Classification:	Decision Type:
Open	Key

Report to:	Overview & Scrutiny: 6 February 2025 Cabinet: 12 February 2025 Council: 19 February 2025	Date: 19 February 2025
Subject:	2025-26 Treasury Management Strategy	
Report of	Cabinet Member for Finance and Transformation	

Summary

1. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

Recommendation(s)

2. The Cabinet is requested to consider, comment as appropriate, on the proposed strategy for 2025/26, and is requested to endorse the recommendations outlined below, for approval by Council
   - The Treasury Management Strategy including the associated Prudential Indicators and Annual Investment Strategy.
   - The Treasury Management Policy Statement.
   - The Minimum Revenue Provision (MRP) Policy Statement.

3. The Council is requested to agree at its meeting on 19 February 2025 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)

4. As a requirement of Local Government Act 2003, the DLUHC investment guidance (2018), the DLUHC MRP guidance 2018, the 2021 CIPFA Treasury Management Code and the CIPFA Prudential Code.

Alternative options considered and rejected

5. Not applicable.

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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.	Regular monitoring and reporting ensures that any changes in the financial position

	are quickly identified and action can be taken to manage the overall position.
Financial sustainability is critical and the report sets out the Council's plans to ensure sufficient funds are available for investment in the borough while maintaining a balanced budget over the medium-term planning period.	The medium-term financial strategy takes account of any in-year changes in funding or demand and ensures the Council has a longer-term view of finances 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.

Financial Implications:

The financial implications are set out in the report.

Introduction

1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

2. Treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

3. The Council invests its money for three broad purposes:
   - because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
   - to support local public services by lending to or buying shares in other organisations (service investments), and
   - to earn investment income (known as commercial investments where this is the main purpose).

4. This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second of these categories.

5. The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios."

6. The Council interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Council's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

7. In accordance with the guidance the Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. This includes:
   - An Annual Management Treasury Strategy, covering the Prudential and Treasury Indicators.
   - A mid-year treasury management review.
   - An annual treasury outturn report.

External Context

Economic background:

8. The Chancellor of the Exchequer delivered her Autumn Budget at the end of October. Based on the plans announced, the Office for Budget Responsibility reported they would provide a short-term boost to GDP growth before weakening it further out and push inflation higher over the medium-term. This change to the economic and inflation outlook caused financial markets to readjust expectations of Bank of England (BoE) Bank Rate and gilt yields higher. The Council's treasury management advisor, Arlingclose, also revised its interest rate forecast upwards in November, with Bank Rate expected to eventually fall to 3.75%.

9. The impact on the UK from the government's Autumn Budget, slower than expected interest rate cuts, and a short-term boost to but modestly weaker economic growth over the medium term, together with the impact from President Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Council's treasury management strategy for 2025/26.

10. The Bank of England's (BoE) Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting. At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%.

11. The November quarterly Monetary Policy Report (MPR) expected Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker. Current GDP growth was shown to be zero (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the Office for National Statistics (ONS).

12. ONS figures reported the annual Consumer Price Index (CPI) inflation rate at 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, to 3.6% against a forecast of 3.5% and 3.3% in the previous month. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.

13. The labour market appears to be easing slowly, but the data still require treating with some caution. The latest figures reported the unemployment rate rose to 4.3% in the three months to October 2024 and economic inactivity fell to 21.7%. Pay growth for the same period was reported at 5.2% for both regular earnings (excluding bonuses) and for total earnings. Looking ahead, the BoE MPR showed the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

14. The US Federal Reserve has continued cutting interest rates, bringing down the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected, but uncertainties around the potential inflationary impact of incoming President Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, rising at an (upwardly revised) annual rate of 3.1% in the third quarter of 2024, and inflation remains elevated suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

15. Euro zone inflation rose above the European Central Bank (ECB) 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Despite the rise, the ECB continued its rate cutting cycle and reduced its three key policy rates by 0.25% in December. Inflation is expected to rise further in the short term but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Credit Update

16. Credit Default Swap (CDS) prices typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in 2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.

17. Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.

18. Moreover, while a potential easing of US financial regulations under the Trump Presidency may aid their banks' competitiveness compared to institutions in the UK and other regions, it is unlikely there will be any material impact on the underlying creditworthiness of the institutions on the counterparty list maintained by Arlingclose, the Council's treasury adviser.

19. Overall, the institutions on Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook during financial year 2025/26.

Interest rate forecast (December 2024)

20. The Council's treasury management advisor Arlingclose expects the Bank of England's MPC will continue reducing Bank Rate through 2025, taking it to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as pushing up the rate at the end of the loosening cycle.

21. Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.

22. A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

23. For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 4.33%, and that new long-term loans will be borrowed at an average rate of 5.00%.

Local Context and Capital Prudential Indicators

24. At 31st March 2024 the Council's underlying need to borrow for capital purposes, as measured by the Capital Financing Requirement (CFR), was £383.511m, while balance sheet resources, which are the underlying resources available for investment, was £129.332m.

25. As at 31st March 2024 the Council had £262.429m of external borrowing and £8.250m of internal investments.

26. Appendix B provides a more detailed breakdown of the treasury borrowing and investing position.

27. In setting a balanced budget the Council must calculate its budget requirement for each financial year and include the revenue costs that come from capital expenditure and financing decision. Under the Local Government Act 2003 and the Prudential Code the Council must consider what is affordable, prudent and sustainable.

28. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist members in their overview and consideration of capital expenditure plans both in terms of affordability and prudence. The key capital prudential indicators are shown below and are reported quarterly to Cabinet through the Performance Monitoring process.

Capital Expenditure and Financing:

29. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The Prudential Code recommends that total debt should be lower than its highest forecast CFR over the next three years. The table below shows that the Council expects to comply with this recommendation during 2025/26. Forecast changes in these sums are also shown.

Balance Sheet Summary and Forecast	2023-24 Actual £m	2024-25 Estimate £m	2025-26 Forecast £m	2026-27 Forecast £m	2027-28 Forecast £m
Capital Financing Requirement	**£383.511**	**£407.322**	**£455.131**	**£455.382**	**£450.954**
Less: External Borrowing	(£262.429)	(£322.268)	(£373.749)	(£378.149)	(£378.149)
Under/(Over) Borrowing	**£121.082**	**£85.054**	**£81.382**	**£77.234**	**£72.805**
Balance Sheet Resources	(£129.332)	(£95.054)	(£91.382)	(£87.234)	(£82.805)
Treasury Investments	£8.250	£10.000	£10.000	£10.000	£10.000
TOTAL	**£0.000**	**£0.000**	**£0.000**	**£0.000**	**£0.000**

30. Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. In 2025/26, the Budget set for planned capital expenditure is £120.736m.

28. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (including internal borrowing).

29. The table below summaries the capital expenditure and financing.

CAPITAL PROGRAMME 2023-24 to 2027-28	2023-24 Actual £m	2024-25 Estimate £m	2025-26 Forecast £m	2026-27 Forecast £m	2027-28 Forecast £m
Non-HRA	£35.744	£61.517	£91.214	£28.650	£2.500
HRA	£16.572	£17.657	£29.522	£15.858	£18.638
Policy/Non-Financial Investments	£0.628	£0.000	£0.000	£0.000	£0.000
Total Capital Expenditure	**£52.944**	**£79.174**	**£120.736**	**£44.508**	**£21.138**
Resourced By:					
External Funding	£22.295	£37.197	£52.048	£24.250	£2.500
Capital Receipts	£2.649	£5.429	£9.864	£0.058	£0.068
General Fund RCCO	£0.488	£0.558	£0.014	£0.000	£0.000
Housing Revenue Account DRF/MRR	£12.600	£7.330	£7.330	£15.800	£18.570
Total Resourced By	**£38.032**	**£50.514**	**£69.255**	**£40.108**	**£21.138**
Financing Requirement	**£14.912**	**£28.660**	**£51.481**	**£4.400**	**£0.000**

30. The Council’s cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP payments and capital receipts used to replace debt. Based on the above figures for expenditure and financing, the Council’s estimated CFR is as follows.

Capital Financing Requirement (CFR)	2023-24 Actual £m	2024-25 Estimate £m	2025-26 Forecast £m	2026-27 Forecast £m	2027-28 Forecast £m
CFR - GF	£198.502	£220.459	£257.725	£258.707	£255.031
CFR - HRA	£119.216	£122.931	£133.974	£133.760	£133.541
CFR - Policy/Non-Financial Investments	£65.793	£63.932	£63.432	£62.915	£62.382
CFR Balance	**£383.511**	**£407.322**	**£455.131**	**£455.382**	**£450.954**
Movement in CFR	**£12.381**	**£23.811**	**£47.808**	**£0.252**	**(£4.428)**
Movement in CFR					
Financing Requirement	£14.912	£28.660	£51.481	£4.400	£0.000
Minimum Revenue Provision (MRP) / Loans Fund Repayments	(£2.531)	(£4.850)	(£3.672)	(£4.148)	(£4.428)
Voluntary Revenue Provision (VRP)	£0.000	£0.000	£0.000	£0.000	£0.000
Movement in CFR	**£12.381**	**£23.811**	**£47.808**	**£0.252**	**(£4.428)**

31. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive capital receipts of £2.306m in the current financial year and £5.359m in the coming financial year as follows.

Capital receipts	2024-25 Estimate £m	2025-26 Forecast £m
Asset sales	£2.306	£5.359
Total	**£2.306**	**£5.359**

32. Projected levels of the Council's total outstanding debt, compared with the CFR is shown below. Statutory guidance is that debt should remain below the CFR, except in the short-term. As can be seen from the table below, the Council expects to comply with this in the medium to longer term.

Actual External Debt against Capital Borrowing Need	2023-24 Actual £m	2024-25 Estimate £m	2025-26 Forecast £m	2026-27 Forecast £m	2027-28 Forecast £m
External Debt:					
Debt at 1 April	£243.629	£262.429	£322.268	£373.749	£378.149
Expected Change in Debt +/-	£18.000	£59.839	£51.481	£4.400	£0.000
Actual Gross Debt at 31 March	**£262.429**	**£322.268**	**£373.749**	**£378.149**	**£378.149**
Capital Financing Requirement (CFR)	£383.511	£407.322	£455.131	£455.382	£450.954
Under/(Over) Borrowing	**£121.082**	**£85.054**	**£81.382**	**£77.234**	**£72.805**

33. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP payments are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. The amount funded from Council Tax, business rates and general government grants. 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.

Ratio of Financing Costs to Net Revenue Stream	2023-24 Actual £m	2024-25 Estimate £m	2025-26 Forecast £m	2026-27 Forecast £m	2027-28 Forecast £m
GF	1.18%	3.00%	3.58%	3.40%	3.05%
HRA	11.58%	12.43%	13.66%	13.27%	12.90%

Liability benchmark

34. The Liability Benchmark is now a mandatory indicator that must be reviewed and presented as required under the Prudential Code. It compares actual borrowing against a benchmark, which is calculated showing the lowest level of borrowing required to keep investments at a minimum level. The result then represents the minimum amount of borrowing an authority must undertake to fund their capital expenditure.

35. The benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Prudential Indicator: Liability Benchmark	**2023-24 Actual £m**	**2024-25 Estimate £m**	**2025-26 Forecast £m**	**2026-27 Forecast £m**	**2027-28 Forecast £m**
Loans CFR	£383.511	£403.403	£439.960	£440.211	£435.783
Less: Balance Sheet Resources	(£129.332)	(£105.054)	(£101.382)	(£97.234)	(£92.805)
Net Loans Requirement	**£254.179**	**£298.349**	**£338.578**	**£342.977**	**£342.978**
Plus: Liquidity Allowance	10.000	10.000	10.000	10.000	10.000
Liability Benchmark	**£254.189**	**£298.359**	**£338.588**	**£342.987**	**£342.988**

Chart to be inserted

Borrowing Strategy

36. Due to decisions taken in the past, the Council is currently projected to have £322.268m borrowing as at the end of March 2025 at an average interest rate of 3.94% and £10m treasury investments at an average rate of 4.33%, projected as at the end of March 2025.

37. The total borrowing requirement at the end of 2025/26 is forecast to be £407.322m (equivalent to the CFR). liability. The Council's aim is to both repay maturing debt, and where possible some of the existing debt when opportunities to do this arise. The Council also considers new borrowing where it can be shown to be prudent and financially beneficial to do so. In 2024/25 £13.088m maturing external debt was repaid. £15m is currently forecast to be repaid in 2025/26, which are maturing market loans.

38. The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

39. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently higher than in the recent past, but are expected to fall in the coming year and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead. The risks of this approach will be managed by keeping the Council's interest rate exposure within the limit set in the treasury management prudential indicators, see below.

40. By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal / short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2025/26 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

41. The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce 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 primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

42. Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

43. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages

Limits to Borrowing Activity

44. The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. It is calculated with regard to the Council's capital expenditure and financing plans.

The Operational Boundary

45. 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

Operational Boundary	2023-24 Actual £m	2024-25 Estimate £m	2025-26 Forecast £m	2026-27 Forecast £m	2027-28 Forecast £m
Borrowing	£383.511	£408.959	£466.465	£469.486	£467.658
Other Long-term Liabilities	£0.010	£0.010	£0.010	£0.010	£0.010
Total	**£383.521**	**£408.969**	**£466.475**	**£469.496**	**£467.668**

The Authorised Limit for external debt

46. 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.

47. 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.

Authorised Limit	2023-24 Actual £m	2024-25 Estimate £m	2025-26 Forecast £m	2026-27 Forecast £m	2027-28 Forecast £m
Borrowing	£393.511	£418.959	£476.465	£479.486	£477.658
Other Long-term Liabilities	£0.010	£0.010	£0.010	£0.010	£0.010
Total	**£393.521**	**£418.969**	**£476.475**	**£479.496**	**£477.668**

Sources of Borrowing and Portfolio Implications

48. The approved sources of long-term and short-term borrowing are:
- HM Treasury's Public Works Loan Board (PWLB) lending facility.
- UK Infrastructure Bank Ltd
- UK local authorities and any other UK public sector body
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- capital market bond investors
- retail investors via a regulated peer-to-peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues

49. Capital finance may also be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback
- similar asset-based finance.

48. The Council continues to investigate other sources of finance, such as local Council loans, the UK Municipal Bonds Agency and bank loans, that may be available at more favourable rates. The UK Municipal Bonds Agency is a more complicated source of finance so any decision to borrow from this source will be the subject of a separate report to Audit and Governance Committee.

49. The Council holds £13.000 million of Lender's Option Borrower's Option (LOBO) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBO's have options during 2025/26, and with interest rates having risen recently, there is now a good chance that lenders will exercise their options. If they do, we will take the option to repay LOBO loans to reduce refinancing risk in later years.

50. Short-term and variable rate loans leave the council exposed to the risk of short-term interest rate rises and are therefore subject to interest rate exposure limits in the treasury management indicators below.

Debt Rescheduling

51. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Some bank lenders may also be prepared to negotiate premature redemption terms. Due to cashflow implications some loans matured may be replaced with new loans, or they may be repaid without replacement, particularly where this is expected to lead to an overall saving or reduction in risk.

52. Borrowing and rescheduling activity will be reported to Council in the Annual Treasury Management Report, the Mid Year Report and any other treasury management reports presented.

Treasury Investment Strategy

53. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £0.860m and £32.250m and similar levels are expected to be maintained in the forthcoming year.

54. The CIPFA Code requires the Council 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 Council'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 Council 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 Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

55. As demonstrated by the liability benchmark above, the Council 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. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

56. Market conditions have changed rapidly during 2024/25 with interest rates rising quickly and peaking at 5.25% in August 2024. The Council has predominantly invested with High Street banks and where opportunities arose for higher rates has invested in short term MMF's.

57. The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the Council may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

58. 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 Council'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 Council 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.

59. Under the IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council 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.

60. The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty), the time limits shown and the Responsible Investment Policy incorporated as part of the Treasury Management Policies.

Approved Investment Counterparties

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	£20m	2 years
Secured Investments	A- Or equivalent	£20m	1 year
UK Banks (Unsecured) *	A- Or equivalent	£25m	1 year
UK Building Societies (Unsecured) *	A- Or equivalent	£20m	1 year
Registered Providers (Unsecured) *	A- Or equivalent	£20m	1 year
Money Market Funds	A- Or equivalent	£20m	Instant Access
Unrated Affiliated Bodies working capital **	N/A	Subject individual circumstance	Case by Case
Unrated Affiliated Bodies Capital Expenditure Loan **	N/A	Subject individual circumstance	Case by Case

58. The Table above should be read in conjunction with the notes below:

- **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, investments may be made either where external advice indicates the entity to be of similar credit quality.

  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 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:**
  Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

- **Local Authorities and Other Government Entities**
  Loans to, and bonds and bills issued or guaranteed by, other 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.

- **Secured Investments**
  Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

- **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.

- **Money market funds:**
  Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times

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

- **Operational bank accounts:**
  The Council 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 £25bn. The Bank of England has stated that in the event of failure, banks with assets greater than £25bn are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Responsible Investment Policy, Environmental, Social and Governance Considerations (ESG)

59. The Code requires local authorities to consider their counterparty policies in light of ESG information, while recognising that there is not a developed approach to ESG for public sector organisations and not expecting authorities to use real-time ESG scoring / criteria for individual investments.

60. ESG issues are wide-ranging and non-standardised, however the Council aims to be a responsible investor and will consider ESG issues when investing. The Council has a Climate Action Change Strategy and Plan, and more details can be found at the link below:

    Bury's Climate Action Strategy and Action Plan - Bury Council

Risk assessment and credit ratings:

61. Credit ratings are obtained and monitored by the Council'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,
    - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

62. 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 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:

63. The Council 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 Council'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.

64. Reputational aspects: The Council 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.

65. 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 Council 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 Council's cash balances, then the surplus will be deposited with the UK Government or with other local authorities. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

Investment Limits

66. The Council holds general revenue reserves which would be available to cover investment losses. However, to limit this 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 £25.0 million.

Liquidity management:

67. The Council uses cash flow forecasting 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 Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

68. The Council will spread its liquid cash over at least two providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Treasury Management Indicators

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

70. 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

71. Liquidity: The Authority will adopt a voluntary measure of its exposure to liquidity risk in 2025-26, 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

72. Maturity structure of borrowing: This indicator is set to control the Council'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%

73. 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.

Service Investments: Loans

74. The definition of investments in the Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

75. Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

76. The Authority also held such investments in:

Non-Financial Investments	2023/24	2024/25
	£m	£m
Manchester Airport Loan	£29.366	£29.366
Bury MBC Townside Fields Loan	£7.257	£5.747
Six Town Housing Loan	£2.822	£2.694
Bury Bruntwood (Millgate) LLP Loan	£20.099	£20.099
The Prestwich Regeneration (LLP) Loan	£0.628	£0.628
Debt Managed for Probation Services	£0.011	£0.010
Total	**£60.183**	**£58.544**

77. These investments are forecast to generate £4.4m of investment income in 2024/25 for the Authority after taking account of direct costs, representing a rate of return of 6.68%.

Service Investments: Shares

78. The Council holds 3.22% shares in Manchester Airport Holdings Ltd (MAHL), the shareholding is a strategic investment and not held for trading and therefore the Council has opted to designate it as fair value through Other Comprehensive Income. This would mean that there is no impact on the revenue budget and the decision to designate to fair value through other comprehensive income is irrevocable. Any gains or losses on the valuation of the shareholding will therefore be transferred to a Financial Instruments Revaluation Reserve.

79. The fair value of the Council's interest in the company at 31st March 2024 is shown below:

Investments in Equity Instruments Designated at Fair Value through Other Comprehensive Income	Nominal	Fair Value
	£000s	£000s
Manchester Airport Shares	£10,214	£46,300
Manchester Airport Car Park (1) Limited	£5,610	£4,400
Total	**£15,824**	**£50,700**

Related Matters

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

81. 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). Combined authorities should refer to section 113A of the Local Democracy, Economic Development and Construction Act 2009 instead

82. The Council 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 Council 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.

83. 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.

84. 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.

85. Housing Revenue Account: on 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account.

86. Where the value of the HRA loans pool is below the HRA capital financing requirement, interest on this "under-borrowing" will be charged to the HRA at the Council's average rate of short-term borrowing. Interest on any "over-borrowing" above the HRA capital financing requirement, and on balances in the HRA, its earmarked reserves and the major repairs reserve will be credited to the HRA at the Council's average interest rate on treasury investments excluding strategic pooled funds and REITS, adjusted for credit risk.

Financial Implications

87. The budget for investment income in 2025/26 is £0.612m. The budget for debt interest paid in 2025/26 is £12.836. If actual levels of investments and borrowing, or actual interest rates, differ from that forecast, performance against budget will be correspondingly different. Split into General Fund and HRA budgets if applicable.

Other Options Considered

88. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance, 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

Treasury Management Policy Statement

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

- 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.

- 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.

- 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.

Treasury Management Scheme of Delegation

90. 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 February 2024 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:

Director of Finance (S151 Officer)	Overall supervision of Treasury Management function and cash flow. Regular reviews of Treasury Management Strategy and monitor performance.
Accountancy Manager (Treasury & Capital)	Manage and undertake day to day Treasury Management Activities in accordance with Treasury Strategy and Policy Statement.
Accountant (Treasury & Capital)	Deputise for Accountancy Manager 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 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.

Minimum Revenue Provision (MRP) Policy Statement

- For expenditure incurred before 1 April 2008 or which forms part of supported capital expenditure, the MRP policy will be:
  - o 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:
  - o 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:
  - o Asset life method (straight line) – For service delivery assets, MRP will be based on the estimated life of the assets.

  - o 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:
  - o 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.

  - o 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 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 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.

Appendix A – Arlingclose Economic & Interest Rate Forecast – December 2024

Underlying assumptions:

- As expected, the Monetary Policy Committee (MPC) held Bank Rate at 4.75% in December, although, with a 6-3 voting split and obvious concerns about economic growth, presented a much more dovish stance than had been expected given recent inflationary data.

- The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers.

- UK GDP recovered well in H1 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.

- Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.

- CPI inflation rates have risen due to higher energy prices and less favourable base effects. The current CPI rate of 2.6% could rise further in Q1 2025. The Bank of England (BoE) estimates the CPI rate at 2.7% by year end 2025 and to remain over target in 2026.

- The MPC re-emphasised that monetary policy will be eased gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy.

- US government bond yields have risen following strong US data and uncertainty about the effects of Donald Trump's policies on the US economy, particularly in terms of inflation and monetary policy. The Federal Reserve pared back its expectations for rate cuts in light of these issues. Higher US yields are also pushing up UK gilt yields, a relationship that will be maintained unless monetary policy in the UK and US diverges.

Forecast:

- In line with our forecast, Bank Rate was held at 4.75% in December.

- The MPC will reduce Bank Rate in a gradual manner. We see a rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.

- Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.

- This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.

- The risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.90	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.34	4.30	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.05	4.05	4.05
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.56	4.55	4.45	4.30	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	5.05	5.00	4.90	4.80	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.52	4.70	4.60	4.50	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

Appendix B – Existing Investment & Debt Portfolio Position

Existing Investment & Debt Portfolio Position	31.03.2024		31.03.2025	
	Actual Portfolio £m	Average Rate %	Actual Portfolio £m	Averag e 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)	£8.000	4.93%	£8.000	4.33%
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	£0.250	4.50%	£0.250	4.50%
Total Treasury Investments	**£8.250**	**4.92%**	**£8.250**	**4.34%**
External Borrowing:				
Public Works Loan Board	(£227.129)	3.87%	(£222.470)	
Local Authorities	(£17.300)	3.39%	(£25.000)	
LOBO Loans from Banks	(£13.000)	4.23%	(£13.000)	
Other Loans	(£5.000)	3.30%	(£5.000)	
Total Gross External Debt	**(£262.429)**	**3.85%**	**(£265.470)**	**3.94%**
Net Investment/(Debt)	**(£254.179)**		**(£257.220)**	