

Bournemouth, Christchurch and Poole Council (BCP)

Treasury Management Strategy Statement 2025/26

Introduction

Background

- 1 The Authority is required to operate a balanced budget, which broadly means that 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 Authority's low risk appetite, providing adequate liquidity initially before considering investment return.
- 2 The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that it 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 risk or cost objectives.
- 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.
- 4 CIPFA defines treasury management as:
"The management of the local authority's borrowing, investments and cash flows, including 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."
- 5 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.

Reporting Requirements

Capital Strategy

- 6 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

- the implications for future financial sustainability
- 7 The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.
 - 8 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

Treasury Management Reporting

- 9 The Authority 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 Annual 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, this Authority will receive quarterly update reports.
 - 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.

Scrutiny

- 10 The above reports are required to be adequately scrutinised before being recommended to Full Council. This role is undertaken by the Audit and Governance Committee.
- 11 **Quarterly reports** – In addition to the three major reports detailed above quarterly reporting (end of June/end of December) are also required. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Audit and Governance Committee. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

Treasury Management Strategy for 2025/26

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

Capital issues

- the capital plans and the 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 use of external service providers.

13 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.

Training

- 14 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.
- 15 Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.
- 16 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 board/ 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.
- 17 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 council members.
 - Require treasury management officers and council members to undertake

self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).

- Have regular communication with officers and council members, encouraging them to highlight training needs on an ongoing basis.

- 18 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.
- 19 The following training has been undertaken by members on the 16th June 2022 and further training will be arranged as required.
- 20 The training needs of treasury management officers are periodically reviewed.
- 21 A formal record of the training received by officers central to the Treasury function will be maintained by the Finance Manager - Technical. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Finance Manager - Technical.

Treasury management consultants

- 22 The Councils Treasury Management advisors are Link Asset Services.
- 23 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. 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.
- 24 It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority 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.

The Capital Prudential Indicators 2025/26 – 2027/28

- 25 The Authority'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.

Capital expenditure and Financing

- 26 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	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
General Fund	81,828	122,881	136,388	36,792	37,316
General Fund - SEN Capitalisation	-	-	60,000	-	-
HRA	24,417	34,866	43,004	35,014	27,290
Total	106,245	157,747	239,392	71,806	64,606

- 27 The following tables summarise 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.

General Fund Capital Expenditure

Capital expenditure	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
General Fund Total	81,828	122,881	196,388	36,792	37,316
Financed by:					
Capital receipts	-	23	-	-	-
Capital grants & Contributions	49,871	69,614	109,091	22,328	25,468
Revenue, S106 and CIL financing	1,943	4,904	6,045	2,209	518
Prudential Borrowing	30,014	48,340	21,252	12,255	11,330
SEN Capitalisation	-	-	60,000	-	-
Total financing for the year	81,828	122,881	196,388	36,792	37,316

HRA Capital Expenditure

Capital expenditure	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
HRA Total	24,417	34,866	43,004	35,014	27,290
Financed by:					
Capital receipts	2,884	3,143	4,720	4,764	2,888
Capital grants & Contributions	1,222	5,880	6,093	11,733	607
Revenue, S106 and CIL financing	5,515	7,070	5,807	500	500
Major Repairs Allowance	14,796	16,388	17,302	17,202	17,202
Prudential Borrowing	-	2,385	9,082	815	6,093
Total financing for the year	24,417	34,866	43,004	35,014	27,290

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

- 28 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 underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.
- 29 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.
- 30 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 and so the Council is not required to separately borrow for these schemes.

31 The Council is asked to approve the CFR projections:

	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Capital Financing Requirement					
CFR – General Fund	378,884	415,917	485,352	485,069	482,688
CFR – HRA	131,474	132,859	140,941	140,756	145,849
Total CFR	510,358	548,776	626,293	625,825	628,537
Movement in CFR	19,725	38,418	77,517	(468)	2,712
Movement in CFR represented by					
Net movement in borrowing for the year (above)	30,014	50,725	90,334	13,070	17,423
Less MRP/VRP and other financing movements	(11,013)	(12,307)	(12,817)	(13,538)	(14,711)
Movement in CFR	19,001	38,418	77,517	(468)	2,712

32 A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any borrowing in relation to the authority's overall financial position. The capital expenditure figures and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Council's remaining activity.

Liability Benchmark

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

34 There are four components to the LB: -

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

35 Appendix 4 to this strategy illustrates the graphical estimate of the liability benchmark for the general fund and HRA separately. It confirms both funds have net loan requirement supported by the internal borrowing capacity of the authority. This benchmark will continually be updated and referred to as new borrowing is considered in the medium term.

Core Funds and Expected Investment Balances

36 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.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Fund balances / reserves	77,020	67,543	56,984	53,503	53,503
Capital receipts	9,295	2,000	2,000	2,000	2,000
Provisions	26,335	15,000	15,000	15,000	15,000
Other	23,018	(85,400)	(85,400)	(145,400)	(205,400)
Total core funds	135,668	(857)	(11,416)	(74,897)	(134,897)
Working Capital*	(146,555)	(146,555)	(146,555)	(146,555)	(146,555)
Under/over borrowing	209,205	132,622	26,138	(122,331)	(267,620)
Expected Internal Investments	62,650	(13,933)	(120,417)	(268,886)	(414,175)

**Working capital balances shown are estimated year-end; these may be higher mid-year*

Minimum Revenue Provision (MRP) policy statement

- 37 The Authority's MRP policy was amended in 2023/24 following a comprehensive review of MRP charges and methodology. This updated policy reflects the new MRP calculation methods to be implemented.
- 38 For supported capital expenditure incurred before 1st April 2008, the Authority will apply the Asset Life Method using an annuity calculation.
- 39 Unsupported borrowing will be subject to MRP under option 3 of the guidance (Asset Life Method). MRP will be based on the estimated life of the assets in accordance with the statutory guidance using the annuity method, calculated on a weighted average basis, where appropriate.
- 40 MRP in respect of unsupported borrowing taken to meet expenditure, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, will be determined in accordance with the asset lives as recommended by the statutory guidance.
- 41 The interest rate applied to the annuity calculations will reflect the market conditions at the time, and will for the current financial year be based on PWLB annuity rates
- 42 Where applicable, repayments included in annual PFI or finance leases are applied as MRP.
- 43 MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory minimum revenue provision (MRP), i.e. voluntary revenue provision or overpayments, 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. The amount of VRP overpayments up to 31st March 2024 was £7.2m
- 44 MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for asset under construction where the MRP will be deferred until the year after the asset becomes operational.

Borrowing

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

Current portfolio position

- 46 The overall Treasury Management portfolio as at 31 March 2024 and for the position as at 31 December 2024 are shown below for both borrowing and investments.

	Actual 31/03/2024 £'000	Actual 31/03/2024 %	Current 31/12/2024 £'000	Current 31/12/2024 %
Treasury investments				
Money Market Funds	3,675	13%	850	2%
Bank Deposits	10,000	35%	0	0%
Local Authorities	15,000	52%	48,000	98%
Call Account	0	0%	0	0%
Total Treasury Investments	28,675	100%	48,850	100%
Treasury External Borrowing				
PWLB	188,896	64%	188,896	53%
Local Authorities	43,500	15%	84,500	24%
Private Sector	62,423	21%	80,768	23%
Salix	0	0%	0	0%
Total External Borrowing	294,819	100%	354,164	100%
Net treasury investment / (borrowing)	(266,144)		(305,314)	

- 47 The Authority'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.

	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
External Debt					
Treasury Debt 1st April	273,221	295,126	410,769	595,412	744,055
PFI and Finance Lease Liability	6,027	5,385	4,743	4,101	3,459
Expected change in Debt	21,905	115,643	184,643	148,643	148,643
Actual gross debt at 31 March	301,153	416,154	600,155	748,156	896,157
The Capital Financing Requirement	510,358	548,776	626,293	625,825	628,537
Under / (over) borrowing	209,205	132,622	26,138	(122,331)	(267,620)

- 48 Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority 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.

- 49 The S151 officer reports that the Authority complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.
- 50 It should be highlighted that the Treasury Strategy 2025/26 assumes that the council will be rewarded a capitalisation directive of £60m allowing it to offset the forecast deficit on special education needs for that year only. The hope is the government find a long-term solution to the problem so only a years borrowing has been assumed. If a solution is not forthcoming then a further capitalisation would be required every year thereafter.

Treasury Indicators: limits to borrowing activity

- 51 **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.
- 52 **The authorised limit for external debt.** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a 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.
- a 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.
- b The Audit and Governance Committee is asked to approve the following authorised limit:

	2023/24 Actual £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Operational Boundary	755	775	800	825	850
Authorised Limit	785	810	835	860	895

Prospects for interest rates

- 53 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 11.11.24. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 11.11.24													
	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	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
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	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
10 yr PWLB	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
25 yr PWLB	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
50 yr PWLB	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

Additional notes by Link on this forecast table: -

- 54 The latest forecast sets out a view that both short and long-dated interest rates

will start to fall once it is evident that the Bank of England has been successful in squeezing excess inflation out of the economy, despite a backdrop of stubborn inflationary factors and a tight labour market.

55 Following the 30th October Budget, the outcome of the US Presidential election on 6th November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7th November, we 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.

56 If we reflect on the 30th 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.

Borrowing strategy

57 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 have 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.

58 Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Director of Finance 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, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

59 Any decisions will be reported to the appropriate decision making body at the next available opportunity.

Policy on borrowing in advance of need

60 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.

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

Debt rescheduling

- 62 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.
- 63 If rescheduling was done, it will be reported to the Audit and Governance Committee, at the earliest meeting following its action.

Approved Sources of Long- and Short-term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Community municipal bonds	●	●
UK Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

Annual Investment Strategy

Investment Policy

- 64 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 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).
- 65 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).

- 66 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.
- 67 The above guidance from the DLUHC and CIPFA places 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: -
- a) 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.
 - b) 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 Authority 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.
 - c) 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.
 - d) 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.
 - e) All investments will be denominated in sterling.
 - f) As a result of the change in accounting standards for 2022/23 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the 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 until 31.3.25)
- 68 However, this Authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Creditworthiness policy

- 69 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:
- a 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
 - b 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.
- 70 The Chief Financial Officer 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 which types of investment instruments that can be used 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.
- 71 Credit rating information is supplied by Link Asset Services, our treasury consultants, 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 a possible longer-term change) 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 at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.
- 72 The criteria for providing a pool of high-quality investment counterparties (both specified and non-specified investments) is:

Sovereign Ratings

- AAA (non-UK)

(Rating Description: AAA = Prime Rating, AA+, AA, AA- = High Grade Rating)

Appendix 2 sets out the current list of countries that the Council can invest funds with.

The UK sovereign rating is currently AA. To ensure that the Treasury Function has capacity to operate effectively no specific minimum UK sovereign rating has been set out.

Selection Criteria

- 73 Banks 1 - the Council will use UK and non-UK banks which have, as a minimum at least one of, the following Fitch, Moody's and Standard & Poors credit ratings (where rated):

	Fitch	Moody's	Standard & Poors
Short Term	F1	P1	A-1
Long Term	A-	A3	A-

74 Investments will include term deposits, call accounts, notice accounts and Certificate of Deposits.

- a Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above.
- b Banks 3 – The Council's own bankers (HSBC, Lloyds and Barclays) 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.
- c Bank subsidiary and treasury operation - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- d Building societies. The Council will use societies which meet the ratings for Banks 1 outlined above.
- e Money Market Funds (MMFs) Constant net asset value (CNAV)
- f Money Market Funds (MMFs) Low-Volatility net asset value (LVNAV)
- g Money Market Funds (MMFs) Variable net asset value (VNAV)
- h Ultra-Short Dated Bond Funds with a credit rating of at least 1.25
- i Ultra-Short Dated Bond Funds with a credit rating of at least 1.50
- j Cash Plus Funds
- k UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility (DMADF))
- l Local authorities, Police and Fire Authorities, Parish Councils, BCP Council Companies (Subsidiaries) and Partnerships.
- m Pooled Funds

Maximum Time and Monetary Limits applying to Investments

75 The maximum amount that can be invested in any one institution at the time of the investment (including call accounts) as a percentage of the total investment portfolio has been reviewed and rationalised. All AA- and above rated institutions have a maximum limit of 25%, all A+, A or A- rated institutions have a maximum limit of 20%. For practical reasons where the average investment balance falls below £10m it may become necessary to increase the percentage limit to 33% at the time of investment (this only applies to call accounts and money market funds).

76 The maximum time and monetary limits for institutions on the Council's Counterparty List are as follows (these will cover both Specified and Non-Specified Investments):

	Long Term Rating	Money Limit	Time Limit
Banks 1 higher quality	AA-	25%	2 years
Banks 1 medium quality	A	20%	1 year
Banks 1 lower quality	A-	20%	6 months
Banks 2 category – part-nationalised	N/A	20%	2 years
Limit 3 category – Council's banker Barclays	AA-	25%	3 months
DMADF	UK sovereign rating	Unlimited	6 months
Local Authorities	N/A	20%	5 years
Money Market Funds CNAV	AAA	25%	Instant access
Money Market Funds LVNAV	AAA	25%	Instant access
Money Market Funds VNAV	AAA	25%	Instant access
Ultra-Short Dated Bond Funds	N/A	25%	Unlimited

Use of additional information other than credit ratings

77 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 counterparties.

Investment strategy

In-house funds

78 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).

Investment returns expectations

79 Bank Rate is forecast to over the next two years reaching 3.5% by December 2026.

- 80 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	
2024/25 (residual)	4.55%
2025/26	3.10%
2026/27	3.00%
2027/28	3.25%
2028/29	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

Investment treasury limit

- 81 The maximum period for investments will be 5 years.

Ethical Investing

- 82 This is an area of investing that is becoming increasingly considered by financial institutions and customers. Products from financial institutions are growing but still remain limited. To consider investing in sustainable deposits they will still need to meet our counterparty criteria and parameters set out earlier in the strategy. Investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues must play a subordinate role to those priorities. The Treasury team will continue to explore this area and report to members of any further developments.

Treasury Management Policy, Practices and Schedules

- 83 The Treasury Management Policy, Practices and Schedules will be presented alongside this 2025/26 update of the TM Strategy.

Appendices

Appendix 1 - Economic Background

Appendix 2 - Approved Countries for investments

Appendix 3 - The Treasury Management role of the S151 Officer

Appendix 4 - Liability Benchmarking – GF and HRA

Appendix 1: Economic Background (provided by Link Asset Services)

The third quarter of 2024/25 (October to December) saw:

- GDP growth contracting by 0.1% m/m in October following no growth in the quarter ending September;
 - The 3myy rate of average earnings growth increase from 4.4% in September to 5.2% in October;
 - CPI inflation increase to 2.6% in November;
 - Core CPI inflation increase from 3.3% in October to 3.5% in November;
 - The Bank of England cut interest rates from 5.0% to 4.75% in November and hold them steady in December.
 - 10-year gilt yields starting October at 3.94% before finishing up at 4.57% at the end of December (peaking at 4.64%).
- The 0.1% m/m fall in GDP in October was the second such decline in a row and meant that GDP would need to rise by 0.1% m/m or more in November and December, for the economy to grow in Q4 as a whole rather than contract. With on-going concern over the impact of the October budget and drags from higher interest rates and weak activity in the euro zone, our colleagues at Capital Economics have revised down their forecast for GDP growth in 2025 to 1.3% (it was initially 1.8% in the immediate wake of the Budget.)
 - This quarter saw the composite activity Purchasing Manager Index (PMI) dip below the level of 50 that separates expansion from contraction for the first time since October 2023. Although December's composite PMI came in above this level, at 50.5, this was still consistent with the 0% rise in real GDP in Q3 being followed by a flat-lining, or potential contraction, in the final quarter of 2024. However, the economy is unlikely to be quite as weak as that given that the PMIs do not capture rises in government spending, but the data does underline the continued divergence in trends between the manufacturing and services sectors. The manufacturing PMI fell for its fourth consecutive month in December, from 48.0 in November to 47.3. That's consistent with manufacturing output falling by 1.5% q/q in the final quarter of 2024 after flatlining through the summer months. This weakness in the manufacturing sector was offset by a rebound in the services sector. The services PMI rose from 50.8 in November to 51.4 in December, which is consistent with non-retail services output growth increasing from +0.1% q/q to +0.3% for October - December. This suggests that more of the recent slowdown in GDP is being driven by the weakness in activity overseas rather than just domestic factors. Additionally, the services output prices balance rose for the third consecutive month, from 55.4 in November to 56.9, showing signs that price pressures are reaccelerating.
 - After rising by 1.4% q/q in July - September, the retail sector had a difficult final quarter of the year. Indeed, the bigger-than-expected 0.7% m/m fall in retail sales in October (consensus forecast -0.3% m/m) suggested that households' concerns about expected tax rises announced in the Budget on 30th October contributed to weaker retail spending at the start of the quarter. The monthly decline in retail sales volumes in October was reasonably broad based, with sales in five of the seven main sub sectors slipping. However, the potential for seasonally adjusted sales to rise in November - if October's figures were impacted by the timing of the school half term – combined with a rebound in consumer confidence and rising real incomes, points to some promise to the final quarter of 2024

- The Government's October budget outlined plans for a significant £41.5bn (1.2% of GDP) increase in taxes by 2029/30, with £25bn derived from a 1.2% rise in employers' national insurance contributions. The taxes are more than offset by a £47bn (1.4% of GDP) rise in current (day-to-day) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing. The result is that the Budget loosens fiscal policy relative to the previous government's plans - although fiscal policy is still being tightened over the next five years – and that GDP growth is somewhat stronger over the coming years than had previously been forecasted. By way of comparison, the Bank of England forecasts four-quarter GDP growth to pick up to almost 1¾% through 2025 (previously forecast to be 0.9%) before falling back to just over 1% in 2026.
- December's pay data showed a rebound in wage growth that will likely add to the Bank of England's inflationary concerns. The 3myy rate of average earnings growth increased from 4.4% in September (revised up from 4.3%) to 5.2% in October (consensus forecast 4.6%) and was mainly due to a rebound in private sector pay growth from 4.6% to 5.4%. Excluding bonuses, public sector pay stagnated in October and the 3myy rate fell from 4.7% to 4.3%.
- The number of job vacancies also fell again from 828,000 in the three months to October to 818,000 in the three months to November. This marks the first time it has dropped below its pre-pandemic February 2020 level of 819,000 since May 2021. Despite this, the Bank of England remains concerned about the inflationary influence of high wage settlements as well as the risk of a major slowdown in labour market activity.
- CPI inflation has been on the rise this quarter, with the annual growth rate increasing from 1.7% in September to 2.3% in October, before rising further to 2.6% in November. Although services CPI inflation stayed at 5.0% in November, the Bank had expected a dip to 4.9%, while the timelier three-month annualised rate of services CPI rose from 5.0% to 5.1%. That shows that there currently isn't much downward momentum. Moreover, the wider measure of core CPI inflation rose from 3.3% to 3.5% in November. Both services and core inflation are currently at rates well above those consistent with the 2.0% target and are moving in the wrong direction. Capital Economics forecast that after dipping to 2.5% in December, CPI inflation will rise further in January, perhaps to 2.8%. Although CPI inflation is expected to be back at close to the 2.0% target by the end of 2025, given that a lot of the rise in inflation in the coming months will be due to base effects that won't persist, the potential for a broader set of tariffs to arise from the US as well as the constant threat of geo-political factors to impact energy and food prices suggest risks remain very much to the upside.
- Throughout the quarter gilt yields have risen. The 10-year gilt yield increased from 3.94% at the start of October to 4.57% by the year end (and has subsequently risen to 4.64% early in 2025). As recently as mid-September 10-year gilt yields were at their low for the financial year, but since then, and specifically after the Budget at the end of October, yields have soared. Overall, the reaction to the UK Budget highlights how bond markets are both fragile and highly attentive to news about the fiscal outlook.
- The FTSE 100 started off this quarter at 8,276, before finishing up at 8,121. In particular, UK markets have continued to fall further behind US equities, a trend which has accelerated since Trump's election victory in November, partly due to the

UK stock market being less exposed to AI hype, and it being weighed down by its relatively large exposure to the energy and materials sectors.

MPC meetings: 7th November & 18th December 2024

- 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.
- At the 18 December meeting, another split vote arose. Members voted 6-3 to keep Bank Rate on hold at 4.75%, but dissenters (Dhingra, Ramsden and Taylor) were keen for rates to be cut further as concerns over the slowing down of the UK economy took root, despite near-term inflation fears remaining.
- The MPC again stated that “a gradual approach” to rate cuts “remains appropriate” and that policy will “remain restrictive for sufficiently long”.

PWLB maturity Certainty Rates 1st April to 31st December 2024

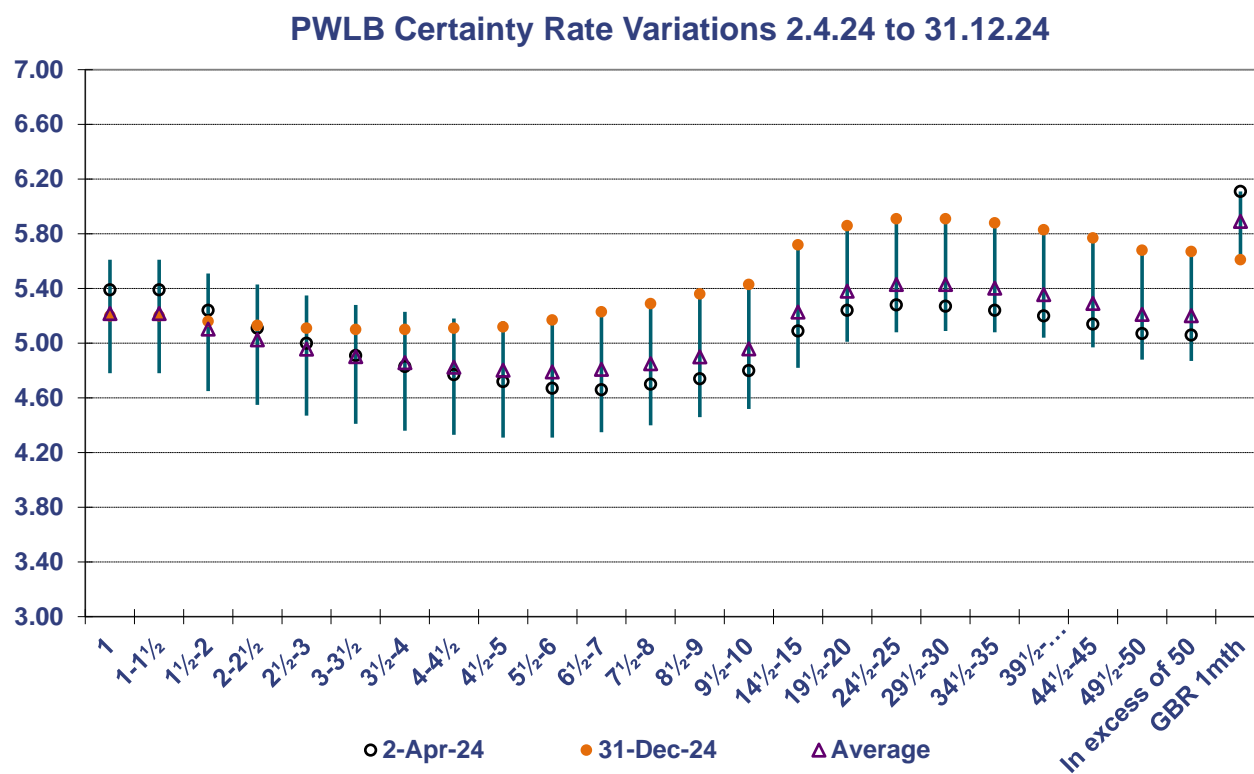
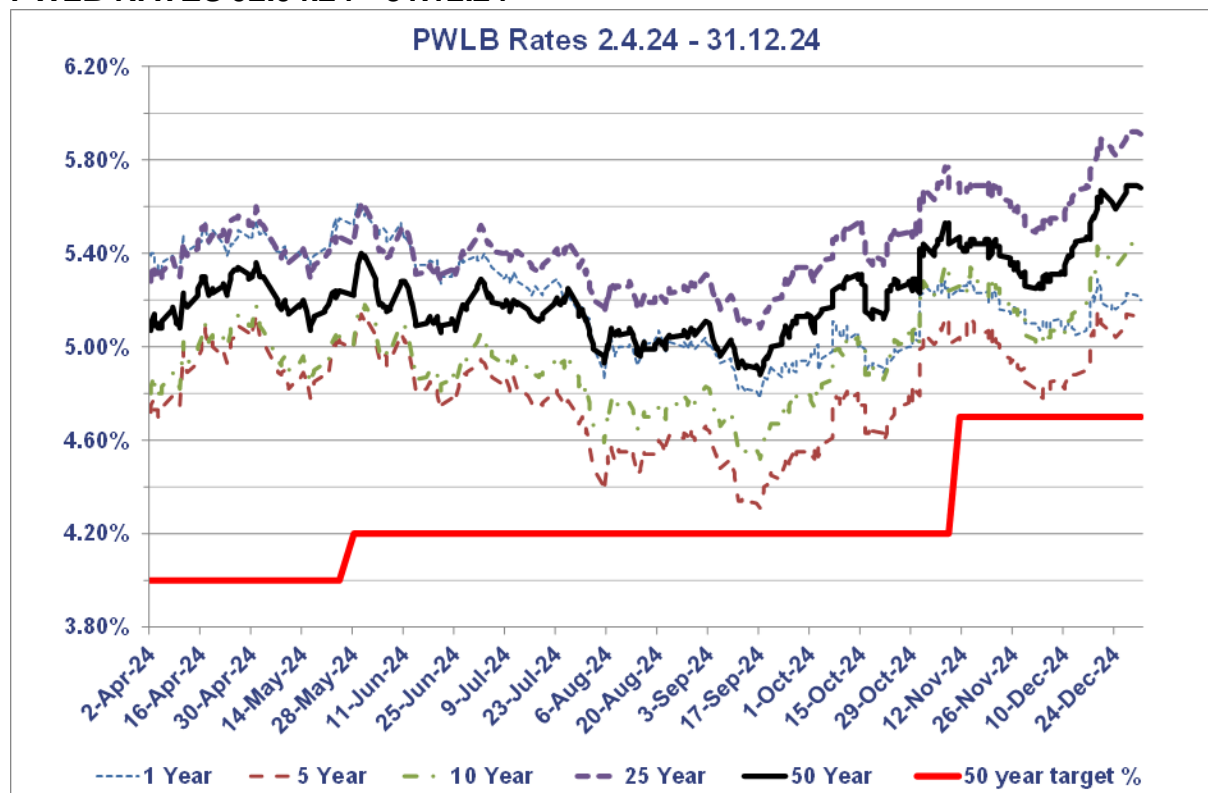
Medium and longer-dated gilt yields, and therein PWLB rates, have moved significantly higher over the course of the financial year, culminating in long-term rates approaching levels last seen in 1998. The rise in medium to long-term yields has arisen because of several factors. Namely, the inflation outlook has become stickier than the market anticipated earlier in the year, with wages remaining somewhat elevated (currently increases are c5% y/y) and the labour market tight (unemployment a little above 4% and job vacancies more than 800,000).

Moreover, the Government has not fully convinced the markets that the UK economy is about to undergo a material increase in productivity and growth. The quarter ending 30th September saw UK GDP stagnate and the prospects for 2025 are somewhat opaque at present. With the UK public finances seemingly under pressure too (as of 7th January, it is estimated that the Chancellor’s October Budget contingency is less than £1bn following the recent rise in gilt yields), and historic buyers of longer-dated gilts – pension funds and insurance companies – targeting shorter-dated maturities of late, it is not that great a surprise that yields have risen in the longer dates even as the Debt Management Office has sought to issue debt with shorter durations than might normally have been the case.

There is also anecdotal evidence that hedge funds, who are not long-term holders of long-dated debt issuance, as a rule, may be more active in this part of the market than has normally been the case. Their presence, arguably, adds volatility to the equation. Consequently, and pulling all these factors together, and it is clear that any signs of public finance weakness could lead to elevated yields from time to time.

Additionally, US Treasury yields have also risen prior to Donald Trump’s inauguration as US President on 20th January. Markets are nervous as to what the effect of deportation, tariff and tax-cutting policies will have on inflation. Given the impact US markets have globally, this is another contributing factor to the near-term rise in UK yields. The hope is that when the “unknowns” become known, markets will behave in a calmer fashion and yields fall back. But that is not certain.

PWLB RATES 02.04.24 - 31.12.24



HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 31.12.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
31/12/2024	5.20%	5.12%	5.43%	5.91%	5.68%
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%	5.16%	5.44%	5.92%	5.69%
High date	29/05/2024	19/12/2024	19/12/2024	19/12/2024	27/12/2024
Average	5.22%	4.80%	4.96%	5.43%	5.21%
Spread	0.83%	0.85%	0.92%	0.84%	0.81%

Appendix 2: Approved countries for investments

AAA

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

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- Qatar

AA-

- Belgium
- France
- **U.K.**

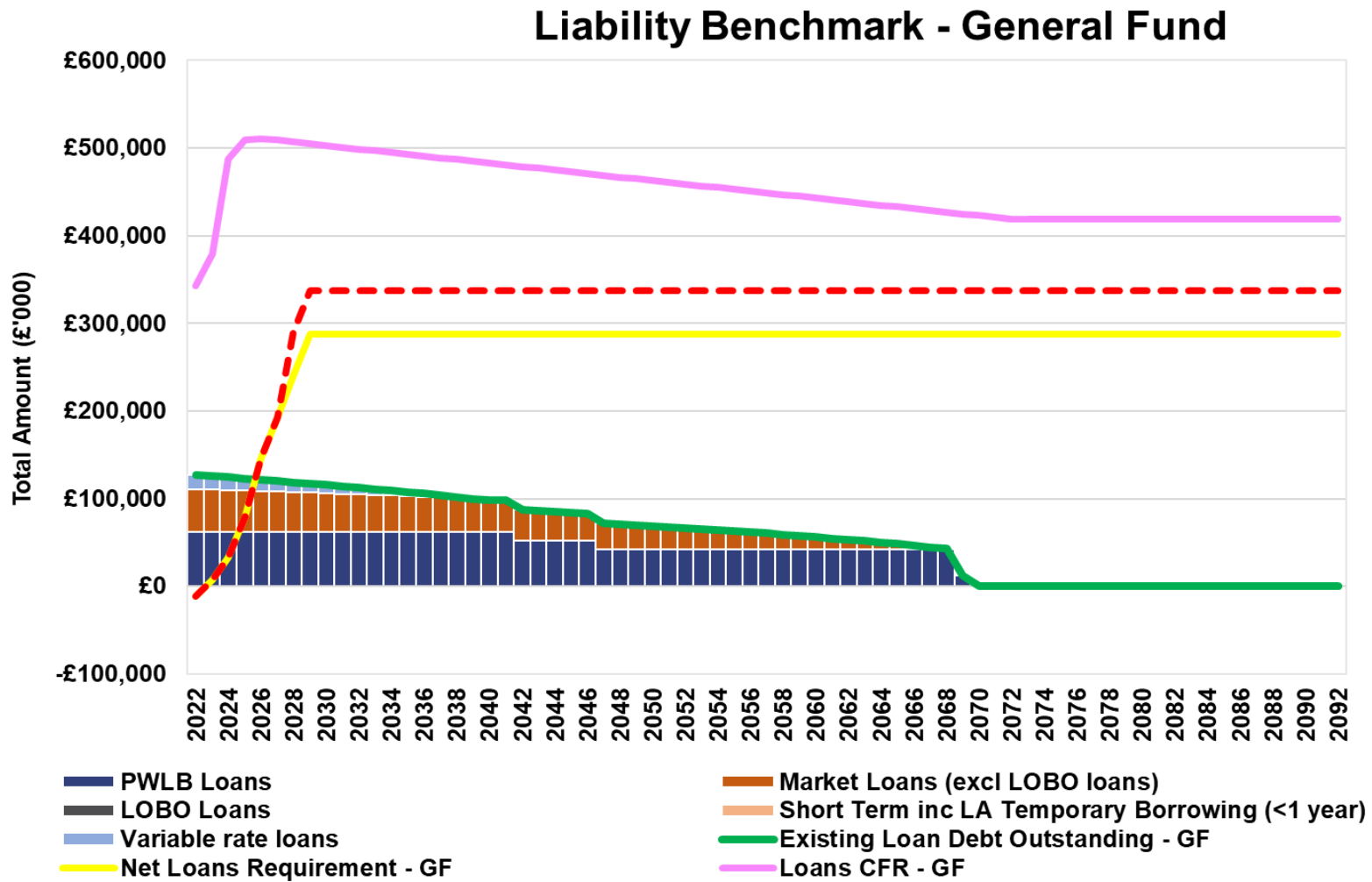
Appendix 3: The Treasury Management role of the section 151 officer

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 (say 20+ years – *to be determined in accordance with local priorities.*)
- ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the Authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the Authority does not undertake a level of investing which exposes the Authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by the Authority
- ensuring that the Authority has adequate expertise, either in house or externally provided, to carry out the above
- 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.*

Appendix 4 – Liability Benchmark – General Fund



Appendix 4 – Liability Benchmark – HRA

