Bury Council

Classification: Open	Decision Type: Key

Report to:	Overview & Scrutiny - 6 February 2024 Cabinet – 14 February 2024 Council – 21 February 2024
Subject:	Treasury Management Strategy 2024/25
Report of	Cabinet Member for Finance and Communities

Summary

The report provides details of the Treasury Management Strategy incorporating The Treasury Management Policy Statement 2024/25, The Annual Investment Strategy 2024/25, The Prudential Indicators 2024/25 to 2026/27, The Minimum Revenue Provision (MRP) Policy Statement.

Recommendation(s)

1. The Cabinet is requested to endorse the recommendations outlined below, for approval by Council.

   The Council is requested to agree the following: -

   - To approve the Treasury Management Strategy including the associated Prudential Indicators and Annual Investment Strategy.
   - To approve the Treasury Management Policy Statement.
   - To approve the Minimum Revenue Provision (MRP) Policy Statement.

Reasons for recommendation(s)

As a requirement of Local Government Act 2003, the DLUHC investment guidance (2018), the DLUHC MRP guidance 2018, the CIPFA Treasury Management Code and the CIPFA Prudential Code.

Alternative options considered and rejected

Not applicable.

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1. Background

1.1 The Council is required to operate a balanced budget i.e. cash raised during the year will meet cash expenditure. In pursuit of this objective, amongst other things, the Council operates a treasury management function which incorporates the management of the Council's cash flows, lending and borrowing activities and the control management and mitigation of the risks associated with these activities.

1.2 Borrowing facilitates the funding of the Council's capital programme. The Council's capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses. If the right circumstances prevail, debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity and 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 maintain the balance between the interest costs of debt and the investment income arising from cash deposits to manage the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund balance.

1.4 Although policy spending initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure) and are separate from the day-to-day treasury management activities.

1.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.6 Revised reporting has been required since 2018/19 due to revisions of the Ministry for Housing Communities and Local Government (MHCLG) (now the Department for Levelling Up, Housing and Communities (DLUHC)) Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a requirement for all local authorities to have a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011 especially using the 'General Powers of Competence' provision. The capital strategy is being reported separately, though some key prudential indicators will be retained within this document.

2. Reporting Requirements

2.1 CIPFA revised the Prudential and Treasury Management Codes in December 2021, these updates were implemented by the Council in 2022/23. The Prudential Codes requires all local authorities to prepare an additional report, a capital strategy report note Appendix 3, which will provide the following:

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

2.2 The aim is to ensure that all elected Members fully understand the long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

2.3 The expected income, costs and contributions, debt and associated interest costs and the MRP policy are included in the Treasury Management Strategy. The Capital Strategy and Treasury Management Strategy have been reviewed to ensure compliance with the updated requirements across the two strategies.

2.4 Non-treasury investments are reported through the Capital Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the service and policy investments usually driven by expenditure on an asset. The capital strategy outlines:

- the corporate governance arrangements for these types of activities;
- any service objectives relating to the investments;
- the expected income, costs and resulting contribution;
- the debt related to the activity and the associated interest costs;
- the payback period (Minimum Revenue Provision (MRP) policy);
- for non-loan type investments, the cost against the current market value; and
- the risks associated with each activity.

2.5 Should a physical asset be bought for investment purposes, details of market research, advisers used (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

2.6 If any non-treasury investment sustains a loss this will be reported through the final accounts, outturn and audit process, including the strategy and revenue implications.

2.7 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this strategy document.

3. Treasury Management Reporting

3.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice (Treasury Code) to set prudential and treasury indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Council must also have regard to the DLUHC statutory guidance, Capital finance: guidance on minimum revenue provision.

3.2 In pursuit of the above, the Council must produce as a minimum three treasury reports each year:

a) Treasury Strategy, a requirement fulfilled by the production of this strategy document which includes:
- capital plans (including prudential indicators);
- minimum revenue provision (MRP) policy;
- the treasury management strategy (including treasury indicators); and
- an investment strategy.

b) A mid-year report which updates members on treasury progress, the capital position, the prudential indicators (and any amendments) and whether any strategies or policies require revision; and

c) An annual treasury outturn report (a backward-looking review).

3.3 Full Council approves the Treasury Management Strategy as part of the annual budget setting process. This appendix sets out the Treasury Management Strategy for 2024/25.

3.4 The scrutiny of the treasury management function within the Council is undertaken by Cabinet, which carries out quarterly reviews.

3.5 The Council is also required to comply, and its Investment Strategy is compliant with, the DLUHC investment guidance, revised in 2018.

3.6 This Treasury Management Strategy report complies with the revised Treasury Management Code.

3.7 In addition to the reporting schedule outlined above the Code requires the:

- Creation and maintenance of a treasury management policy statement which sets out the policies and objectives of the Council's treasury management activities. The Treasury Management Policy Statement is attached for reapproval as Annex 1.

- Creation and maintenance of Treasury Management Practices (TMPs) which set out the way the Council will seek to achieve those policies and objectives; these are maintained and kept under review by officers.

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions. The scheme of delegation is attached as Annex 2.

- The Council complies with the necessary requirements and its governance process is strengthened by its Treasury Board, which meets regularly to support the Interim Executive Director of Finance (Section 151) in the execution of their delegated powers.

Section 2 – Treasury Management Strategy for 2024/25

4. 2024/25 Strategy Overview

4.1 The Treasury Management Strategy for 2024/25 addresses capital issues including capital expenditure plans, prudential indicators, MRP and other treasury management issues such as the investment strategy and creditworthiness policy.

4.2 The proposed Treasury Management Strategy and Policy for the remainder of 2023/24 and for financial year 2024/25 adheres to the Council's policy on investments of "safety before returns" and investments are currently being placed with the following:

- The Council's banker (Barclays Bank);
- Lloyds/Bank of Scotland PLC

4.3 Although current investments are per above, the investment parameters permissible under the Treasury Management Strategy are much broader as outlined in the Annual Investment Strategy (Annex 5) under specified and non-specified investments. After due consideration the Interim Executive Director of Finance (Section 151) can invest in any of the instruments/strategies if satisfied that the rewards are within acceptable risk parameters.

4.4 The proposed Treasury Management Strategy for 2024/25 is based upon treasury officers' views on interest rates and market forecasts (supplemented by forecasts provided by the Council's treasury advisors, Arling Close Limited). The proposals in this report will assist the Council in mitigating risk in the treasury management activities and allow the borrowing necessary to finance the capital programme.

4.5 The strategy report covers:

- Capital Plans and Prudential Indicators;
- MRP;
- Borrowing;
- Treasury Limits for 2023/24 to 2026/27;
- Economic Background;
- Borrowing Strategy;
- Debt Rescheduling;
- Housing Revenue Account (HRA) Self Financing;
- Annual Investment Strategy;
- Financial Implications;
- Balanced Budget Requirement;

- Treasury Management Policy Statement; and
- Scheme of Delegation.

4.6 The strategy incorporates the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Code and DLUHC Investment Guidance.

5. Training

5.1 The Treasury Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training on treasury management and related issues. This especially applies to Members responsible for scrutiny, who regularly receive training.

5.2 All members are scheduled to receive training this financial year to be delivered by the Council's treasury management advisers. The training needs of treasury management officers are met through attendance at relevant courses, conferences and forums and are periodically reviewed and addressed as part of the Council's appraisal scheme.

6. Treasury Management Consultants

6.1 The Council uses Arling Close Limited, as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, treasury advisers.

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

6.3 The scope of investments within the Council's operations now includes both conventional treasury investments (the placing of residual cash from the Council's functions) and more policy/service driven investments, such as policy loans to the Joint Ventures for Regeneration. The policy investments require specialist advisers, and the Council uses Arling Close Limited and other commercial and legal advisors in relation to this activity.

7. Prudential Indicators

7.1 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

7.2 The Council's Prudential Indicators for the period 2023/24 – 2026/27 are set out in **Annex 3** and Full Council is asked to approve these.

7.3 The benefit of the indicators are derived from monitoring them over time rather than the absolute value of each. A reporting schedule is maintained, with a mid-year report to Full Council to highlight any significant deviations from expectations. The indicators can be amended and reported to Full Council for approval at the earliest opportunity.

7.4 The indicators for later years are broad estimates since a number of factors including the level of Government support beyond 2024/25 are not firmed up. These estimates will be revised, as more accurate information becomes available.

8. Minimum Revenue Provision (MRP) Policy Statement

8.1 Changes to regulations and statutory guidance on MRP was issued in February 2018 and effective from 2019/20.

8.2 The key changes were that:

- The option to calculate MRP in retrospect thereby creating a credit or a reduction in MRP for future years was closed, though the ability to reset a provision prospectively remains – any changes should use the residual CFR at that point in time;
- MRP should not be £nil in any year – unless CFR is nil or negative or a voluntary MRP is being clawed back;
- Maximum asset life is 50 years unless supported by expert opinion; and
- Where the asset life methodology (option 3) is being used, the guidance is prescriptive on the maximum number of years over which the type of expenditure can be written off – in the absence of a quantifiable asset life, 50 years is considered the default.

8.3 On 21 December 2023, the Government published a consultation on proposed changes to regulations and statutory guidance on MRP to be effective from 1 April 2024.

8.4 The Key changes being proposed are:

- Additional guidance in what should be included in the MRP Statement.
- Support to the regulatory requirement that authorities must not exclude investment assets from CFR or the determination of the MRP charge.
- A statement that an authority cannot calculate an MRP charge and then not charge that amount to revenue – this is to clarify that capital receipts cannot be used to replace a charge to revenue.
- Further explanation on the permitted use of capital receipts to reduce MRP only by reducing the overall CFR, not to replace part or all of the calculated MRP charged to revenue.
- Explanation on the new regulations relating to capital loans in that MRP need not be made with respect to capital loans provided they are not commercial capital loans and that MRP must be made with respect to

commercial capital loans. Also, what constitutes a commercial loan.

- Guidance on the requirement to include in the MRP charge an amount for any (IFRS 9: Financial Instruments) expected credit loss or actual loss with respect to a capital loan.

8.5 Whilst the proposed regulation and statutory on MRP has no impact for the Council, the MRP Policy has been updated to incorporate the proposed requirements.

8.6 Full Council is asked to approve the MRP policy statement as set out in Annex 4.

9 Core funds and expected investment balances

9.1 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.).

10 Affordability Prudential Indicators

10.1 Within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. Full Council is asked to approve the indicators as set out in Annex 3.

11. Borrowing

11.1 The capital expenditure plans set out in this strategy document outline service activity for the Council. The treasury management function ensures that the Council adheres to the relevant treasury codes of practice as well as organising the Council's cash flow and borrowing needs to meet the requirements of service activity. It is a statutory requirement under the Local Government Finance Act 1992, for the Council to produce a balanced budget. Section 31A and S31B requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- increases in interest charges caused by increased borrowing to finance additional capital expenditure; and
- any increases in running costs from new capital projects are limited to a level which is affordable, prudent and sustainable within the projected income of the Council for the foreseeable future.

11.2 The strategy document covers the relevant treasury/prudential indicators, the current and projected debt positions and the annual investment strategy.

11.3 The Council's current treasury management portfolio position is set out in table 1A and 2B below. The overall portfolio as at the 31 March 2024 and the position at 31 December 2023 are shown below for borrowing and investments.

Table 1A: Treasury Management Portfolio

Existing Investment & Debt Portfolio Position	31.03.2023		31.12.2023	
	Actual Portfolio £m	Average Rate %	Actual Portfolio £m	Average Rate %
Treasury Investments:				
The UK Government	£0.000	0.00%	£0.000	0.00%
Local Authorities	£0.000	0.00%	£0.000	0.00%
Other Government Entities	£0.000	0.00%	£0.000	0.00%
Secured Investments	£0.000	0.00%	£0.000	0.00%
Banks (unsecured)	£1.720	100.00%	£4.380	100.00%
Building Societies (unsecured)	£0.000	0.00%	£0.000	0.00%
Registered providers (unsecured)	£0.000	0.00%	£0.000	0.00%
Money Market Funds	£0.000	0.00%	£0.000	0.00%
Other Investments	£0.000	0.00%	£0.000	0.00%
Total Treasury Investments	**£1.720**	**100.00%**	**£4.380**	**100.00%**
External Borrowing:				
Public Works Loan Board	(£162.329)	66.63%	(£202.230)	82.03%
Local Authorities	(£43.300)	17.77%	(£26.300)	10.67%
LOBO Loans from Banks	(£33.000)	13.55%	(£13.000)	5.27%
Other Loans	(£5.000)	2.05%	(£5.000)	2.03%
Total Gross External Debt	**(£243.629)**	**100.00%**	**(£246.530)**	**100.00%**
Net Investment/(Debt)	**(£241.909)**	**100.00%**	**(£242.150)**	**100.00%**

11.4 The Council's projections for borrowing are summarised below. Table 1B shows the actual external debt against the underlying capital borrowing need, (the Capital Financing Requirement (CFR)), highlighting any over or under borrowing.

Table 1B: Treasury Management Portfolio

Actual External Debt against Capital Borrowing Need	2022-23 Actual £m	2023-24 Estimate £m	2024-25 Forecast £m	2025-26 Forecast £m	2026-27 Forecast £m
External Debt:					
Debt at 1 April	£220.826	£243.629	£282.855	£327.064	£370.483
Expected Change in Debt +/-	£22.803	£39.226	£44.209	£43.419	£0.500
Actual Gross Debt at 31 March	**£243.629**	**£282.855**	**£327.064**	**£370.483**	**£370.983**
Capital Financing Requirement (CFR)	£371.120	£386.746	£426.322	£465.981	£462.056
Under/(Over) Borrowing	**£127.491**	**£103.891**	**£99.258**	**£95.498**	**£91.073**

*Note: **The table shows the impact of not externally borrowing (using the Council's cash balances/ investments to internally fund underlying borrowing). This policy is under constant review.*

11.5 Within the above figures the level of debt relating to non-treasury activities i.e. policy investment is:

Table 2: External Debt for Policy Investments (including Loans to Manchester Airport, Subsidiaries and Joint Ventures) / non-treasury investments

External Debt for Policy/Non-Financial Investments	2022-23 Actual £m	2023-24 Estimate £m	2024-25 Forecast £m	2025-26 Forecast £m	2026-27 Forecast £m
Actual debt at 31 March £m	£31.828	£31.828	£31.828	£31.828	£31.828
Percentage of Total External Debt %	13.06%	11.25%	9.73%	8.59%	8.58%

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

11.7 The Interim Executive Director of Finance (Section 151) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

12. Liability Benchmark

12.1 A new prudential indicator introduced in 2023/24 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

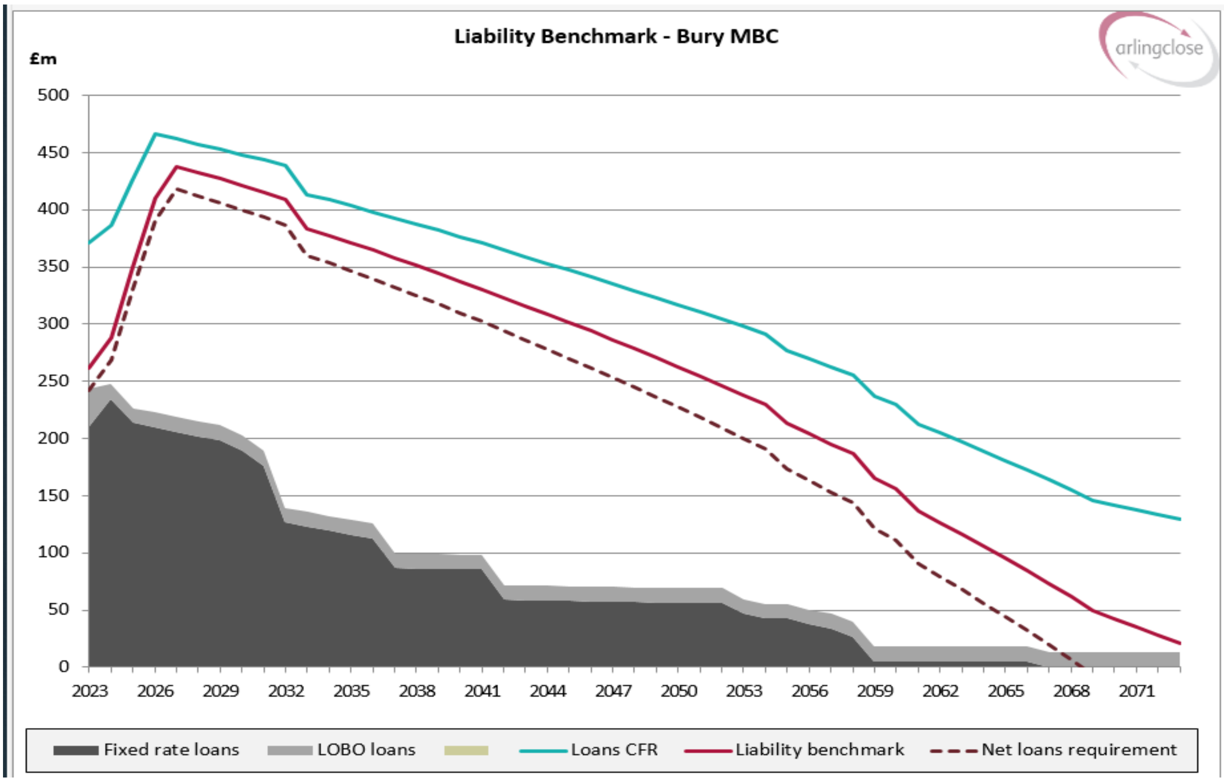
There are four components to the Liability Benchmark: -

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

12.2.1 Liability Benchmark table and chart:

Bury MBC

Position at 31 March	Actual 2023	Forecasts 2024	£m 2025	2026	2027	2028	2029	2030
Loans CFR	371.1	386.7	426.3	466.0	462.0	457.5	452.9	448.2
External borrowing	-243.6	-247.4	-226.5	-222.9	-218.7	-215.1	-211.5	-202.8
Internal (over) borrowing	127.5	139.3	199.8	243.1	243.3	242.4	241.5	245.4
Balance sheet resources	-129.2	-118.1	-96.6	-75.7	-43.8	-45.3	-46.8	-48.4
Investments (new borrowing)	1.7	-21.2	-103.2	-167.4	-199.5	-197.1	-194.6	-197.0
Treasury investments	1.7	20.0	20.0	20.0	20.0	20.5	21.0	21.5
New borrowing	0.0	41.2	123.2	187.4	219.5	217.6	215.6	218.5
Net loans requirement	241.9	268.6	329.7	390.3	418.2	412.2	406.1	399.8
Liquidity allowance	20.0	20.0	20.0	20.0	20.0	20.5	21.0	21.5
Liability benchmark	261.9	288.6	349.7	410.3	438.2	432.7	427.1	421.4



12.2.1 For the liability benchmarking, the Council is showing an under borrowed position relative to its CFR.

13. Treasury Indicators

13.1 Treasury Limits for 2024/25 to 2026/27

13.1.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting regulations for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales, the Authorised Limit represents the legislative limit specified in the Act.

13.1.2.1 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and that the impact upon its future council tax and council rent levels is 'acceptable'.

13.1.2.2 Whilst termed an “Affordable Borrowing Limit”, the capital plans considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years, details of the Authorised Limit are set out in Annex 3.

14. Economic Background and Interest Rate Forecasts

Prospects for interest rates

14.1 The Council has appointed Arling Close Limited as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their view as at 16/11/2023.

Rate	Dec-23 %	Mar-24 %	Jun-24 %	Sep-24 %	Dec-24 %	Mar-25 %	Mar-26 %
Bank Rate	5.25	5.25	5.25	5.00	4.75	4.25	3.25
5yr PWLB	4.75	4.75	4.75	4.70	4.60	4.50	4.30
10yr PWLB	4.75	4.80	4.80	4.80	4.80	4.80	4.60
20yr PWLB	5.20	5.20	5.20	5.20	5.20	5.20	5.20
50yr PWLB	4.80	4.85	4.90	4.90	4.90	4.90	4.95

14.2 **Underlying assumptions:**

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC’s message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank’s last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC’s attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10

months, or until the MPC is comfortable the risk of further ‘second-round’ effects has diminished.

14.3 **Forecast:**

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for the Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.
- Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts Periodic volatility is likely.

15. Borrowing Strategy

15.1 The Council’s strategy is to achieve a low but stable cost of finance but retaining flexibility to alter its plans as circumstances change. In this regard, the Council has maintained an under-borrowed position, this strategy is prudent when investment/borrowing interest rates were low, however, over the next two financial years of 2024-25 and 2025-26, the Capital Programme has a £87.6m borrowing requirement, that will require the Council to undertake borrowing to fund and reduce the under-borrowed position.

15.2 The Council has, to date, raised most of its long-term borrowing from the PWLB but will consider long-term loans from other sources to lower interest costs and reduce the over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets bought primarily for financial return; this Council will continue to avoid this activity and ensure the Council retains its access to PWLB loans.

15.3 Sensitivities of the forecast

15.3.1 If officers’ felt there was a significant risk of a sharp fall in long- and short-term interest rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowing will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered. However, if there was a significant risk of a much sharper rise in long- and short-term rates than that currently forecast, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be raised whilst interest rates are still lower than they will be in the foreseeable years ahead. The Council has, during 2023/24, raised borrowing in line with the latter strategy. All decisions and actions taken have or will be reported to Cabinet and Full Council at the earliest opportunity.

15.4 Financial Institutions as a source of borrowing and Types of Borrowing

15.4.1 Approved sources of borrowing include:

- HM Treasury's PWLB lending facility (Public Works Loan Board);
- UK Infrastructure Bank Ltd;
- Any institution approved for investments;
- Financial Institutions including Assurance and Insurance Companies and Banks authorised to operate in the UK;
- Any other UK public sector body;
- Housing Associations;
- UK private and public sector pension funds, with the exception of the Greater Manchester Pension Fund;
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues;
- Any other institution which is legally able to lend to local authorities;

15.4.2 A range of organisations fall within the scope of the list and a range of financial instruments may be issued to evidence the borrowing including public or privately issued bonds, negotiable bonds, commercial paper, medium term notes etc. The Interim Executive Director of Finance (Section 151) will explore all options and determine the optimal source of borrowing for the Council.

15.4.3 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

15.4.3.1 Leasing – a contract outlining the terms under which one party agrees to lease/ rent a property owned by another party;

15.4.3.2 Hire purchase – financing where monthly payments are made but ownership does not occur until the last payment;

15.4.4 The Council will continue to borrow in respect of the following:

15.4.4.1 Maturing debt (net of MRP);

15.4.4.2 Approved unsupported (prudential) capital expenditure; and

15.4.4.3 To finance cash flow in the short term.

15.4.5 The type, period, rate and timing of new borrowing will be determined by the Interim Executive Director of Finance (Section 151) under delegated powers, considering the following factors:

- Expected movements in interest rates as outlined above;
- Current maturity profile;
- The impact on the medium-term financial strategy; and
- Prudential indicators and limits.

15.5 Treasury Management Limits on Borrowing Activity

15.5.1 There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within a flexibly set remit, to manage risk, yet not impose undue restraints that constrain cost reduction or performance improvement. The indicators are:

- Maturity structure of borrowing to manage refinancing risk.

15.5.2 The proposed indicators are set out in Annex 5.

15.6 Policy on borrowing in advance of need

15.6.1 The Council needs to ensure that its total debt, does not, except in the short term, exceed the total of the CFR in the preceding year i.e. 2023/24 plus the estimates of any additional CFR for the year 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue generation purposes.

15.6.2 Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

15.6.3 Borrowing in advance of need will ideally be limited to no more than 100% of the expected increase in borrowing need (CFR) over the three-year planning period. In determining whether borrowing will be undertaken in advance of need the Council will:

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need;
- Ensure the ongoing revenue liabilities created, and the implications for the future and budgets have been considered;
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow;
- Consider the merits and demerits of alternative forms of funding;
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use; and
- Consider the pros and cons of the impact of borrowing in advance of need at attractive rates on the available cash balances the Council will hold and the risks associated with increased exposure to credit risk arising from investing this additional cash in advance of need.

15.7 Debt Rescheduling

15.7.1 As short-term borrowing rates can be considerably cheaper than longer term rates, there could be potential to generate savings by switching from long term debt to short term debt. Any savings will need to be considered in the light of the size of premiums to be incurred, their short-term nature, and the likely cost of refinancing those short-term loans, once they mature, compared to the current rates of longer-term debt in the existing debt portfolio. Any such rescheduling and repayment of debt is likely to cause a shortening of the Council’s maturity profile as in recent years there has been a skew towards longer dated PWLB.

15.7.2 The business case for any rescheduling will include:

- The generation of cash savings and / or discounted cash flow savings;
- Helping to fulfil the strategy outlined above; and
- Enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

15.7.3 All rescheduling will be reported to Cabinet and Full Council at the earliest meeting following its implementation.

15.8 Housing Revenue Account (HRA) Self Financing

15.8.1 The housing subsidy system was dismantled and replaced by a system of self-financing of the HRA from 1 April 2012. Since then, two separate pools are operating for the management of HRA and GF debt.

15.8.2 Under the two pool approach legacy loans were notionally apportioned between the HRA and GF using the CFR split and loans since 2012 have been raised separately.

15.8.3 An equitable means of apportioning debt management expenses is in operation.

15.8.3 Until October 2018, HRA borrowing was capped by the government and the HRA needed to borrow within the parameters of its existing debt and the cap known as the headroom. In October 2018, the Government approved plans to remove the HRA borrowing cap, giving local authorities the flexibility to borrow prudentially up to levels that can be supported through their revenue streams.

6. Annual Investment strategy

16.1 The annual Investment Strategy is set out in Annex 5 for approval by Full Council which covers:

- Overview including durations bands for counterparties and minimum credit ratings;
- Policy lending (non-treasury management investments);
- Investment balances / liquidity of investments; and
- Specified / unspecified investments

17. Balanced Budget Requirement

17.1 The Council complies with the provisions of the Local Government Finance Act 1992 to set a balanced budget.

17.2 Budgeting for MRP requires the Council to make provision for MRP linked to the life of the assets. This makes budgeting for MRP complex and sensitive to changes in assets being financed and the amount of unsupported borrowing used.

17.3 Regulations and statutory guidance on MRP was issued in February 2018, but as stated in 8.3, on the 21 December 2023, the Government published a consultation on proposed changes to regulations and statutory guidance on

MRP to be effective from 1 April 2024.

17.4 Expenditure on policy loans to third parties which constitute capital loans, MRP need not be set aside. However, commercial capital loans require MRP to be set aside.

17.5 Repayments included in finance leases are applied as MRP. There is no requirement for the HRA to set aside MRP, although there is a requirement for depreciation to be applied.

17.6 Acquisition of share capital can be written off over a maximum of 20 years.

18. Financial Implications

18.1 The budget for investment income in 2024/25 is £0.084m and the budget for debt interest paid in 2024/25 is £12.415m. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

19. Other Options Considered

19.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Interim Executive Director of Finance (Section 151 Officer) believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

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Links with the Corporate Priorities:

A strong financially sustainable Council is essential to the Let’s Do It Strategy.

Equality Impact and Considerations:

Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:
follows:

A public authority must, in the exercise of its functions, have due regard to the need to -
(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services.

Assessment and Mitigation of Risk:

Risk / opportunity	Mitigation
There are significant risks in the financial position both in the current and future financial years. Financial sustainability is critical and the report sets out areas of concern that need to be addressed. Delays in delivering projects within the capital programme provide an opportunity to review projects and align to the changing position that has arisen due to Covid and to ensure that projects align to the Bury 2030 strategy.	Regular monitoring and reporting ensures that any changes in the financial position are quickly identified and action can be taken to manage he overall position. The longer term medium financial strategy takes accounts of any in-year changes in funding and demand and ensures the Council has a longer term view for future years.

Legal Implications:

The Treasury Management Strategy form part of the suite of budget reports which will be considered by Members, full legal implications are set out in the core report.

Background papers:

Treasury Mid-Year Report (November Council)

Annex 1 – Treasury Management Policy Statement

The Council defines the policies and objectives of its treasury management activities as follows:

(i) The Council defines its treasury management activities as the management of the Council's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

(ii) The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications.

(iii) The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques, within the context of effective risk management.

Annex 2 – Treasury Management Scheme of Delegation

The Council's Treasury Management Scheme of Delegation is approved by Full Council annually as part of the overall Treasury Management Strategy, it was last approved by Council at its meeting of March 2021 and there are no proposals for any amendments to the current scheme, which is set out below:

1. Delegation and Responsibility

The following personnel are involved on a regular basis in Treasury Management:

Interim Executive Director of Finance (S151 Officer)	Overall supervision of Treasury Management function and cash flow. Regular reviews of Treasury Management Strategy and monitor performance.
Head of Corporate Planning	Manage and undertake day to day Treasury Management Activities in accordance with Treasury Strategy and Policy Statement.
Corporate Planning Accountant	Deputise for Head of Management Accountancy in their duties as required.

2. Treasury Management Scheme of Delegation

Full Council

- Receiving and reviewing reports on treasury management policies, practices and activities;
- Approval of/amendments to the Council's adopted clauses, treasury management policy statement; and
- Approval of annual strategy

Boards/Committees/Council/Responsible Body

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

Body/Person(s) with Responsibility for Scrutiny

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

3. The Treasury Management Role of the Interim Executive Director of Finance (Section 151 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.

Functions:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the

authority

- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following (TM Code p54): -
    - 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.

Annex 3 – Prudential Indicators

1. Capital Prudential Indicators

1.1 The Council's capital expenditure plans are a key driver of treasury management activity.

2. Capital Expenditure

2.1 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Table 1: Capital Expenditure Forecast

CAPITAL PROGRAMME 2022-23 to 2026-27	2022-23 Actual £m	2023-24 Estimate £m	2024-25 Forecast £m	2025-26 Forecast £m	2026-27 Forecast £m
Non-HRA	£35.095	£50.716	£123.846	£61.060	£4.598
HRA	£13.296	£17.118	£23.082	£14.605	£17.103
Policy/Non-Financial Investments	£20.099	£0.000	£0.000	£0.000	£0.000
Total Capital Expenditure	**£68.490**	**£67.835**	**£146.928**	**£75.665**	**£21.701**
Resourced By:					
External Funding	£17.760	£30.840	£77.001	£15.814	£4.098
Capital Receipts	£0.254	£6.526	£4.973	£3.786	£2.032
General Fund RCCO	£0.706	£0.912	£0.783	£0.000	£0.000
Housing Revenue Account DRF/MRR	£12.257	£11.400	£19.961	£12.646	£15.070
Total Resourced By	**£30.977**	**£49.678**	**£102.719**	**£32.246**	**£21.201**
Financing Requirement	**£37.513**	**£18.156**	**£44.209**	**£43.419**	**£0.500**

2.2 Other long-term liabilities – the above financing need excludes other long-term liabilities, for leasing arrangements which are classified as borrowing instruments.

2.3 Table 1 above also outlines how the capital expenditure plans are proposed to be financed by capital or revenue resources. Any shortfall of resources results in a funding need i.e. borrowing.

3. The Council's Borrowing Need (the Capital Financing Requirement)

3.1 This prudential indicator is the Council's Capital Financing Requirement (CFR), which is the total historic unfinanced capital expenditure, a measure of the Council's underlying borrowing need. Any capital expenditure not immediately paid for, will increase the CFR. The requirement to set aside the minimum revenue provision (MRP) reduces the Council's underlying need to borrow and the ensuing CFR.

3.2 The CFR does not increase indefinitely, as the 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 (similar to a repayment).

3.3 The CFR includes any other long-term liabilities (OLTL) such as finance leases brought onto the balance sheet. Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing/ financing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes that forms part of the CFR.

The Council is asked to approve the CFR projections below:

Table 3: CFR – Capital Financing Requirement

Capital Financing Requirement (CFR)	2022-23 Actual £m	2023-24 Estimate £m	2024-25 Forecast £m	2025-26 Forecast £m	2026-27 Forecast £m
CFR - GF	£186.619	£202.370	£243.807	£283.965	£280.556
CFR - HRA	£119.216	£119.216	£119.216	£119.216	£119.216
CFR - Policy/Non-Financial Investments	£65.285	£65.159	£63.299	£62.799	£62.284
CFR Balance	**£371.120**	**£386.746**	**£426.322**	**£465.981**	**£462.056**
Movement in CFR	**£35.715**	**£15.626**	**£39.576**	**£39.659**	**(£3.925)**
Movement in CFR					
Financing Requirement	£37.513	£18.156	£44.209	£43.419	£0.500
Minimum Revenue Provision (MRP) / Loans Fund Repayments	(£1.798)	(£2.530)	(£4.633)	(£3.760)	(£4.425)
Voluntary Revenue Provision (VRP)	£0.000	£0.000	£0.000	£0.000	£0.000
Movement in CFR	**£35.715**	**£15.626**	**£39.576**	**£39.659**	**(£3.925)**

4. International Financial Reporting Standard (IFRS) 16 Leasing

4.1 IFRS16 requires off balance sheet operating leases onto the balance sheet for closing of the accounts for 2024/25 deferred by CIPFA from 2021/22, although early adoption will be allowed.

4.2 The CFR, external debt (OLTL), authorised limit and operational boundary, have to be adjusted to allow for those leases which were previously off-balance sheet, being brought onto the balance sheet at 31 March 2024. It is not currently possible to be precise about the adjustment figures until detailed data gathering has been substantially completed. The authorised limit and operational boundary will be increased and will be reported to Cabinet and Full Council at the earliest meeting following its implementation

5. Affordability Prudential Indicators

5.1.0 Actual and estimates of the ratio of financing costs to net revenue stream.

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

Table 4: Ratio of financing costs to revenue streams

Ratio of Financing Costs to Net Revenue Stream	2022-23 Actual £m	2023-24 Estimate £m	2024-25 Forecast £m	2025-26 Forecast £m	2026-27 Forecast £m
GF	0.59%	0.78%	2.82%	3.90%	4.07%
HRA	12.34%	11.04%	10.54%	10.96%	11.05%

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

Table 5: HRA Ratios

HRA Ratios	2022-23 Actual £m	2023-24 Estimate £m	2024-25 Forecast £m	2025-26 Forecast £m	2026-27 Forecast £m
HRA Debt	£119.216	£119.216	£119.216	£119.216	£119.216
HRA Revenues	(£32.781)	(£34.976)	(£38.258)	(£38.457)	(£38.921)
Ratio of Debt to Revenues	**2.75 : 1**	**2.93 : 1**	**3.21 : 1**	**3.23 : 1**	**3.27 : 1**

HRA Ratios	2022-23 Actual £m	2023-24 Estimate £m	2024-25 Forecast £m	2025-26 Forecast £m	2026-27 Forecast £m
HRA Debt	£119.216	£119.216	£119.216	£119.216	£119.216
Number of HRA Dwellings	7,750	7,715	7,718	7,658	7,598
Debt per Dwelling £m	**£0.015**	**£0.015**	**£0.015**	**£0.016**	**£0.016**

6. Treasury Indicators: Limits on Borrowing Activity

6.1 The Operational Boundary

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

Table 6: Treasury Indicators: Limits on borrowing activity

Operational Boundary	2022-23 Actual £m	2023-24 Estimate £m	2024-25 Forecast £m	2025-26 Forecast £m	2026-27 Forecast £m
Borrowing	£371.120	£386.746	£426.322	£465.981	£462.056
Other Long-term Liabilities	£0.010	£0.010	£0.010	£0.010	£0.010
Total	**£371.130**	**£386.756**	**£426.332**	**£465.991**	**£462.066**

6.2 The Authorised Limit for external debt

6.2.1 A further 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 necessarily desired, could be afforded in the short term, but is not sustainable in the longer term.

6.2.2 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.

6.2.3 Full Council is asked to approve the following Authorised Limits:

Table 9: Authorised Limits

Authorised Limit	2022-23 Actual £m	2023-24 Estimate £m	2024-25 Forecast £m	2025-26 Forecast £m	2026-27 Forecast £m
Borrowing	£381.120	£396.746	£436.322	£475.981	£472.056
Other Long-term Liabilities	£0.010	£0.010	£0.010	£0.010	£0.010
Total	**£381.130**	**£396.756**	**£436.332**	**£475.991**	**£472.066**

Annex 4 – Minimum Revenue Provision (MRP) Policy Statement

Proposed 24/25 MRP Policy:

- For expenditure incurred before 1 April 2008 or which forms part of supported capital expenditure, the MRP policy will be:
  - Asset life method (annuity) – MRP will be based on an asset life of 50 years calculated using 2.39%.

- For expenditure incurred between 1 April 2008 and 31 March 2019 for all prudential borrowing, the MRP policy will be:
  - Asset life method (annuity) – MRP will be based on an asset life of 50 years calculated using 2.39%.

- For expenditure incurred from 1 April 2019 for all prudential borrowing, the MRP policy will be:
  - Asset life method (straight line) – For service delivery assets, MRP will be based on the estimated life of the assets.

  - Asset life method (annuity) – For regeneration, economic growth & invest-to-save schemes, MRP will be based on the estimated life of the assets.

- For capital loans to third parties, the MRP policy will be:
  - Where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR and directly offset the relevant MRP charge.

  - For capital loans to be repaid at the end of their term and thus no principal repayment being repaid annually, there is no requirement for MRP. The Council will undertake an annual financial assessment of the third party's ability to repay the debt, where an expected credit loss or impairment is recognised in a financial year, an MRP charge will be made to an amount at least equal to the amount recognised.

- The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

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

- MRP commencement, MRP will commence in the financial year following the one in which the asset becomes operational.

- For Housing Assets held within the HRA, due to the requirement to make a depreciation charge to the HRA, no further revenue charge for MRP is required.

- Capital Receipts, the Interim Executive Director of Finance (Section 151) may from time to time and when it is beneficial to the efficient financial administration of the Council, apply capital receipts to reduce the CFR and MRP will be calculated on the residual CFR.

- MRP Overpayments:
    - Under the MRP statutory guidance, any charges made in excess of the statutory MRP can be made, known as Voluntary Revenue Provision (VRP).

    - VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. The cumulative VRP overpayments made to date are £0m.

    - The Executive Director of Finance may from time to time and when it is beneficial to the efficient financial administration of the Council, make additional voluntary payments VRP. In these circumstances, the amount paid would not prejudice the existing strategy or be counter to the regulatory intent of that strategy.

Annex 5 – Investment Strategy

The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. At the 2023-24 mid-year, the Authority's treasury investment balance has ranged between £2.2m and £21.1m. Cash balances are forecasted to reduce in the final half of 2023-24 and in the forthcoming year.

Objectives: The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the liability benchmark above, the Authority expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments such as Banks. However, it is anticipated that the Councill will not have significant cash balances to invest into long durations.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Business models: Under the IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table below, subject to the limits shown.

Treasury Investment Counterparties and Limits

Counterparty	Credit Rating	Max £ limit per institution	Maximum Maturity Period
UK Government	Any	Unlimited	50 years
UK Local Authorities & Other Government Entities – except Local Authorities subject to a Section 114 notice	Any	£20 million	2 years
UK Banks (Unsecured) *	A- Or equivalent	£25 million	1 year
UK Building Societies (Unsecured) *	A- Or equivalent	£20 million	1 year
Registered Providers (Unsecured) *	A- Or equivalent	£20 million	1 year
Unrated Affiliated Bodies working capital **	N/A	Subject individual circumstance	N/A
Unrated Affiliated Bodies Capital Expenditure Loan **	N/A	Subject individual circumstance	N/A

Minimum credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings marked with two asterisks, i.e. investments in arm's length companies, wholly owned subsidiaries, joint ventures, may be made by the Interim Executive Director of Finance (Section 151 Officer) will have discretion to accept or reject individual institutions as counterparties based on any information which may be made available.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

Reputational aspects: The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The Authority's revenue reserves available to cover investment losses are forecast to be £100m on 31st March 2024. In order that no more than 10% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10m. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Liquidity management: The Authority uses its own internal cash flow forecasting too to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.
The Authority will spread its liquid cash over at least two providers (e.g. bank accounts) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Prudential Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit Risk Indicator	Target
Portfolio average credit rating	A

Note: the target above is the minimum rating criteria

Liquidity: The Authority will adopt a voluntary measure of its exposure to liquidity risk in 2024-25, by monitoring the amount of cash available to meet unexpected payments within a rolling month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 1 month	£10m

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	30%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	20%	0%
5 years and within 10 years	50%	0%
10 years and within 20 years	40%	0%
20 years and within 30 years	40%	0%
30 years and within 40 years	50%	0%
Over 40 years	40%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.