AGENDA ITEM 06

JOINT AUDIT COMMITTEE
22 FEBRUARY 2024

TREASURY MANAGEMENT STRATEGY 2024/25 REPORT

1. PURPOSE OF REPORT

1.1 This report sets out the Police and Crime Commissioner's Treasury Strategy Statement for 2024/25 and updates on debt management and investment activity during the financial year 2023/24.

1.2 This report updates on recent Treasury Management activity, in line with recommended best practice and the revised CIPFA Code of Practice for Treasury Management 2021.

1.3 It is important to note that financial information contained within this report should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Commissioner and his treasury advisers will not accept any liability on behalf of any individual or organisation who seeks to act on the financial information contained within this report.

2. INTRODUCTION AND BACKGROUND

2.1 The Commissioner is legally required to produce an Annual Investment Strategy. Therefore, included is an Investment Strategy as part of the Treasury Strategy Statement shown in **Appendix B.**

2.2 In order to protect the Commissioner's position if an individual or organisation were to act upon this advice, it is deemed necessary to produce a disclaimer, which is shown as a note at the head of **Appendix B.**

2.3 The Commissioner is responsible for administering a Capital Programme of £129.6m between 2024-25 and 2028-29. As far as possible all surplus revenue money and other reserves are invested on a daily basis until they are required.

2.4 The Commissioner follows the Code of Practice for Treasury Management and The Prudential Code produced by the Chartered Institute of Public Finance and Accountancy (CIPFA). The 2021 Treasury Management Code will require the Commissioner to implement the following:

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

2. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case; For the Commissioners investments this would mean the CCLA investment would be categorised as a commercial investment.

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

4. **Knowledge and skills** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted;

5. **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments should be reported as part of the integrated revenue, capital and balance sheet monitoring; and

6. **Environmental, social and governance (ESG)** issues to be addressed within the Commissioner’s treasury management policy and practices.

2.5 The Commissioner's Treasury Management activity is governed by the following documents:

1 **Treasury Policy Statement.** This is a statement, defining treasury management and the general approach to it. It emphasises firstly the control of risk and secondly the pursuit of best value as the main factors defining the approach. A copy is attached at **Appendix A.**

2 **Treasury Management Practices** (TMPs) and Schedules to TMPs. TMPs define the overall approach to various aspects of treasury management, including such things as risk management, performance monitoring and management, segregation of duties and dealing arrangements, cash flow management, money laundering and staff training. The Schedules to TMPs deal with the criteria for selecting third parties (banks and building societies) with whom the Commissioner is prepared to deposit funds. The TMPs and Schedules are reviewed regularly by the Commissioner’s CFO and available copies are available on request.

3 **Annual Treasury Strategy Statement** details the expected activities of the treasury function in the financial year 2024-25. A copy is attached at **Appendix B.**

3. DEBT MANAGEMENT ACTIVITY 2023/24

3.1 Since April 1986, the Police Authority had been incurring long term debt from the Public Works Loans Board (PWLB) to finance major capital expenditure. All the borrowing was transferred to the Commissioner in November 2012.

3.2 Borrowing at the 31 March 2024 is expected to total £104.5m, all at fixed rates and repayable over various periods up to 2072.

3.3 The Commissioner has the capacity to undertake variable rate borrowing (up to 20% of the total debt portfolio) should the need arise or to take advantage of fixed rates to fund identified need.

3.4 One loan matured during 2023/24 totalling £0.8m at 6.625% on 15/10/2023. No new loans were taken out during the year.

3.5 The average rate of interest payable on debt during the year was 3.17%. Link Asset Services, the Commissioner's treasury advisors, continue to advise on debt restructuring to enable the Commissioner to take advantage of opportunities to reduce the overall cost of debt, set in the context of the financial constraints and markets. There were no opportunities for this during 2023/24. Rescheduling of current borrowing in the debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates.

3.6 The table below shows the level of borrowing and the average interest rate payable.

Public Works Loan Board (PWLB) Borrowing

Loan Type	Borrowing £'m		Average Interest Rates %	
	31/03/23	**31/03/24**	**2022/23**	**2023/24**
Fixed	105.3	104.5	3.20	3.17
Variable	0.0	0.0	0.0	0.0
Total	**105.3**	**104.5**	**3.20**	**3.17**

3.7 **Appendix D** shows the maturity profile of the Loan portfolio as at 31 March 2024.

4. INVESTMENT ACTIVITY 2023/24

4.1 Any surplus funds have been invested on a daily basis. The PCC uses an investment benchmark to assess the investment performance of its investment portfolio of Sterling overnight Index average (SONIA).

4.2 Interest earned on fixed term investments up to the end of March 2024 is predicted to average 5.5%. The SONIA rate to mid-Jan averages 5.19%. The returns over the year have been at a good level compared to this benchmark. Total interest receivable is estimated to be £5m for 2023/24. However, it must be remembered that the primary objective of the PCC's treasury management strategy is security and liquidity so it is these factors that will be pursued ahead of yield.

4.3 At 18 January 2024, the Commissioner had £110m invested with a range of maturity dates between instant access and one year, and a further £5m with CCLA property fund with no maturity date.

4.4 All of the Commissioner's investments are with UK based entities. The split of these investments is as follows and detailed in **Appendix D:**

- 43% Money Market Funds (MMF's)
- 52% Local Authorities,
- 4% CCLA

The Commissioner has held no investments with foreign banks, all money market funds are UK based funds.

4.5 MMF's have been used to hold up to £60m throughout 2023/24 as they provide liquidity as well as yield rates which are reviewed daily. This will have generated approximately £2.6m of additional income in the 23/24 financial year.

4.6 Based on market information provided by Link Asset Services, the counterparty list has been fully reviewed to reflect: current market conditions, credit ratings of sovereign nations, and the impact of Government support for the banking sector. As a consequence, the limits, both financial and duration, have been adjusted for some institutions. The group and individual limits (£65m) for the part government owned institutions (National Westminster Bank, Royal Bank of Scotland) remain the same as in 2023-24. NatWest group are the bankers for the PCC and any uninvested funds reside here. During 2023-24 there were a number of times where the cash held in the NatWest account exceeded £65m. This was due to peaks in grant payments received and the timing of making suitable investments. The counterparty list and limits can be found in **Appendix C**.

4.7 Similarly, all Local Authorities are eligible for inclusion on the counter party list because ultimately, they have the support of the national government. However, during 2020/21 it became known that some Local Authorities issued Section 114 notices, effectively stating they cannot balance the budget for the year and placing a freeze on any non-essential spending. (It should be noted that the repayment of investments falls outside the scope of this as it is a legal obligation). As a result of this, additional due diligence is now carried out on any Local Authority investments to ensure that investments are secure and to avoid any adverse publicity.

4.8 If institutions now fall below the set criteria they have been removed from the list and added if they become eligible. Details of the criteria are contained within the annual investment strategy in **Appendix B.**

4.9 The day to day work of Treasury Management is carried out in the Finance Department with oversight from the Director of Commercial Services. The Treasury Management Strategy is therefore managed using appropriate delegations and periodic management reporting to the Director of Commercial Services and the Commissioner’s CFO. This will continue for the next financial year.

5 TREASURY STRATEGY STATEMENT 2024/25

5.1 The Treasury Strategy Statement covers the Commissioner’s latest capital funding requirements, view of interest rate movements, and strategy for borrowing and investment. This is to be reviewed annually. The Treasury Strategy Statement for 2024/25 is attached at **Appendix B.**

5.2 Following on from recent Bank of England rate rises, future interest rate expectations can be found below. These are important for the PCC as these determine the rate at which the PCC can borrow and invest:

Short-term rates.

- The short-term Bank of England base rate is estimated to have peaked in 2023/24 and is expected to come down in Autumn this year and continue to fall by the end of the next financial year.

Long-term rates.

- Very long-term rates (50-year PWLB rate) are estimated to be 5% by the end of 2023/24 and expected to reduce by the end of the next financial year.
- PWLB is the Government organisation from whom the PCC borrows its money for capital expenditure.

5.3 The Local Government Act 2003 introduced a new system of “prudential borrowing” which allows the Commissioner to set borrowing limits subject to criteria of prudence and affordability. These criteria are set out in more detail in the CIPFA Prudential Code that specifically requires a number of prudential indicators are set. The full range of prudential indicators have been reviewed in line with budgets for 2024/25 and the capital programme. The proposed indicators that relate to treasury management are set out in the Treasury Strategy Statement at **Appendix B.**

5.4 The Local Government Act 2003 also requires the Commissioner to set out a treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act); this sets out the Commissioners policies for managing investments and for giving priority to the security and liquidity of those investments.

6. RECOMMENDATIONS

6.1 It is recommended that the Joint Audit Committee:

a. Note the treasury management activity in 2023/24.

b. Approve the Treasury Strategy Statement for 2024/25 set out in **Appendix B.**

c. Approve the criteria for selecting counter parties in **Appendix B.**

d. Continue to include a mid-year review of Treasury Management activity in the Joint Audit Committee's work plan in accordance with the CIPFA Code of Practice for Treasury Management.

Jane Heppel
Chief Finance Officer
Police and Crime Commissioner

Peter Gillett
Director of Commercial Services
West Midlands Police

APPENDIX A

TREASURY POLICY STATEMENT AND TREASURY MANAGEMENT PRACTICES

TREASURY POLICY STATEMENT

1. The Commissioner defines treasury management activities as:

   - the management of cash flows;
   - banking, money market and capital market transactions;
   - the effective control of the risks associated with those activities;
   - the pursuit of optimum performance consistent with those risks.

2. The Commissioner regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Commissioner.

3. The Commissioner acknowledges that effective treasury management will provide support towards the achievement of business and service objectives. It is therefore a commitment to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques within the context of effective risk management.

4. Treasury operations are managed within the overall strategy approved by the Commissioner at the following levels:

   - Formal reviews of strategy and performance by the Commissioner's CFO, Director of Commercial Services, and Assistant Director Finance in conjunction with representatives from the external advisors (Link Asset Services).
   - Monthly monitoring is conducted by the Commissioner's CFO, Director of Commercial Services and Assistant Director Finance.
   - On a daily basis by trained staff under the direction of the Assistant Director Finance.
   - Reports to the Joint Audit Committee and treasury activity.
   - The annual review of the strategy for the Commissioner.

APPENDIX B

Note:
It is important to note that the Treasury Management Strategy Statement (TMSS) is adopted by the Commissioner based upon advice from external treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Commissioner. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Commissioner and the treasury advisors will not accept any liability on behalf of any individual or organisation who seeks to act on the financial information contained within this Report and Statement.

TREASURY STRATEGY STATEMENT 2024/25

1.0 INTRODUCTION

1.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2024/25. The suggested strategy is based upon views of interest rates as advised by external advisors, supplemented with leading market forecasts. The strategy covers:

- the current treasury position;
- prudential indicators;
- prospects for interest rates;
- the investment strategy;
- the borrowing requirement & strategy;
- policy on borrowing in advance of need;
- debt rescheduling opportunities; and
- the minimum revenue provision (MRP) policy.

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

1.3 The PCC uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

1.4 The PCC 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. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

1.5 It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The PCC 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.

1.6 The CIPFA Treasury Management Code requires members with responsibility for treasury management to receive adequate training in treasury management.

1.7 The needs of the Commissioners treasury management staff for training in investment management are assessed every twelve months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Link Group and CIPFA.

2.0 CURRENT TREASURY POSITION

2.1 The Commissioner's estimated portfolio position as at 1st April 2024 will be as follows:

Treasury Investments	
	£m
Maturity less than 1 year	70.0
Maturity between 1 and 5 years	0.0
Money Market Funds	50.0
CCLA Property Fund	5.0
Total Treasury Investments	**125.0**
Treasury External Borrowing	
PWLB fixed rate	104.5
PWLB variable rate	0.0
	104.5
Net Treasury investments/(borrowing)	**20.5**

2.2 The treasury investments less than 1 year relate to Bank, Building society and Local Authority Investments. The £5.0m investment placed with CCLA relates to the property fund and is for at least five years.

3.0 PRUDENTIAL INDICATORS for 2024/25 to 2026/27

3.1 The Prudential Code for Capital Finance in Local Authorities (Prudential Code) is applicable to the Police and Crime Commissioner and has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide a code of practice to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003. PCCs, like Local Authorities, are free to determine their own level of capital investment controlled by self-regulation.

3.2 The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.

3.3 The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other. The indicators establish parameters within which the PCC should operate to ensure the objectives of the Prudential Code are met.

3.4 The Prudential Code introduced requirements for the manner in which capital spending plans are to be considered and approved. It requires the Commissioner to set a number of prudential indicators over a period of three years. The following prudential indicators are relevant for the purposes of setting an integrated treasury management strategy:

3.5 **External debt**

These indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The authorised limit for external debt is a statutory limit (section 3 of the Local Government Act 2003) that should not be breached under any circumstances. The proposed limits set out below have been calculated to take account of the current Commissioner's capital expenditure and financing plans and allowing for the possibility of unusual cash movements. If this limit is likely to be breached, it would be necessary for the Commissioner to determine if it is prudent to raise the limit or to instigate procedures to ensure that such a breach does not occur.

The operational boundary for external debt is a management tool for day to day monitoring and has been calculated with regard to the Commissioner's capital expenditure and financing plans allowing for the most likely, prudent, but not worst-case scenario for cash flow. Temporary breaches of the operational boundary, due to variations in cash flow, will not be regarded as significant.

	2024/25	**2025/26**	**2026/27**
	£m	**£m**	**£m**
Authorised limit for external debt -			
Borrowing	140.0	145.0	145.0
Operational boundary -			
Borrowing	135.0	140.0	140.0

The Commissioner's actual external debt as at 31/03/24 is currently expected to be £104.5m, excluding transferred debt managed by Dudley M.B.C (£2.5m).

3.6 **CIPFA Code of Practice for Treasury Management in the Public Services**

The Commissioner continues to adopt the CIPFA Code of Practice for Treasury Management in the Public Services first adopted by the Police Authority in March 2002.

3.7 **Interest rate exposure for fixed term investments and debt**

These indicators allow the Commissioner to manage the extent to which he is exposed to changes in interest rates. The upper limit for fixed interest reflects the fact that it is possible to construct a prudent treasury strategy on the basis of using only fixed rate debt and investments, so long as the maturity dates of these debts and investments are reasonably spread. The same does not apply to variable rates where a 100% exposure could lead to significant year on year fluctuations in the cost of debt.

The upper limit for variable rate exposure allows for the use of variable rate debt to offset the exposure to changes in short-term rates on the portfolio of investments.

	2024/25 %	2025/26 %	2026/27 %
Upper limit for fixed interest rate exposure			
Net principal fixed rate borrowing / investments	100	100	100
Upper limit for variable rate exposure			
Net principal variable rate borrowing / investments	20	20	20

3.8 **Maturity structure of borrowing and investments longer than 364 days**

The purpose of the prudential limits for principal sums invested for periods longer than 364 days is for the Commissioner to contain his exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested. The maturity structure of fixed rate borrowing is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

Upper limit of principal invested for periods over 364 days		**£30m**
Maturity structure of fixed rate borrowing	**Upper limit %**	**Lower limit %**
Under 12 months	25	0
12 months and within 24 months	25	0
24 months and within 5 years	50	0
5 years and within 10 years	75	0
10 years and above	100	25

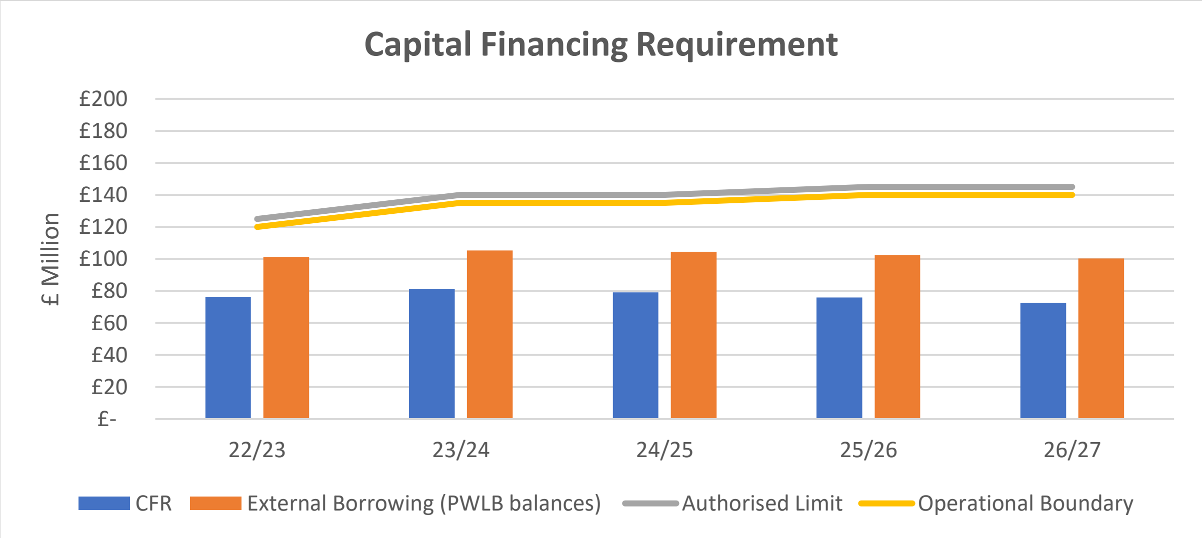
3.9 In considering the capital programme for 2024/25, the anticipated future borrowing requirements were considered in the context of overall capital resources and the impact on the revenue budget.

	31 March 2023 £'m	31 March 2024 £'m	31 March 2025 £'m	31 March 2026 £'m	31 March 2027 £'m
Capital Financing Requirements	*76.2*	*81.2*	*79.2*	*76.0*	*72.6*
Existing borrowing	**101.3**	**105.3**	**104.5**	**102.3**	**100.3**
Repayments	-3.0	-0.8	-2.2	-2.0	0
New Borrowing	7.0	0	0	0	0
Net External borrowing	**105.3**	**104.5**	**102.3**	**100.3**	**100.3**

3.10 The Capital Financing Requirement (CFR) is the historic underlying need to borrow for capital expenditure. It builds up over time and expresses how much of historic capital expenditure, allowing for having used other sources of funding such as capital receipts, grant and revenue contributions, requires financing through other means, i.e. borrowing. The CFR increases when unfinanced expenditure is incurred and decreases when provision is made to repay that debt (through MRP). MRP is the statutory annual revenue charge which sets aside an amount from annual funding which broadly matches the indebtedness to each asset's usable life. In doing so, this charges the economic consumption of capital assets as they are used up in the provision of services.

3.11 Borrowing can be either undertaken internally or externally. Internal borrowing occurs when MRP has been set aside to repay borrowing but that borrowing is not yet due to be repaid, leaving a cash balance available to temporarily apply to other capital spend. However, external borrowing may also be needed for new capital expenditure and be taken as external loans.

3.12 These loans are used to finance capital expenditure, which means the acquisition or improvement of assets: land, buildings, ICT infrastructure. Therefore, although there is an increased liability on the balance sheet in terms of borrowing this is offset by an increase in the value of assets to be utilised in the provision of services.



3.13 The table above shows how the CFR is expected to change over the period of the MTFP and shows that the PCC is currently in an 'overborrowed position'. The historic loan schedule supports a higher CFR than is currently the case. MRP has built up over recent years and reduced the CFR, but the loans which have come due for repayment are at a much lower level than the cash which has built up and so cash is building up to repay them when they do fall due. Loans have historically been taken on a long-term basis and so this overborrowed position will remain until loans are repaid.

3.14 During the next few months, with market conditions expected to move away from today's high cost of borrowing and high returns for short term cash placements, we will assess the loan portfolio and identify if there are any opportunities to reschedule or reduce the overborrowed position in the long term financial interests of the PCC, taking into account the requirement to get best value overall from the treasury management function.

4.0 LIABILITY BENCHMARK

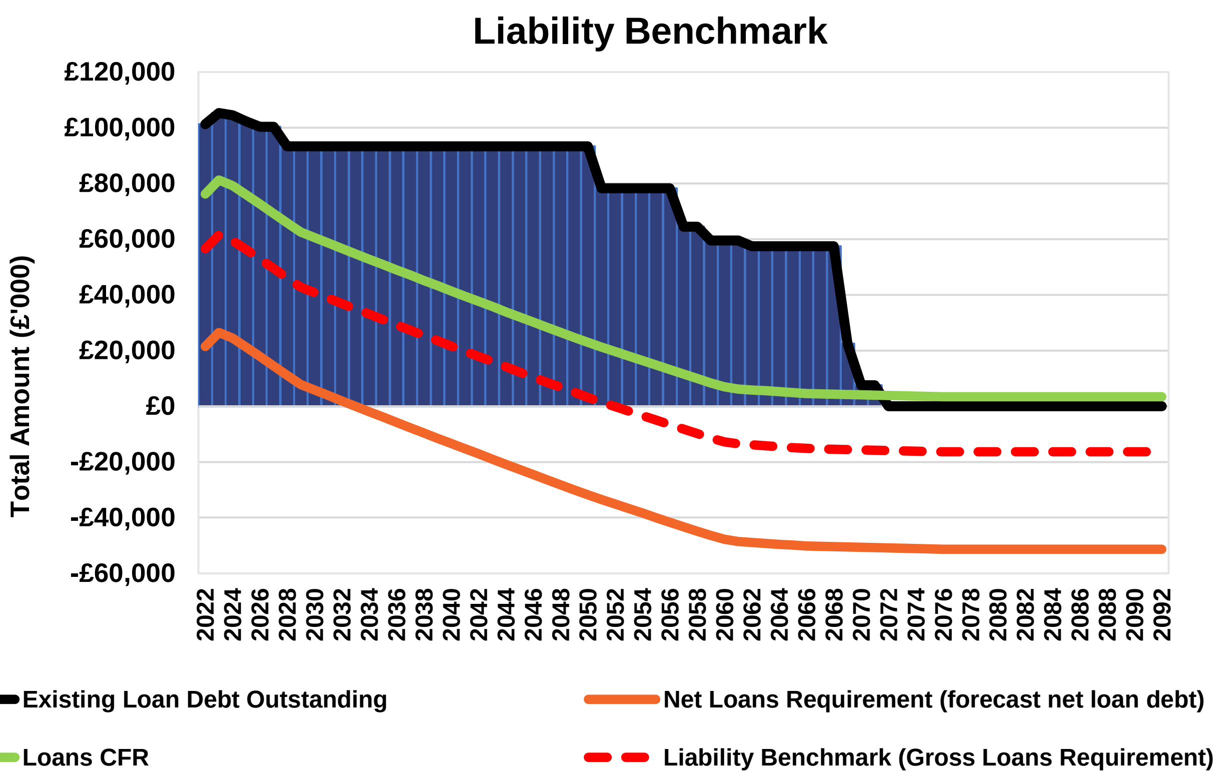
4.1 Authority is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

4.2 There are four components to the LB: -

- **Existing loan debt outstanding:** the Commissioner's existing loans that are still outstanding in future years.
- **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.
- **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.
- **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

4.3 The liability benchmark is a projection of the amount of loan debt outstanding that the authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows. This is shown by the gap between the authority's existing loans that are still outstanding at a given future date and the authority's future need for borrowing (as shown by the liability benchmark). In particular, the liability benchmark identifies the maturities needed for new borrowing in order to match future liabilities. It therefore avoids borrowing for too long or too short.

4.4 The Liability Benchmark chart is shown below:



5.0 PROSPECTS FOR INTEREST RATES

5.1 The prospect for interest rates is important for the PCC to understand as it can affect the interest rate earned on investments and the rate at which it can borrow money for capital purposes.

5.2 The Commissioner continues to use Link Asset Services (Link) as a treasury advisor and has made use of their services in formulating a view on interest rates. Link has in turn drawn upon the work of a number of City economic forecasters.

5.3 Link provided the following forecasts on 8 January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates:

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

5.4 *Additional Notes from Link to accompany current forecasts*:

- Our central forecast for interest rates was previously updated on 7 November and reflected a view that the Monetary Policy Committee (MPC) would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least the second half of 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as on-going conflicts in Eastern Europe and the Middle East.
- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

5.5 **The balance of risks to the UK economy: -**

- The overall balance of risks to economic growth in the UK is even.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

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

- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

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

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

- Despite the recent tightening to 5.25%, the Bank of England allows inflationary pressures to remain elevated for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

5.6 Link Group expect the MPC will keep Bank Rate at 5.25% for the second half of 2024 to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. They do not think that the MPC will increase Bank Rate above 5.25%.

5.7 The overall Treasury Management Strategy will be based on the projections above. However, the Commissioner will maintain flexibility to take account of unexpected variations from the forecast.

5.8 As a result of the above interest rate forecast, investment returns are expected to fall back as inflation starts to fall in 2024.

6.0 ANNUAL INVESTMENT STRATEGY

6.1 The Commissioner's investment activities have regard to guidance issued by the Government and CIPFA. The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments.

6.2 In making investment decisions, the Commissioner's investment priorities will be security first, liquidity second and then yield (return). Pursuit of the best possible return on investments will only be allowed to the extent that this is consistent with very low levels of risk in terms of security and liquidity.

6.3 In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate (from an internal as well as external perspective), the Commissioner will also consider the value available in periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as a wider range of options.

6.4 The Commissioner will make use of both specified investments and non-specified investments.

6.5 **Specified investments** are those that satisfy the following conditions:

a) The investment is denominated in sterling and any payments or repayments in respect of the investment are payable only in sterling.
b) The Commissioner requires that the investment be repaid or redeemed within 12 months of the date on which the investment was made.
c) The investment does not involve the acquisition of share capital or loan capital in any corporate body.
d) The investment satisfies any of the following conditions:

- The investment is made with the UK government (Debt Management Agency Deposit Facility), a local authority, a parish council or a community council.
- The investment is made with a body which has been awarded a "high credit rating" by a credit rating agency.
- If the body is not a UK bank, the sovereign country must be awarded a "high credit rating" by a credit rating agency.

For the purposes of this strategy, use is made of the creditworthiness service provided by Link Asset Services to define a "high credit rating":

- UK banks and building societies – short-term rating F1 or higher and viability rating of "a-" or higher.
- Foreign banks – short-term rating F1+, and a viability rating of a minimum of "a" with a sovereign rating of AAA.
- Money market Funds (MMF's) – Any AAA rated fund

These will be supported by other accredited rating systems (Standard & Poor's and Moody's), credit watches and outlooks, Credit Default Swap data, and information from the financial press.

6.6 Since the credit crisis, there are some semi-nationalised banks in the UK with credit ratings which do no conform to the credit criteria usually used to identify banks which are of high credit worthiness. In particular, as they are no longer separate institutions in their own right, it is impossible for the rating agencies to assign them an individual rating for their standalone financial strength. However, these institutions are now recipients of at least a F2 short term rating (effectively taking on the creditworthiness of the Government). That implies deposits made with them are effectively being made to the Government. This relates to National Westminster Bank and Royal Bank of Scotland.

6.7 The Commissioner's CFO will monitor credit ratings through the receipt of credit rating bulletins from the treasury management consultants at Link Asset Services. Institutions that cease to meet the criteria above will immediately cease to be treated as specified investments.

6.8 **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 officers before being authorised for use. In determining which categories of non-specified investments may prudently be used, account will be taken of advice from the advisors, Link Asset Services, and, if investments are for 12 months or more, long-term credit ratings will be utilised as determined by Fitch IBCA.

6.9 So far, the following categories of investment have been identified as prudent for use for non-specified investments. The table also shows the maximum value of investments that may be held:

Category of investment	**Maximum value for this category of investments**
Sterling deposits in excess of 364 days with Local Authorities and UK banks (where these are not “specified investments” as defined above).	£30m
Property Funds based in the UK	£5m

6.10 Property funds provide investors with long term income and potential long-term capital appreciation. These types of funds are actively managed in a diversified portfolio of commercial property

6.11 In determining the maximum period for which investments may be held, regard to the most recent cash flow forecast will be taken. No investment will be entered into where the cash-flow forecast indicates that, as a result of that investment, the Commissioner would be forced to borrow money in a future year that would not otherwise have had to be borrowed.

6.12 Also at the time of making a new investment, long-term investments (investments of one year’s duration or more) should not constitute more than 30% of the total pool of investments.

6.13 **Local authorities**: Although most UK local authorities have not opted to obtain a formal credit rating from either Moodys, Standard and Poors, or Fitch, they are considered as quasi-governmental by advisors and therefore assigned a AA- rating for the purposes of establishing credit criteria. No local authority has ever defaulted on its loan arrangements. The commissioner will apply the following criteria when selecting UK Local Authority counterparties:

- No deposits (or further deposits) with authorities that have issued a S114 notice that is yet to be rescinded.
- No forward dated trades beyond 1 month ahead.

6.14 **Environmental, Social and Governance (ESG) Risk Management**

Environmental, Social and Governance (ESG) considerations are important considerations when selecting investment counterparties: however, Security of public funds, followed by Liquidity and then Yield remain our primary drivers in line with CIPFA Guidance. During 2024/25 we will establish the baseline in the existing portfolio for these measures.

6.15 Our treasury operation focuses on managing all categories of risk that may impact first and foremost the security of any given investment product. From that perspective ESG considerations are about understanding what ESG risks a counterparty is exposed to and what they may mean for the Commissioners' risk in choosing to make a particular investment.

6.16 Specific assessment is however somewhat restricted by the fact that, at the time of writing, there is no consistent rating framework to measure and benchmark all specific counterparty ESG metrics. Until this market data gap is fully resolved, our Policy is as follows:
We continue to prioritise Security, Liquidity and Yield (in that order) as required by CIPFA's Treasury Management Code of Practice.

6.17 The Ratings Agencies (Moody's, Standard and Poor's) existing headline ratings on our counterparties now incorporate ESG risk assessments alongside more traditional financial risk metrics and so provide both a holistic risk measure and a proxy for ESG 'scoring' in the absence of anything more robust.

7.0 CAPITAL BORROWING REQUIREMENT & STRATEGY

7.1 The Commissioner's CFO has undertaken a review of capital investment requirements and likely resource levels. Although there is some uncertainty around specific requirements and future funding levels, it is does not plan to borrow any further to fund the Estates Strategy over the life of the Capital Programme.

7.2 Any short-term funding gaps over the life of the Capital Programme will be met through internal borrowing.

7.3 The Commissioner's CFO will continue to cautiously monitor the interest rate market and adopt a pragmatic approach to any changing circumstances such as the evolving Estates Strategy or deployment of new technology.

7.4 If the need to borrow arises the Commissioner may choose to forward borrow and lock in lower interest rates if the opportunity presents itself. This will involve committing to borrow an amount of money at a date in the future at a designated rate. The Commissioner will then be committed to take on the borrowing even if the requirement to borrow is no longer present or the prevailing interest rate drops.

7.5 **Policy on Borrowing in Advance of Need**
The Commissioner 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 Commissioner can ensure the security of such funds.

8.0 DEBT RESCHEDULING AND PREMATURE REPAYMENT OPPORTUNITIES

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

8.2 Rescheduling of current borrowing in our debt portfolio is unlikely to occur if there is a large difference between premature redemption rates and new borrowing rates.

9.0 MINIMUM REVENUE PROVISION (MRP) POLICY

9.1 Capital expenditure is expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, and equipment. Occasionally the Commissioner has to borrow to fund this expenditure. The loans taken out for this purpose are fully repayable at a future point in time (they are paid off at maturity and not in instalments). The concept of Minimum Revenue Provision was introduced to prescribe a minimum amount which must be charged to the revenue account each year in order to make provision to meet the cost of that borrowing.

9.2 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 Commissioner 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 Commissioner can use any other reasonable basis that can be justified as prudent.

9.3 Options 1 and 2 should only be used in relation to Capital expenditure incurred before 1 April 2008 and which the Commissioner is satisfied forms part of Supported Capital Expenditure. For all unsupported borrowing covered by the Prudential Code on or after 1 April 2008, Options 3 or 4 must be used.

9.4 The MRP options are either:

- **Option 1 – 4% reducing balance (regulatory method) -** MRP is equal to the amount determined in accordance with the former sections 28 and 29 of the 2003 Regulations as if they had not been revoked.

- **Option 2 – 4% reducing balance (CFR method) -** MRP is equal to 4% of the Capital Financing Requirement at the end of the previous year.

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

- **Option 3 – Asset Life Method (straight line) -** MRP is spread over the determined useful life of the Asset either in equal instalments or using an annuity method. The first charge can be delayed until the asset is operational.

- **Option 4 – Depreciation Method** - MRP is equal to the provision required in accordance with depreciation accounting in respect of the asset.

9.5 For expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be based on Option 2, but using an average of 40 years, giving a calculation of 2.5% of the CFR, being more reflective of the useful life of our assets.

9.6 From 1 April 2008 for all unsupported borrowing the MRP policy will be Option 3, Asset life method, looking at the lives of the assets to which the borrowing has been applied.

9.7 Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25, or in the year after the asset becomes operational.

9.8 MRP in respect of assets acquired under Finance Leases will be charged at an amount equal to the principal element of the annual repayment.

APPENDIX C

EXTERNAL INVESTMENTS - APPROVED COUNTERPARTY LIST AND LIMITS 2024/25

LOCAL AUTHORITIES	LIMIT for each LA	
	£m	PERIOD
All Local Authorities**	30	1 year+
Banks and building societies (exc. RBS Group)	30	<1 year
RBS Group (Natwest and Royal Bank of Scotland)	65	<1 year
Bank of England (DMADF)	100	1 year+
Money Market Funds	30	Instant access

** Local authorities may be subject to lower limits throughout the year if they are deemed to be under severe financial stress.

APPENDIX D

INVESTMENTS AS AT 16/01/24				
Maturity	**Borrower**	**Principal (£)**	**Rate (%)**	**Type**
25-Jan-24	Eastleigh Borough Council	**5,000,000**	5.35	Local Authority
25-Jan-24	Cornwall Council	**5,000,000**	5.45	Local Authority
05-Feb-24	Cornwall Council	**5,000,000**	5.40	Local Authority
07-Mar-24	Doncaster City Council	**5,000,000**	5.55	Local Authority
25-Mar-24	Leeds City Council	**10,000,000**	5.35	Local Authority
25-Apr-24	Dorset Council	**10,000,000**	5.55	Local Authority
25-Apr-24	Surrey County Council	**5,000,000**	5.55	Local Authority
03-May-24	Suffolk County Council	**5,000,000**	5.55	Local Authority
03-May-24	Fife Council	**5,000,000**	5.55	Local Authority
25-Oct-24	Basildon Borough Council	**5,000,000**	5.75	Local Authority
Instant	Money Market Fund CCLA	**20,000,000**	variable	
Instant	Money Market Fund Federated	**30,000,000**	variable	
5 to 10 years	CCLA	**5,000,000**	variable	Property Fund

APPENDIX E

Loan maturity profile as at 31 March 2024

Maturity Date	Loan amount	Interest rate	Annual int. payable
15/10/2024	2,200,000	6.625%	145,750
15/10/2025	2,000,000	6.625%	132,500
30/11/2027	7,000,000	3.990%	279,300
23/01/2051	15,000,000	3.700%	555,000
15/06/2056	5,587,000	4.450%	248,621
01/03/2057	8,200,000	4.350%	356,700
15/08/2058	5,000,000	4.390%	219,500
01/09/2061	2,000,000	4.875%	97,500
07/12/2068	10,000,000	2.640%	264,000
10/12/2068	10,000,000	2.540%	254,000
12/02/2069	5,000,000	2.370%	118,500
28/03/2069	10,000,000	2.160%	216,000
08/10/2069	15,000,000	1.630%	244,500
14/03/2072	7,500,000	2.070%	170,250
TOTAL	**104,487,000**		**3,302,122**