

2025/26 Treasury Management Strategy

1.0 Background

- 1.1 The Council is required to operate a balanced budget, which broadly means that the cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
- 1.5 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."
- 1.6 In the latest Devon Audit Partnership audit (December 2022), a Substantial Assurance opinion was given, meaning the Council has "a sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited".

2.0 Reporting requirements

2.1 Treasury Strategy

2.1.1 The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

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

2.1.2 The aim of this treasury strategy is to ensure that all elected members of the Council fully understand the overall long-term policy objectives and resulting treasury strategy requirements, governance procedures and risk appetite.

2.2 Treasury Management reporting

2.2.1 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

b. A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, members will receive quarterly treasury updates as part of the financial monitoring.

c. An annual treasury report – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

2.2.2 **Scrutiny.** The above reports are required to be adequately scrutinised before being recommended to the Council. The Cabinet undertakes this role.

2.3 Treasury Management Strategy for 2025/26

2.3.1 The strategy for 2025/26 covers two main areas:

2.3.2 Capital issues

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

2.3.3 Treasury management issues

- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness policy; and
- The policy on the use of external service providers.

2.3.4 These elements cover the requirements of the Local Government Act 2003, the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code, Department for Levelling Up, Housing and Communities (DLUHC – now Ministry of Housing, Communities and Local Government [MHCLG]) MRP Guidance, the CIPFA Treasury Management Code and DLUHC (now MHCLG) Investment Guidance.

2.4 Training

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

2.4.2 Furthermore, the Code states that all organisations are expected 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.

2.4.3 The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

2.4.4 As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

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

2.4.5 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.

2.4.6 Training requirements of members are being reviewed and training will be arranged as required.

2.4.7 The training needs of treasury management officers are periodically reviewed.

2.4.8 A formal record of the training received by officers central to the Treasury function will be maintained by the S151 (Deputy Chief Executive). Similarly, a formal record of the treasury management/capital finance training received by members will be maintained by the Democratic Services Manager.

2.5 Treasury management consultants

2.5.1 The Council uses Link Group as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers.

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

3.0 The Capital Prudential Indicators 2025/26 – 2027/28

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

3.2 Capital expenditure and financing

3.2.1 This Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The below table shows planned expenditure in the 2025/26 Capital Programme of £41,614k.

Prudential Indicator: Estimates of Capital Expenditure

Capital Expenditure £000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund	11,092	10,273	11,802	16,622	15,120
HRA	16,653	12,785	29,812	11,662	5,605
Loans to Subsidiary Company *	2,686	0	0	0	0
Total	30,431	23,058	41,614	28,284	20,725

** Loans to Subsidiary Company are non-treasury investments and so not covered in detail in this report. Refer to the Capital Strategy for further information.*

For Members clarity, the NHS Hub loan is treated as General Fund.

3.2.2 Other long-term liabilities – The financing need shown in the table below excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments.

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

Financing of Capital Expenditure £000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
<i>Estimates of Capital Expenditure (Table 1)</i>	30,431	23,058	41,614	28,284	20,725
Less:					
Capital receipts	(4,445)	(1,250)	(2,092)	(1,153)	(787)
Capital grants	(3,757)	(8,971)	(16,262)	(16,355)	(14,383)
Capital reserves	0	0	0	0	0
Revenue	(5,885)	(3,847)	(4,044)	(3,556)	(3,235)
Net financing need for the year	16,344	8,990	19,216	7,220	2,320

3.2.4 The net financing need for Loans to Subsidiary Company included in the above table against expenditure is shown below:

Loans to Subsidiary Company £000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Expenditure	2,686	0	0	0	0
Financing costs	0	0	0	0	0
Net financing need for the year	2,686	0	0	0	0
Percentage of total net financing need %	16.4%	0.0%	0.0%	0.0%	0.0%

The financing costs are zero as all lending has been funded through internal borrowing. There is no expenditure shown in the current or future years as the company has now been closed.

3.3 The Council's borrowing need (the Capital Financing Requirement)

3.3.1 The second Prudential Indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

3.3.2 The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with

each asset's life, and so charges the economic consumption of capital assets as they are used.

3.3.3 The CFR includes any other long-term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £4.044m of such schemes within the CFR.

3.3.4 **The Council is asked to approve the CFR projections below:**

Prudential Indicator: Estimates of Capital Financing Requirement

Capital Financing Requirement £000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
CFR - General Fund	16,252	18,920	19,443	20,019	18,917
CFR - Housing	45,982	49,183	62,488	66,237	66,552
Total CFR	62,234	68,103	81,931	86,256	85,469
Movement in CFR*	-2,359	5,869	13,828	4,325	-787

**The movement in CFR will not directly match the Net Financing Need (see 3.2.3) due to the annual MRP charge reducing the balance in line with each asset's expected life. Although there was lending to 3 Rivers Developments Ltd during 2023/24 shown in the previous table at 3.2.4, all lending was cleared in full at the end of 2023/24 and so no balances exist within the CFR for any of the years reported.*

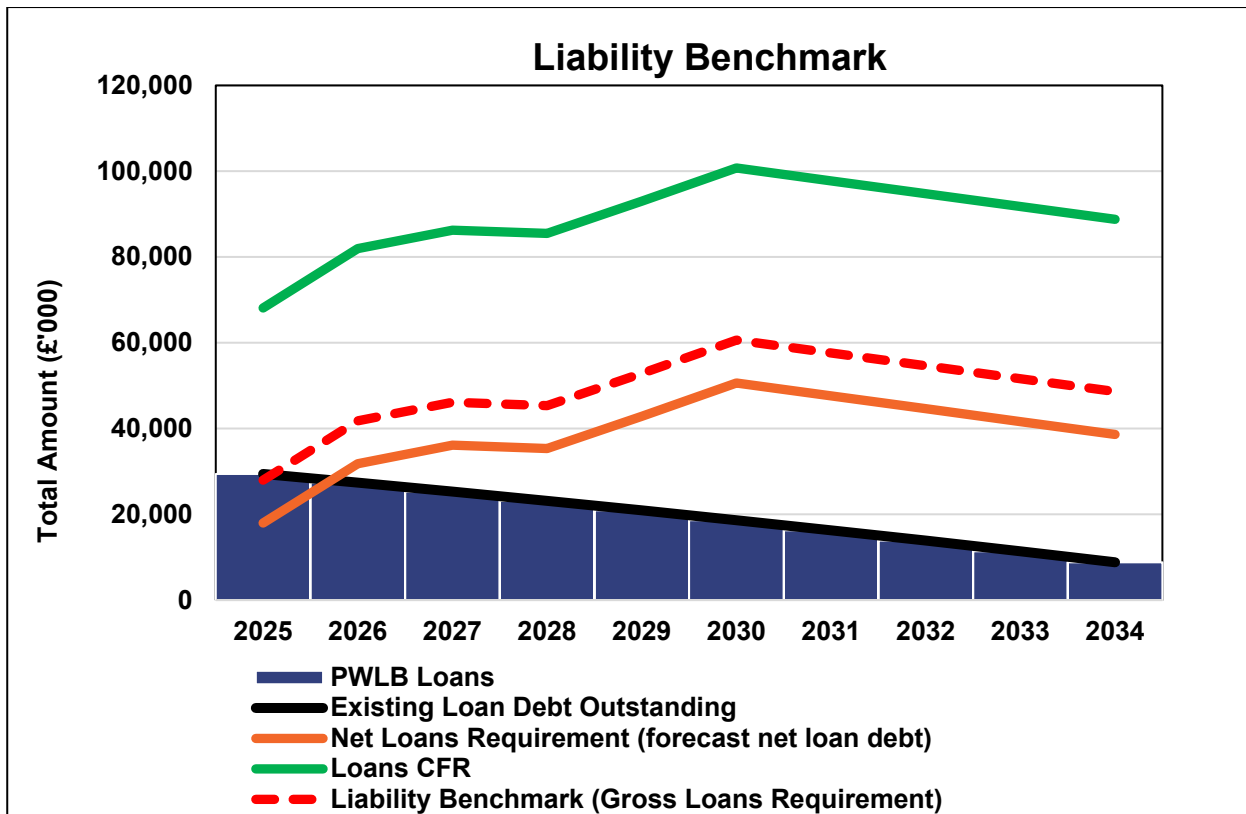
3.4 Liability Benchmark

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

3.4.2 There are four components to the LB:

- 1 **Existing loan debt outstanding:** the Council's existing loans that are still outstanding in future years.
- 2 **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
- 3 **Net loans requirement:** this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- 4 **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus a short-term liquidity allowance.

3.4.3 The Council's Liability Benchmark for years ending March 2025 to March 2034 is shown below:



3.4.4 The chart can be interpreted as follows:

- The liability benchmark (red dashed line) is the Council's need for external borrowing.
- Where the liability benchmark exceeds the existing loans (black line) then there is a need for new borrowing. Where the liability benchmark is below the existing loans then the Council is holding surplus cash that will be put into short-term investments.
- The area between the liability benchmark and net loans requirement (orange line) shows the cash required to manage the Council's day-to-day cash flow need, which is estimated to be £10m.
- The area between the loans CFR (green line) and liability benchmark shows the potential for internal borrowing, which currently stands at circa £40m.

4.0 Borrowing

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

4.2 Current portfolio position

4.2.1 The overall treasury management portfolio as at 31 March 2024 and the position as at 31 December 2024 are shown below for both borrowing and investments.

TREASURY PORTFOLIO				
	Actual	Actual	Current	Current
	31/03/2024	31/03/2024	31/12/2024	31/12/2024
Treasury Investments	£000	%	£000	%
Banks	4,015	19%	6,657	23%
Building Societies	0	0%	0	0%
Local Authorities	12,000	57%	17,000	59%
DMADF (H.M.Treasury)	0	0%	0	0%
Other Public Bodies	0	0%	0	0%
Total Managed In-House	16,015	76%	23,657	83%
Property Funds	5,000	24%	5,000	17%
Total Managed Externally	5,000	24%	5,000	17%
Total Treasury Investments	21,015	100%	28,657	100%
Treasury External Borrowing				
Local Authorities	0	0%	0	0%
PWLB	31,373	100%	30,393	100%
Total External Borrowing	31,373	100%	30,393	100%
Net Treasury Investments / (Borrowing)	-10,358		-1,736	

4.2.2 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt (the treasury management operations) against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing.

External Debt	2023/24	2024/25	2025/26	2026/27	2027/28
£000	Actual	Estimate	Estimate	Estimate	Estimate
Debt at 1 April	33,310	31,373	29,398	45,366	48,273
Expected Change in Debt	-1,937	-1,975	15,967	2,908	-2,154
Other Long-Term Liabilities (OLTL)	1,981	2,017	4,044	3,620	4,171
Expected Change in OLTL	36	2,027	-424	551	527
Actual Gross Debt at 31 March	33,390	33,442	48,985	52,445	50,817
The Capital Financing Requirement	62,234	68,103	81,931	86,256	85,469
Under / (Over) Borrowing	28,844	34,661	32,946	33,811	34,652

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

4.2.4 The S151 (Deputy Chief Executive) 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 this budget report.

4.3 Treasury Indicators: limits to borrowing activity

4.3.1 **The operational boundary.** This is the limit which external debt is not normally expected to exceed. This is the CFR, split between debt and other long term liabilities (leases) and rounded up to the nearest million.

Prudential Indicator: Operational Boundary

Operational boundary	2024/25	2025/26	2026/27	2027/28
£000	Estimate	Estimate	Estimate	Estimate
Debt	65,000	79,000	83,000	81,000
Other long term liabilities	5,000	4,000	5,000	5,000
Total	70,000	83,000	88,000	86,000

4.3.2 **The Authorised Limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

4.3.3 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The authorised limit is set at the CFR plus £5m for debt and £4m for other long term

liabilities, to cover exceptional circumstances and borrowing ahead of need to secure interest rates.

4.3.4 The Council is asked to approve the following authorised limit:

Prudential Indicator: Authorised Limit

Authorised limit £000	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	70,000	84,000	88,000	86,000
Other long term liabilities	9,000	8,000	9,000	9,000
Total	79,000	92,000	97,000	95,000

4.4 Prospects for interest rates

4.4.1 The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on future interest rates. The following table gives their view as at 11 November 2024.

Interest Rates	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Bank Rate View	4.75%	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%	3.50%	3.50%	3.50%	3.50%
5yr PWLB Rate	5.00%	4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	4.00%	3.90%
10yr PWLB Rate	5.30%	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%	4.30%	4.20%	4.20%	4.10%
25yr PWLB Rate	5.60%	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%	4.50%	4.50%
50yr PWLB Rate	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%	4.50%	4.40%	4.30%	4.30%

4.4.2 Although CPI inflation dropped below the Bank of England's 2% target in September 2024 to 1.7%, it quickly jumped back above the 2% target the following month and is expected to remain there throughout 2025. To prevent CPI increasing too far beyond 2%, it is now expected that the MPC won't cut Bank Rate quite as quickly as previously forecast, with just 2 or 3 cuts looking likely during 2025.

4.4.3 A more thorough economic outlook provided by our Treasury Advisors is detailed in **Annex 2b and 2c**.

4.5 Borrowing strategy

4.5.1 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. With significant levels of capital expenditure expected during 2025/26, it is recommended that the Council continues to utilise internal borrowing until a point where additional funds are required to maintain cash flow liquidity, when external borrowing options will then be considered. This strategy is prudent as investment returns are lower than the cost of borrowing and counterparty risk is still an issue that needs to be considered.

4.5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The S151 (Deputy Chief Executive) will

monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- If it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed;
- If it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, 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.
- The Council will consider all external loan options available in the market including Public Works Loans Board, Banks, Other Local Authorities and the Municipal Bond Agency. The term and repayment profile of any loans will be determined by the periods financing is required. The level of borrowing will stay within the above limits.

4.5.3 Any decisions will be reported to the Cabinet at the next available opportunity.

4.6 Policy on borrowing in advance of need

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

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

4.7 Debt rescheduling

4.7.1 Rescheduling of current borrowing in our debt portfolio is unlikely to occur as the penalties currently being applied to premature repayments are prohibitive. If rescheduling is done, it will be reported to the Cabinet at the earliest meeting following its action.

4.8 New financial institutions as a source of borrowing and / or types of borrowing

4.8.1 Currently the PWLB Certainty Rate is set at gilts + 80 basis points. There is also a temporary HRA rate set at gilts + 40 basis points, which is currently available until March 2026. Despite these discounted rates, there are more competitive rates available elsewhere for some durations, and so consideration will still need to be given to sourcing funding from the following sources:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate for some durations)
- 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”)

- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time)

4.8.2 The degree to which any of these options proves cheaper than PWLB Certainty Rate is constantly evolving but our advisors will keep us informed.

4.9 **Approved Sources of Long and Short Term Borrowing**

On Balance Sheet	Fixed	Variable
PWLB	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Municipal Bond Agency	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Local Authorities	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Banks	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Finance Leases	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

5.0 **Annual Investment Strategy**

5.1 **Investment policy – management of risk**

5.1.1 The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with 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).

5.1.2 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

5.1.3 The Council’s investment priorities will be Security first, portfolio Liquidity second and then Yield (return) – known as the SLY Principle.

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

5.1.4.1 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.

5.1.4.2 **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, which the Council will achieve through engaging with its advisors to maintain a monitor on market pricing.

- 5.1.4.3 **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 5.1.4.4 The Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. See **Annex 2d** for a list.
- 5.1.4.5 **Lending and transaction limits** (amounts and maturity) for each counterparty will be set through applying the matrix table in paragraph 5.2.6.
- 5.1.4.6 The Council will set a limit for the amount of its investments which are invested for **longer than 365 days** (see paragraph 5.4.9).
- 5.1.4.7 Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating** (see paragraph 5.3.2).
- 5.1.5 The Council has engaged external consultants (see paragraph 2.5.1) to provide expert advice on how to optimise an appropriate balance of Security, Liquidity and Yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year.
- 5.1.6 All investments will be denominated in sterling.
- 5.1.7 As a result of the change in accounting standards for 2019/20 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. In November 2018, 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 March 2023. This override was since extended to 31 March 2025, but it currently appears unlikely to be extended again.
- 5.1.8 However, the Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance (see section 5.5). Regular monitoring of investment performance will be carried out during the year.
- 5.1.9 The above criteria are unchanged from last year.

5.2 **Creditworthiness policy**

- 5.2.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:
- It 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. This is set out in the specified and non-specified investment sections below; and

- 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.

5.2.2 The S151 (Deputy Chief Executive) will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

5.2.3 Credit rating information is supplied by Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty with the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

5.2.4 The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Council will only use banks which:
 - i. are UK banks; and/or
 - ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term Fitch rating of AAA; and
 - iii. have, as a minimum, a credit rating of F1 (Fitch), with regard for Moody's and Standard & Poor's credit ratings (where rated).
- Banks 2 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Building Societies – The Council will use all societies which:
 - i. Meet the Fitch rating for banks outlined above; and
 - ii. Have assets in excess of £1bn;
- Money Market Funds Fitch CNAV AAmmf/AAA
- Money Market Funds LNAV AAmmf/AAA
- Money Market Funds VNAV AAmmf/AAA
- UK Government (including gilts, Treasury Bills and the DMADF)
- Local authorities, Police, Fire, parish councils and other public bodies

5.2.5 **Use of additional information other than credit ratings.** Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information will be applied to compare the relative security of differing investment opportunities.

- 5.2.6 **Time and monetary limits applying to investments.** The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

Details	Fitch Short Term Rating	Money and/or % Limit	Transaction Limit	Time Limit
The Council's bank* (currently NatWest)	F1	£5m + balance of grant funds	n/a	n/a
Banks 1 (good credit quality)	F1	£5m	£5m	2yr
Banks 2 (Council's banker if not meeting Banks 1)	F2/F3	£5m (call account)	£5m (call account)	1 day
DMADF	UK sovereign rating	unlimited	unlimited	unlimited
Local authorities & other public bodies	N/A	unlimited	unlimited	unlimited
Building Societies	F1	£5m	£5m	2yr
Money Market Funds - CNAV	AAAmmf/AAA	£2m	£2m	liquid
Money Market Funds - LVNAV	AAAmmf/AAA	£2m	£2m	liquid
Money Market Funds - VNAV	AAAmmf/AAA	£2m	£2m	liquid

**This limit was approved in the TMSS for 2021/22 to allow the continued administration of business grant funds.*

The above table relates to financial investments only – non-financial investments, such as commercial loans or purchases of income yielding assets are covered in the Capital Strategy.

- 5.2.7 The proposed criteria for specified and non-specified investments are shown in **Annex 2d** for approval.

5.2.8 Creditworthiness

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

5.3 Other limits

- 5.3.1 Due care will be taken to consider the country, group and sector exposure of the Council's investments.
- 5.3.2 **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a minimum sovereign credit rating of AAA. The list of countries that qualify using this credit criteria as at the date of this

report are shown in **Annex 2e**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

5.3.3 **Other limits.** In addition:

- no more than 30% of overall investment balances will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies; and
- the Council will not hold more than £5m with any banking group.

5.4 **Annual Investment strategy**

5.4.1 **In-house funds**

5.4.2 Over recent years, the Council has typically held upwards of £20m in short term investments with the objective of managing cash flows whilst earning a return at the same time. These returns have grown over the last 3 years following the increases to Bank Rate, and appear to have peaked during 2023/24 when financial markets started to forecast in potential cuts to Bank Rate. Returns on short term investments hit £1,191k in 2023/24 and are expected to fall back to £954k in 2024/25, and a further reduction to £842k has been estimated in 2025/26.

5.4.3 Retaining cash balances (short term investments + current account) of £10m would be enough to ensure a regular turnover in short term investments to manage the fluctuations in cash flows. Therefore, internal borrowing will be used to finance capital expenditure where cash balances remain above £10m, with external borrowing only sought to keep balances above this limit where necessary. Although there is currently not much difference between interest rates currently available from PWLB and rates available for short term investments, taking out new PWLB loans would expose the Council to high rates of interest for the duration of those loans. With interest rates expected to come down over the next couple of years, maximising internal borrowing is still the most prudent approach.

5.4.4 Cash balances have reduced during 2024/25, and will reduce further in 2025/26, so there will be a need to reduce the average maturity on investments to ensure a regular turnover of maturities, which will be matched with the Council's large cash outflows. This will mean the primary consideration for investments will be the core balance and cash flow requirements, with the outlook for short-term interest rates only considered where significant changes are expected. Greater returns are usually obtainable by investing for longer periods, however this needs to be balanced with the Council's cash requirements.

- 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.

5.4.5 Investment returns expectations

5.4.6 The current forecast shown in paragraph 4.4.1 includes a forecast for Bank Rate to continue reducing over the next two years from the current rate of 4.75%.

5.4.7 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:

Year	%
2025/26	4.10%
2026/27	3.70%
2027/28	3.50%
2028/29	3.50%
Later years	3.50%

5.4.8 **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.

5.4.9 **The Council is asked to approve the following treasury indicator and limit:**

Upper limit for principal sums invested for longer than 365 days	2025/26 (£m)	2026/27 (£m)	2027/28 (£m)
Principal sum invested for longer than 365 days but not exceeding 2 years.	5	5	5

5.4.10 For its cash flow generated balances, the Council will seek to utilise money market funds and short-dated deposits (overnight to 365 days) in order to benefit from the compounding of interest.

5.5 Investment performance / risk benchmarking

5.5.1 The Council will use an investment benchmark to assess the performance of its investment portfolio of 7 day SONIA (Sterling Overnight Index Average).

5.6 End of year investment report

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

5.7 Commercial and Non-Financial Investments

5.7.1 **Property Investments.** A limit of £5m will be applied to the use of non-specified investments. This principally relates to property funds, which is within the Local Authorities' Property Fund via CCLA.

5.7.2 **Non-Financial Investments.** Following the soft closure of 3 Rivers Developments Limited at the end of 2023/24, the only non-financial investment held by the Council is

a loan balance held with Redland Primary Care for the development of the NHS hub in Crediton. This is being repaid in instalments over 27 years.

- 5.7.3 Please refer to the Capital Strategy for a more detailed programme and borrowing streams.

6.0 Conclusion

- 6.1 Treasury management is a highly complex and specialist subject. It is tightly controlled by regulation and procedures that the Council must abide by. In addition to the skilled staff in house, the Council has access to advice from its Treasury Advisors (Link Group) where we need it to ensure that we comply with these rules.
- 6.2 Cabinet will consider the Treasury Management Strategy before recommending Full Council approve it at its budget meeting on 19 February.

ANNEX 2A

1.0 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2025/26 – 2027/28

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

1.1 Capital expenditure

See section 3.2 for the breakdown of capital expenditure.

1.2 Affordability prudential indicators

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

Ratio of financing costs to net revenue stream

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

%	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund	-2.85%	3.75%	5.09%	8.79%	9.30%
HRA	10.18%	9.72%	11.74%	16.68%	17.85%

The estimates of financing costs include current commitments and the proposals in this budget report.

1.3 Minimum Revenue Provision (MRP) Policy Statement

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 has been amended with full effect from April 2025 to expressly provide that in determining a prudent provision local authorities cannot exclude any amount of the CFR from its calculation, unless by an exception set out in statute.

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The MRP Guidance 2024 requires the Council to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

The Council is recommended to approve the following MRP Statement:

For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be:

- **Based on CFR** – MRP will be based on the CFR.

This option provides for an approximate 4% reduction in the borrowing need (CFR) each year.

From 1 April 2008 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction)

This option provides for a reduction in the borrowing need over approximately the asset's life.

Finance leases will have their capital financing applied on a straight-line basis over the life of the lease contract.

There is no requirement on the HRA to make a Minimum Revenue Provision but there is a requirement for a charge for depreciation to be made.

The MRP requirement for a finance lease or PFI contract is deemed to be equal to the element of the charge/rent that goes to write down the balance sheet liability.

For capital expenditure loans to third parties that are expected to be repaid in full, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement. Where it becomes probable that a loan will not be repaid in full, MRP will be charged in accordance with the Expected Credit Loss (ECL) model outlined in IFRS 9.

MRP will not be charged against capital expenditure in the year it is incurred, but will instead commence the following year. Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26.

1.4 MRP Overpayments

Under the MRP Guidance, charges made in excess of the statutory MRP can be made and are known as voluntary revenue provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2024, the total VRP overpayments were £0m.

ANNEX 2B – Provided by Link Group (MDDC's Treasury Advisor)

2.0 INTEREST RATE FORECASTS 2025-2027

Link Group Interest Rate View

Interest Rates	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Bank Rate View	4.75%	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%	3.50%	3.50%	3.50%	3.50%
5yr PWLB Rate	5.00%	4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	4.00%	3.90%
10yr PWLB Rate	5.30%	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%	4.30%	4.20%	4.20%	4.10%
25yr PWLB Rate	5.60%	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%	4.50%	4.50%
50yr PWLB Rate	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%	4.50%	4.40%	4.30%	4.30%

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

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

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

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

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

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

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

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

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

Gilt yields and PWLB rates

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

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

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

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

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

ANNEX 2C – Provided by Link Group (MDDC's Treasury Advisor)

ECONOMIC BACKGROUND

The third quarter of 2024 (July to September) saw:

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

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

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

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

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

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

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

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

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

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

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

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

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

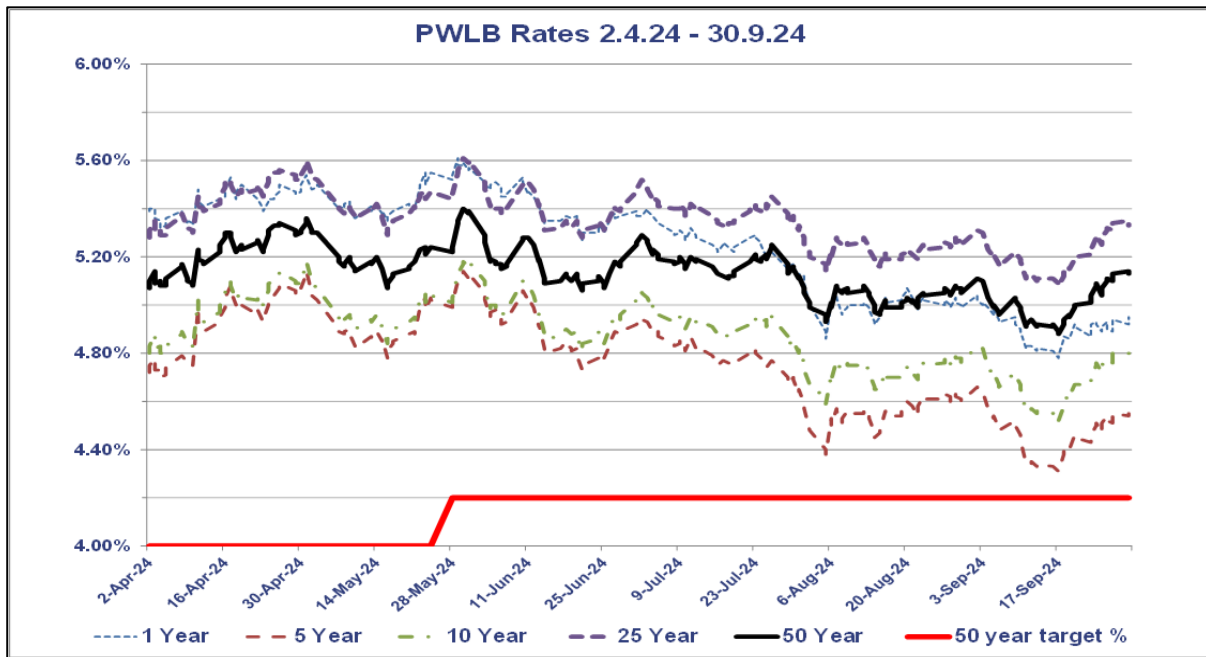
The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8.304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any further rally (or not) is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

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

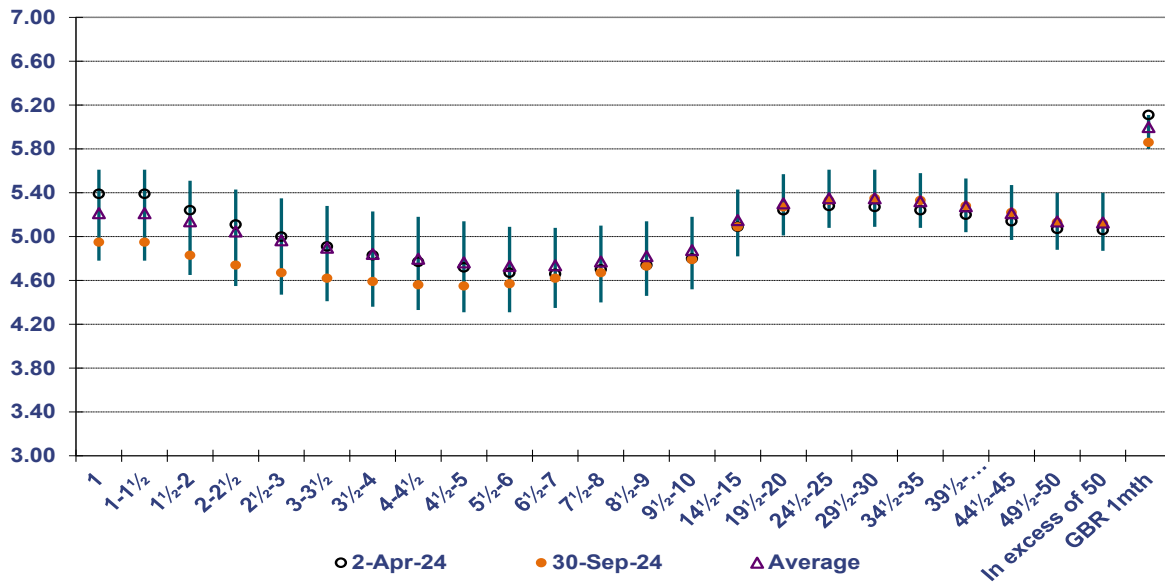
- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members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

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

PWL B RATES 02/04/2024 – 30/09/2024



PWLB Certainty Rate Variations 2.4.24 to 30.9.24



HIGH/LOW/AVERAGE PWLB RATES FOR 02/04/2024 – 30/09/2024

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

ANNEX 2D

3.0 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

Specified Investments: All investments with a high level of credit quality subject to a maturity limit of one year.

Non-Specified Investments: Any investments that do not meet the specified investment criteria. These may be of a lower credit quality, for periods in excess of one year, or are more complex instruments which require a greater consideration by members and officers before being authorised for use. A maximum of £5m will be held in aggregate in non-specified investment.

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 above categories.

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

	Minimum credit criteria	Max % of total investments / £ limit per institution	Max. maturity period
DMADF – UK Government	N/A	100%	Any
UK Government gilts	UK sovereign rating	100%	Any
UK Government Treasury bills	UK sovereign rating	100%	Any
Money Market Funds CNAV	AAAmmf/AAA	£2m	Liquid
Money Market Funds LNAV	AAAmmf/AAA	£2m	Liquid
Money Market Funds VNAV	AAAmmf/AAA	£2m	Liquid
Local authorities	N/A	100%	Any
Term deposits with banks and building societies	F1 (Fitch) / £1bn asset base for building societies	£5m	2 Years
Term deposits with Non-UK banks and building societies	Sovereign Fitch rating of AAA	£3m	1 Year
Gilt funds	UK sovereign rating	100%	Any
Property funds	LA Property Fund	£5m	Ongoing

In addition to the minimum credit criteria outlined in the above table, all term deposits with banks and building societies will be subject to the maximum recommended duration set out by Link Group.

Accounting treatment of investments. The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

Environmental, Social and Governance (ESG) factors. Following changes to the CIPFA Treasury Management Code 2021, the Council is required to consider ESG factors as part of its investment policy. This is a new and evolving area within the short-term financial markets, so the impact on investment decisions will be limited for the coming year.

Governance is by far the most important part of ESG when considering treasury investments, as this is most likely to impact on the financial performance of an entity and its ability to repay deposits. Governance issues already play a role in the selection of acceptable investment counterparties, as any banks or building societies with significant governance concerns are unlikely to achieve the high credit ratings required for the Council to deposit funds.

Environmental and Social factors have less of an impact when considering short-term investments. This is because investments specifically for environmental or social gain are typically longer term and inherently more risky, which isn't aligned with the Security, Liquidity and Yield (SLY) principle the Council currently follows. Only the larger banks and building societies are able to achieve the credit ratings required by the Council, all of which are likely to have environmental and social aims broadly aligned with that of the Council, so further consideration of these factors are currently unlikely to influence the Council's investment decisions.

Further work on ESG is required by the financial markets before the Council can incorporate this into its investment policy. Trying to do this too early could result in artificially limiting potential counterparty options, thus decreasing diversification and increasing financial risk. This could then lead to the need to widen credit criteria to find more counterparties, again increasing financial risk beyond what is considered prudent and acceptable. Members will be updated on any significant advances by the financial markets that could allow the formulation of ESG criteria to include in the Council's investment policy.

ANNEX 2E

4.0 APPROVED COUNTRIES FOR INVESTMENTS

AAA

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

The sovereign ratings shown above are at 25 November 2024 from Link Group.

ANNEX 2F

5.0 TREASURY MANAGEMENT SCHEME OF DELEGATION

(i) Full Council

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

(ii) Cabinet

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

(iii) Cabinet

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

(iv) Delegation from the S151 (Deputy Chief Executive) to the nominated post(s) for the taking of the investment decisions:

- Head of Finance, Property and Climate Resilience (Deputy S151)

ANNEX 2G

6.0 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe for example 25+ years;
- 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;
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*

- *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;*
- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*