

## **Treasury Management Strategy and Prudential Indicators for 2024/25**

### 1. Treasury Management Strategy for 2024/25

The strategy covers two main areas:

#### **Capital Issues**

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

#### **Treasury Management Issues**

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

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

### 2. Training

The CIPFA Code requires that the responsible officer ensures that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Further training will be arranged as required. The training needs of treasury management officers are also periodically reviewed.

### 3. Treasury Management Consultants

The Council uses Link Group, Link Treasury Services Limited 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 our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.

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.

4. The Capital Prudential Indicators 2024/25 to 2026/27

The Council's capital expenditure plans are the key drivers 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.

5. Capital Expenditure and Financing

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. Members are asked to approve the capital expenditure forecasts.

Capital Expenditure	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
<b>Total</b>	<b>4,740</b>	<b>20,105</b>	<b>23,218</b>	<b>4,188</b>	<b>1,136</b>

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

Financing of Capital Expenditure	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Capital Receipts	1,083	8,622	3,562	150	10
Capital Grants	797	6,786	3,963	454	420
Capital Reserves	959	1,297	808	250	250
Revenue	1,901	3,400	2,588	0	0
<b>Net Financing Need for the Year</b>	<b>0</b>	<b>0</b>	<b>12,297</b>	<b>3,334</b>	<b>456</b>

6. The Council's Borrowing Need (Capital Financing Requirement (CFR))

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.

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.

The CFR includes any other long-term liabilities such as finance leases which have been brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no finance lease liabilities within the CFR.

The Council is asked to approve the CFR projections below:

	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
<b>Capital Financing Requirement</b>					
CFR	13,750	13,376	25,188	27,818	27,467
Movement in CFR	(740)	(374)	11,812	2,630	(351)

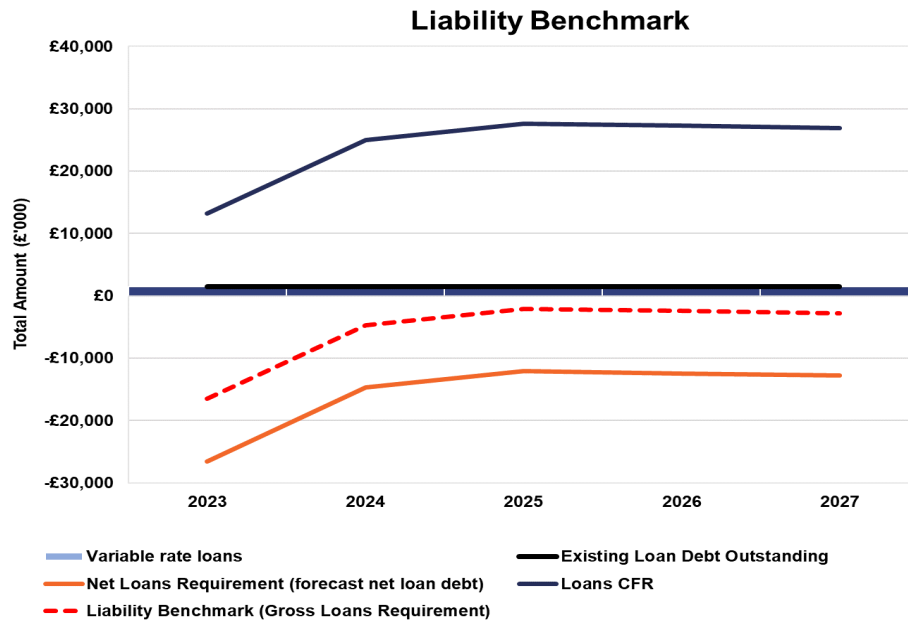
<b>Movement in CFR Represented By:</b>					
Net financing need for the year (above)	0	0	12,297	3,334	456
Less MRP and other financing movements	(740)	(374)	(485)	(704)	(807)
Movement in CFR	(740)	(374)	11,812	2,630	(351)

## 7. Liability Benchmark

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

There are four components to the LB: -

1. **Existing loan debt outstanding:** the Authority'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 Authority'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 short-term liquidity allowance.



8. Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

9. Minimum Revenue Provision (MRP) Policy Statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

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 (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

The MRP policy statement requires full council approval (or closest equivalent level) in advance of each financial year.

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 policy will be:

**4% reducing balance (CFR method)** – MRP will be calculated as 4% of the opening GF CFR balance

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

From 1 April 2008 for all unsupported borrowing the MRP policy will be:

**Asset life method (annuity)** – MRP will be based on the estimated life of the assets (option 3)

This option will be calculated using the annuity method using the weighted average rate of the Council’s external borrowing (WABR) and will start the year after project completion. Capital expenditure incurred during 2024/25 will not be subject to an MRP charge until 2025/26, or in the year after the asset becomes operational.

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

Where the Council is investing in assets solely with the intention of generating a capital receipt on completion it will defer the charging of MRP until the loan is repaid through receipt of capital receipts. This will be evidenced through explicit setting aside of future Capital Receipts for this purpose at project inception.

10. Affordability Prudential Indicators

The previous sections cover the overall capital expenditure 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 indicator:

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

	2022/23 Actual %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
Ratio	-4.68%	-10.27%	-3.33%	-0.78%	1.29%

11. Borrowing

The capital expenditure plans set out in paragraph 5 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.

12. The Current Portfolio Position

The overall treasury management portfolio position as at 31 March 2023 and the position as at 31 December 2023 are shown below for both borrowing and investments. The investment balance reflects the timing of collection fund payments and receipts, as the pattern of collection is mostly over the first 10 months of the year, balances will reduce towards 31 March.

<b>Treasury Portfolio</b>				
	<b>Actual 31.03.23 £000</b>	<b>Actual 31.03.23 %</b>	<b>Current 31.12.23 £000</b>	<b>Current 31.12.23 %</b>
<b>Treasury Investments</b>				
Banks	10,190	21%	10,270	16%
Building Societies - rated	30,000	61%	40,000	61%
Building Societies - unrated	3,000	6%	6,000	9%
Money Market Funds	4,500	9%	8,000	12%
<b>Total Managed in House</b>	<b>47,690</b>	<b>97%</b>	<b>64,270</b>	<b>98%</b>
Property Funds	1,500	3%	1,500	2%
<b>Total Managed Externally</b>	<b>1,500</b>	<b>3%</b>	<b>1,500</b>	<b>2%</b>
<b>Total Treasury Investments</b>	<b>49,190</b>	<b>100%</b>	<b>65,770</b>	<b>100%</b>
<b>Treasury External Borrowing</b>				
PWLB	1,490	100%	1,490	100%
<b>Total External Borrowing</b>	<b>1,490</b>	<b>100%</b>	<b>1,490</b>	<b>100%</b>
<b>Net Treasury Investments/(Borrowing)</b>	<b>47,700</b>		<b>64,280</b>	

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

	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
<b>External Debt</b>					
Debt at 1 April	1,490	1,490	1,490	13,787	17,121
Expected change in debt	0	0	12,297	3,334	456
<b>Actual Gross Debt at 31 March</b>	<b>1,490</b>	<b>1,490</b>	<b>13,787</b>	<b>17,121</b>	<b>17,577</b>
<b>Capital Financing Requirement</b>	<b>13,750</b>	<b>13,376</b>	<b>25,188</b>	<b>27,818</b>	<b>27,467</b>
<b>Under/(over) borrowing</b>	<b>12,260</b>	<b>11,886</b>	<b>11,401</b>	<b>10,697</b>	<b>9,890</b>

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

The Director of Resources (& S151) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the 2024/25 budget report.

### 13. Treasury Indicators – Limits to Borrowing Activities

**The Operational Boundary** – This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

<b>Operational boundary</b>	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Debt	46,000	48,000	50,000
Other long-term liabilities	500	500	500
Total	46,500	48,500	50,500

**The Authorised Limit for External Debt** - A further key prudential indicator 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.

- 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 Council is asked to approve the following Authorised Limits:

Authorised limit	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000
Debt	51,000	53,000	55,000
Other long-term liabilities	1,000	1,000	1,000
Total	52,000	54,000	56,000

14. Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 8 January 2024, and their view is further detailed in **Appendix 8.3**.

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

Bank rate stands at 5.25%. Link expect the Bank of England's Monetary Policy Committee (MPC) will keep bank rate at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. They not think that the MPC will increase bank rate above 5.25%.

Further commentary is set out at **Appendix 8.4**.

15. Borrowing Strategy

The total debt portfolio is funded by the Public Works Loans Board (PWLB). The details of the portfolio are set out in **Appendix 8.5**. All current loans are repayable at maturity. The average maturity profile of the loan portfolio is 27.6 years.

The Council is currently maintaining an under borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy



is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, bank rate remains elevated through to the second half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Director of Resources (& S151) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, for example :-

- 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, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

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

16. Treasury Indicators for Debt

**Maturity structure of borrowing** - these gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing and are required for upper and lower limits.

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

<b>Maturity structure of fixed interest rate borrowing 2024/25</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	20%
5 years to 10 years	0%	30%
Over 10 years	0%	100%
<b>Maturity structure of variable interest rate borrowing 2024/25</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	10%
12 months to 2 years	0%	10%
2 years to 5 years	0%	20%
5 years to 10 years	0%	30%
Over 10 years	0%	100%

17. Policy on Borrowing in Advance of Need

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

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

18. Debt Rescheduling

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

Any rescheduling will be reported to the Cabinet at the earliest meeting following its action.

19. New Financial Institutions as a Source of Borrowing and Types of Borrowing

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

- Local authorities (primarily shorter dated maturities out to 3 years or so will still be cheaper than the certainty rate)
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

20. Annual Investment Strategy

**Investment Policy – management of risk.**

DLUHC and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).

The Council’s investment policy has regard to the following: -

- DLUHC’s Guidance on Local Government Investments (“the Guidance”)

- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2021

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

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

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

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

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

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

4. This Council has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in **Appendix 8.2** under the categories of ‘specified’ and ‘non-specified’ investments.

•**Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.

•**Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex

instruments which require greater consideration by members and officers before being authorised for use.

5. Counterparty limits (amounts and maturity) will be as set out through applying the matrix table in **Appendix 6**.

6. Transaction limits are set for each type of investment in **Appendix 6**.

7. The authority will set a limit for its investments which are invested for longer than 365 days.

8. Investments will only be placed with counterparties with a specified minimum sovereign rating (see paragraph 22).

9. This authority has engaged external consultants, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

10. All investments will be denominated in sterling.

11. As a result of the change in accounting standards for 2023/24 under IFRS 9, this 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, the Ministry of Housing, Communities and Local Government, (MHCLG), concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023, More recently, a further extension to the over-ride to 31 March 2025 has been agreed by Government.

However, this Council will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

The above criteria are unchanged from the previous year apart from number 8 as the Council has revised its use of non-UK based counterparties, on the advice of its treasury advisors, see paragraph 22.

### 21. Creditworthiness Policy

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

- "Watches" and "Outlooks" from credit rating agencies.

- Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

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

- Yellow 5 years
- Dark Pink 5 Years
- Light Pink 5 Years
- Purple 2 years
- Blue 1 year (nationalised/or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour not to be used (NB: except Building Societies)

In respect of building societies, the Council will use those societies that have assets in excess of £1 billion, subject to them having either a minimum credit rating of P-2 (Moody's) if rated or being unrated. In addition, the Council proposes to use the locally based Market Harborough Building Society, subject to a monetary limit of £2m to support the Corporate Priority of "Economy – supporting businesses and residents to deliver a prosperous local economy". by being able to invest in a local institution.

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

Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalent) of F1, a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored on an ongoing basis. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- In addition to the use of credit ratings the Council will be advised of information regarding movements in credit default swaps against the iTraxx European Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Councils lending list.

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

### **Creditworthiness**

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.

### **CDS prices**

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link provided Passport portal.

## 22. Limits and the use of non-UK based banks

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors. Due care will be taken to consider the group and sector exposure of the Council's investments. The limits referred to above will apply to group companies, and sector limits will be monitored regularly for appropriateness.

The Council has considered the use of non-UK based banks, in recent years, given the economic situation, the Council had discounted their use, in the interests of prudence. On the advice of their treasury advisors, Link Group, the Council has decided to reintroduce the use of non-UK based banks, from countries with a minimum sovereign credit rating of AA-. The list of countries that qualify using this credit criteria as at the date of this report are shown in **Appendix 8.10**. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

## 23. Investment Strategy

### **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. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the latter part of 2024 so an agile investment strategy would be appropriate to optimise returns.

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

The criteria to be used in determining whether the Council may invest with a counterparty is set out in **Appendix 8.2**.

The Council’s proposed Counterparty List appears at **Appendix 8.6**.

**Investment Returns Expectations**

The current forecast shown in paragraph 14, includes a forecast for Bank Rate to have peaked at 5.25%.

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

Average earnings in each year	
2023/24 (residual)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

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

For its cash flow generated balances, the Council will seek to utilise instant access and notice accounts, money market funds, short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

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

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

<b>Maximum principal sums invested for more than 365 days</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	£000s	£000s	£000s
Principal sums invested > 365 days	10,000	10,000	10,000

24. Investment Performance / Risk Benchmarking

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of the 90-day backward looking SONIA (Sterling overnight Index Average).

25. Investment Review

The Director of Resources (& S151) commissioned a review of the Councils investments by its treasury advisors, Link Group, with a view to diversifying, in particular making some longer-term investments in multi-asset vehicles to gain improved returns. Review of the long term cashflow revealed up to £6 million was available to invest in a risk managed way. This has been kept under review but not implemented due to the uncertainty regarding current economic conditions.

26. Flexible Use of Capital Receipts

Delegation was given to the Director of Resources (& S151) to use potential non right to buy receipts to provide additional flexibility, it will be requested to extend this delegation to 2024/25.

This freedom will allow the Council to finance its Transformation programme, and this is shown in the Draft 2024/25 Capital Programme.

Further details are provided in **Appendix 8.11**.

27. End of Year Investment Report

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



28. Money-broking Services

The Council has added The Agency Treasury Service (ATS) provided by the Link Group to the list of brokers used for the purpose of making short term investments or facilitating market loans.

29. External Fund Managers

£1.5m of the Authority's funds is externally managed on a pooled basis by CCLA Fund Managers Limited as part of the CCLA Local Authorities Property Fund.

The Authority fully appreciates the importance of monitoring the activity and resultant performance of this. In order to aid this assessment, the Authority is provided with a suite of regular reporting from its manager. This includes monthly factsheets and quarterly statements.

In addition to formal reports, the Authority also meets with representatives of the fund manager. These meetings allow for additional scrutiny of the manager's activity as well as discussions on the outlook for the fund as well as wider markets.