWLB at Certainty Rate where it is deemed to be cheaper than short-term borrowing or there is an increased risk that short-term loans cannot be raised.

12.11 The council will consider other types of 'Green' Finance. Green Finance is often used to refer to debt funding of green investment. In addition to PWLB funding, councils are starting to see the emergence of new funding sources which can compete with PWLB, in particular Community Investment Bonds and the UKIB. The UKIB, UKMBA, PWLB, Community Municipal Bonds (CMBs) [3] and Salix all have a strong role to play in the financing of councils' green projects.

13 <u>BORROWING AHEAD OF NEED</u>

[3] A community Municipal Bond is a bond issued by a local authority through a crowdfunding platform giving residents the chance to support/invest, for example, in low-carbon projects/Green projects.

13.1 The council will not borrow more than or in advance of need with the objective of profiting from the investment of the additional sums borrowed. However, borrowing in advance of need can be justified in the following circumstances:

- Where there is a defined need to finance future capital investment that will materialise in a defined timescale of three years or less; and
- Where the most advantageous method of raising capital finance requires the council to raise funds in a quantity greater than would be required in any one year; or
- Where in the view of the Director for Finance S151 Officer, based on external advice, the achievement of value for money would be prejudiced by delaying borrowing to the year in which it falls.

13.2 Having satisfied these criteria any proposal to borrow in advance of need would also need to be reviewed against the following factors:

- Whether the on-going revenue liabilities created, and the implications for the future plans and budgets have been considered and reflected in those plans and budgets, and the value for money of the proposal has been fully evaluated.
- The merits and demerits of alternative forms of funding; and
- The alternative interest rate bases available, the most appropriate periods over which to fund and repayment profiles to use.

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

- **Overall need:** whether a borrowing requirement to fund the capital programme or previous capital investment exists.
- **Timing:** when such a borrowing requirement might exist given the overall strategy for financing capital investment and previous capital spending performance.
- **Market conditions:** to ensure borrowing that does need to be undertaken is achieved at minimum cost, including a comparison between internal and externally financed borrowing; and
- **Scale:** to ensure borrowing is undertaken on a scale commensurate with the agreed financing route.

All long-term decisions will be documented reflecting the assessment of these criteria.

14. BORROWING STRATEGY: QUESTIONS FOR CONSIDERATION

Making reference to the forecasts for borrowing rates, expectations for the economy going forward and the current year's borrowing strategy:

1. Does the borrowing strategy outlined above seem reasonable?

2. In the current economic climate do Members feel the policy of maintaining an internally borrowed position is correct?

3. Do Members agree with the view of short, medium and long-term interest rates which effectively will be the benchmark levels for borrowing?

4. Do Members have alternative views on the use of long-term and short-term borrowing and borrowing in advance of need (three-year time frame under Prudential Code)?

5. Do Members have alternative views on the duration or type of future borrowing?

15. ANNUAL INVESTMENT STRATEGY (AIS)

15.1 Investment instruments identified for use in the financial year under the 'Specified' and 'Non-Specified' Investments categories, counterparty limits, creditworthiness policy etc. can be found in the current year's AIS in the link at paragraph 2.8.

15.2 Investment Policy (management of risk)

15.2.1 The council's investment policy has regard to the following:

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

15.2.2 In accordance with the Code, the council's investment priorities are:

- The security of capital. The council maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security.
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the council's prudential indicators covering the maximum principal sums invested; and
- The council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of the council is low in order to give priority to security of its investments. However, 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.

15.2.3 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.

15.3 Link Asset Services suggested counterparty list is at the heart of the council's creditworthiness policy and has always been conservatively constructed to protect the council against credit risk whilst allowing for efficient and prudent investment activity. In accordance with the above guidance and CIPFA, and in order to minimise the risk to investments, the council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which enables diversification and thus avoidance of concentration risk.

15.4 2025/26 INVESTMENT STRATEGY

15.4.1 In-House Funds: Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. 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.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

15.4.2 For its cash flow generated balances, the council will utilise Money Market Funds (MMF) if rates continue to be positive to a degree that makes investing worthwhile, instant access and notice accounts and some short-dated deposits (up to twelve months).

15.4.3 **Investment returns expectations**.
The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months (on current Bank rate forecast) during each financial year are as follows:

Average Earnings in each year	Target
2025/26	4.10%
2026/27	3.70%
2027/28	3.50%
2028/29	3.50%

15.4.4 In the event that the council is in a position to make investments for generally longer than 100 days or in notice accounts at enhanced levels, the budgeted return on investment earnings for 2025/26 and subsequent years will be amended to reflect this in line with average earnings forecasts; indications of 3, 6 and 12-month average earnings rates are provided in paragraph 8.2.1.

15.4.5 Depending on the size of the investment portfolio, at times it is entirely appropriate to hold all investments as instant access, i.e. in liquid deposit accounts or MMFs. This is when investment balances are not particularly high relative to cashflow needs and are predominantly being used to supplement cashflow shortages.

15.4.6 The council is overall a net borrower and uses its investments primarily to manage cashflow rather than to seek investment returns, for example, as a pension fund would. What is clear for 2025/26 is that the council needs to gauge what is the appropriate level of investments to hold, over what is required for cashflow needs, which is also dependant on the timing of borrowing and general market liquidity.

15.4.7 The council will use investment balances to reduce the need to borrow, but at the same time where the opportunity arises to increase returns by fixing investments for a longer duration, the council will do so. Managing liquidity risk in this regard will be fundamental.

15.4.8 Where capacity allows, it may have benefit to the council to invest longer term and in a wider variety of investment instruments. Simply by creating layers of the council's investment portfolio in an optimal way based on spending needs. In this interest rate environment, the council will aim to build-in flexibility to be able to extend the duration of deposits using a laddered investment strategy where possible and the council's Treasury Framework and Strategy documents will be fit-for-purpose in allowing investments with a broad range of high credit quality counterparties, whilst also being sufficiently robust to also embrace AAA rated Money Market Funds where liquidity needs prevail. To facilitate this approach key areas to consider for the 2025/26 strategy will include:

- Having appropriate approval within the Treasury Management Strategy Statement (TMSS) for the use of a range of appropriate counterparties.
- Having appropriate limits approved for the use of counterparties/different investment instruments and not being overly restrictive.
- Should the council consider a custodian facility set up to hold certificates of deposit and T-Bills if required. This might be considered but is costly.
- Having appropriate cash flow planning to identify required minimum liquidity levels, thus avoiding excess liquidity.

15.4.9 There is a natural minimum balance that the council requires to hold in shorter-term investments to supplement cashflow, however the council may consider the use of Cash-Plus Funds which could be used to pick up additional returns versus usual Money Market Funds in 2025/26, whilst still providing a degree of liquidity should the council's cash flow forecast not come to fruition as expected. Cash Plus Funds are similar to Money Market Funds however they are designed for investment over a longer duration (3+ months) at an enhanced return so are not as liquid. They are also Variable Net Asset Value funds (VNAV) rather than Constant Net Asset Value funds. The council would need to fully understand the implications of this and any fund under consideration prior to making an investment.

15.4.10 Clearly investing in a falling interest rate environment will also be different and, as such, the council need to think carefully on their day-to-day decisions. As liquidity is often the key requirement (due to liquidity shortages in the shot-term markets), then mostly using Money Market Funds (MMFs) is a prudent approach which will likely deliver stronger returns than a series of ultra-short deposits. However, by extending maturities, even to one month, the council can sometimes achieve a few more basis points of performance. Furthermore, in the immediate environment following a Bank rate cut MMFs tend to offer a higher return for a while longer than traditional deposits as they work on a weighted two-month average, so falls in interest rates are more gradual than immediate.

15.5 **Challenger Banks:** So far challenger banks[4] are not included in the council's counterparty lists. This is because at present they do not have credit ratings and so would 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.

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[4] A relatively small retail bank set up with the intention of competing for business with large, long-established national banks, specifically designed to compete with the Big Four (HSBC, Lloyds, Barclays and RBS). These newer banks have an online presence rather than a physical one.

15.6 **The Search for Higher Returns**

15.6.1 There are various alternative investment ‘opportunities’ offered in the market or discussed in the wider press within the area of sterling deposits developed by financial institutions. Most of these appear to afford similar security of capital to basic sterling deposits but they also offer the possibility, although never of course the certainty, of increased returns.

15.6.2 The Director for Finance S151 Officer in liaison with the council’s external advisers, will consider the benefits and drawbacks of these instruments and whether any of them are appropriate for the council. Due to their relative complexity compared to straightforward term deposits and length, most of them would fall within the definition of non-specified investments. Decisions on whether to utilise such instruments would be taken after an assessment of whether their use achieves the council's objectives in terms of reduction in overall risk exposure as part of a balanced portfolio.

15.6.3 The council will not solely look at return but more importantly the product, particularly when considering pooled investment vehicles. This will apply to any investment opportunity. It is not enough to rely on the fact that other councils may be investing in such schemes already. The council is tasked through market rules to understand the product and appreciate the risks before investing.

15.6.4 There are varying degrees of risks associated with different investments or 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 can be taken.

15.6.5 The particular asset classes the council may consider include Ultra Short Dated Bond Funds, Corporate Bonds, Property Funds, Equity Funds and Multi Asset Funds. However, given the longer-term nature of some of these funds, it is highly unlikely the council will have the capacity to commit funds for investment over the number of years these types of investments require, i.e. property funds.

15.7 The council may consider extending their list of approved counterparties to include housing associations which have credit ratings that meet their minimum credit rating requirements.

15.8 **Environmental, Social and Governance Investments (ESG)**

15.8.1 The council has set out more fully its current approach to ESG investments in the Mid-Year Treasury Management Strategy Review Report for 2024/25, which outlines the present difficulties the council has in assigning ratings to ESG investments and which is perhaps the council’s key issue in managing treasury risk.

15.8.2 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 SLY principles; Security, Liquidity and Yield. As such, ethical issues, i.e. the green agenda, must play a subordinate role to those priorities.

15.8.3 Link Asset Services are looking at ways in which to incorporate these factors into their creditworthiness assessment service, but with a lack of consistency, as well as coverage, this is not straightforward. At the present time this is still under consideration. 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 2025/26 financial year.

15.8.2 In terms of measuring ESG ratings/metrics which is by far the biggest issue for Treasury incorporating ESG into its investment process. Link are continuing to review the market in terms of providers, their methodologies and outputs, as well as waiting on the outcome of the Financial Conduct Authority (FCA) consultation process, which could conceivably have a material impact on the market going forwards. As such Link are having to approach things somewhat more cautiously than they originally envisaged, as circumstances could change markedly and they do not want to be in a situation where they begin providing information to clients, only to then have to change it all at some stage in the relatively near future. It is frustrating, but when they provide a new service, first and foremost, it has to be 'right' and of the greatest benefit to clients, not simply 'new'.

15.8.3 Link are also looking at how to provide an overall rating and also 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. Another aspect to consider is practicalities, i.e. how do present this information? Link operate a web based 'Passport system' which is currently used by the council to access all sorts of information and specifically credit ratings. There is only so much space on a page to provide information, and if you are adding in fresh elements related to ESG to sit along credit rating metrics, then how does it all come together in an easy to digest way for the council to be able to make prompt decisions. It might be that they have to work in the background, i.e. Link have the council's pre-determined 'ESG criteria' that can be applied to potential counterparties that already meet the council's credit rating criteria and the output simply provides those entities that meet both credit and ESG metrics as outlined in our Investment Strategy.

15.8.4 Also, bear in mind 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.

15.8.5 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? etc. 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.

15.8.6 The Treasury Team outlined in the Mid-Year Treasury Management Strategy Review report 2024/25 that they will look to develop use of Carbon Disclosure Project scores (CDP) or Carbon Disclosure Ratings as this seems most appropriate to align with the council’s Climate Change Strategy. CDP was established as the 'Carbon Disclosure Project' in 2000, asking companies to disclose their climate impact. Since then, the scope of environmental disclosure has been broadened to incorporate deforestation and water security. The CDP Scoring Methodology is designed to incentivise jurisdictions' transition towards resilience and net-zero through equitable environmental action.

15.8.7 Link can access CDP scores via their Bloomberg terminal but are prevented from distributing them to clients due to licensing requirements. They have included them in some prototype work they have done in this area as they do provide an assessment point that the council will want to consider. Again, highlighting issues that the FCA are trying to address, these scores are based on the response by an entity to a questionnaire that CDP send out (and they do not necessarily send it out to everyone, and not everyone who does get it will respond). In terms of other providers, they have something similar where you can put names in and then you get a whole host of climate-related information (it only covers listed entities, but not necessarily all of them, so, for example, building societies are not covered). This is something that Link would potentially look to provide to clients on a direct feed basis as part of their service moving forward, as this may actually be somewhat more relevant to what councils are trying to achieve that simply focussing on ESG scores/ratings.

15.8.8 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 are working away in the background and 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.

15.8.9 In the meantime, the council will look to further develop its own approach and decide what considerations it should or 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.

15.9 Summary Investment Approach

15.9.1 The council will retain focus on Security, Liquidity and then Yield.

15.9.2 Investing is all about 'appropriateness' and this depends on both internal (fundamental) and external (overlay) circumstances, i.e. cashflow, risk appetite, interest rate outlook. The council's Investment Strategy will reflect both internal and external factors, with a strong emphasis on risk management across legislation.

15.9.3 It is difficult to 'actively' invest if you have limited notion on the nature of your balances. The council will look to both cash flow and longer-term forward balance sheet projections to establish investment balances for 2025/26.

15.9.4 The council will maintain a reasonable level of liquid investments to counter the need to take temporary borrowing.

15.9.5 The council will consider 'laddering' approach to investments where appropriate. Natural liquidity is established with a 'ladder' of monthly investments done in a progressive way (where balances permit). This would be worked within the council's Investment Strategy limitations, i.e. time limits, but still allows the council to take advantage of steeper yield curve and provides a level of liquidity and ability to flex if circumstances change again.

15.9.6 The council will continue to develop its approach to ESG investing.

16. INVESTMENT STRATGY: QUESTIONS FOR CONSIDERATION

Making reference to the current year's Investment Strategy and supporting schedules, current expectations for the economy and likely investment rates available in 2025/26 given above:

1. Is the council's current lending criteria too strict, too lax or about right? Does it have due regard to risk, but also practical operational considerations and access to counterparties of appropriate financial standing?

2. Do you consider that the council is adequately controlling credit risk? Is the council's risk appetite reasonable?

3. Do you think that the approach to the selection of approved counterparties is suitable to both manage risk and optimise returns, but with priority on the former? Is the pool of available investment instruments appropriate?

4. Do you think that the council should or should not use non-specified investments, e.g. investments in excess of one year?

5. Have limits, i.e. individual and Group, Country and Sovereign been given due consideration?

6. Does the overall Investment Strategy appear sound?

17. MINIMUM REVENUE PROVISION (MRP) POLICY

17.1 The council is required to settle an element of its non-HRA 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.

17.2 Ministry of Housing, Communities and Local Government (MHCLG) 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.

17.3 The council's MRP Policy was updated in the 2015/16 financial year so that provision for General Fund Borrowing previously supported through the RSG system would be in equal instalments over a 50-year period starting 1 April 2015, as opposed to the 4% on the outstanding balance previously provided.

17.4 On 10 April 2024, MHCLG confirmed its position with regards to proposed changes to the MRP Regulations to address the concern that some authorities are not fully compliant with the duty to make a prudent revenue provision resulting in underpayment of MRP. The original consultation on this contained a proposal stating that capital receipts could not be used in place of the revenue charge, but following serious opposition raised this proposal has been amended. The revised Regulations state that a local authority can exclude capital loans that are financed by debt from the requirement to make MRP, provided the loan is not a commercial loan, i.e. one primarily for financial return.

17.5 From April 2025, local authorities may choose as to whether to charge MRP on prudential borrowing used to finance a non-commercial capital loan. Where a local authority has elected to charge MRP then the capital receipt from the repayment of that loan received can be used to reduce the charge. However, the guidance has introduced new regulations if there is an expected credit loss or impairment recognised in respect of a loan, in other words where loan repayments are in default. In these circumstances, the local authority must provide the MRP charge equal to the amount of the expected credit loss or impairment and this came into effect from May 2024.

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17.6 The current MRP Policy for 2024/25 explains how the council currently sets aside revenue budget provision for the repayment of debt which has been used to fund capital expenditure.

18 MRP POLICY: QUESTIONS FOR CONSIDERATION

Making reference to the current year's MRP Policy in paragraph 2.8 above:

1. Does the Committee believe that the council's current MRP policy is sufficiently prudent?

19. INTERNAL CONSIDERATIONS

19.1 FINANCIAL AND RISK ASSESSMENT CONSIDERATIONS

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

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.

19.2 LEGAL CONSIDERATIONS

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

19.2.2 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 effect with the council, particularly with regard to duty of care and fees charged.

19.2.3 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.

19.3 HUMAN RESOURCES IMPACT

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

19.3.2 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.

19.3.3 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.

19.3.4 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.

19.4 EQUALITIES IMPACT

19.4.1 A full Equalities Impact Assessment is undertaken as part of the council's Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy report submitted to council ahead of the forthcoming financial year (in February each year).

19.4.2 This report is a Consultation with Members to assist in the formulation of the Treasury Management Strategy Statement for the next financial year (for the Consultation)

19.5 ENVIRONMENTAL IMPACT

19.5.1 Part of the revisions to the Treasury Management Code in December 2021, (that will be incorporated into the council's Treasury Management Policy Statement and Treasury Management Practices (TMPs)), was to provide further clarification of the way the council is looking to incorporate environmental considerations in the council's Investment Strategy. This requirement and approach is high level in the 2024/25 Treasury Strategy.

19.5.2 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.

19.5.3 This means that a consistent and developed approach to ESG for the council in its treasury management dealings is challenging. The Treasury Management Strategy and Annual Investment Strategy, Mid-Year Review Report 2024/25 elsewhere on this Agenda outlines in detail in Section 15 current considerations, thinking and approach as the council develops its ESG treasury policy further. Section 15.8 of this Consultation also discusses how to establish ESG ratings further as this is the most prevalent issue to resolve in embodying ESG within Treasury Management in 2025/26.

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

20. CONCLUSIONS AND RECOMMENDATIONS

20.1 To assist the consultation process and the underlying requirements of the CIPFA Treasury Management in Public Services Code of Practice, which places emphasis on effective scrutiny of the council's treasury management strategy and policy to a specific named body; this report provides a comprehensive picture of the economic and political factors that are likely to influence short and longer term interest rates and therefore the council's strategies for borrowing and investing during the 2025/26 financial year.

20.2 It is recommended that CRMG give due consideration to the above questions so that their views can be taken into account in the development of the council's 2025/26 Treasury Management Strategy Statement.

BACKGROUND PAPERS

There are none.

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