Cabinet
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TREASURY MANAGEMENT STRATEGY STATEMENT 2024/25

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Portfolio: Finance

Wards Affected: All

Purpose of the Report:

This report sets out the authority's approach to the management of its borrowings, investments and cash flows.

Recommendations:

Cabinet is recommended to approve the following, and recommend these to Council

1. The Treasury Management Strategy Statement 2024/25
2. The Treasury Management Policy Statement 2024/25 (***Appendix 1***)
3. The Annual Investment Strategy 2024/25 (***Appendix 2)***
4. The Treasury Management Practice (TMP1) (***Appendix 3***)
5. The Treasury Management Scheme of Delegation (***Appendix 4***)
6. The Prudential Indicators (***Appendix 5***)
7. The Minimum Revenue Provision (MRP) Statement (***Appendix 6***).

1. Summary

1.1 This report sets out the Treasury Management Strategy Statement 2024/25 and associated policies.

1.2 It is a regulatory requirement that these be approved annually by Full Council.

2. Definition and Principles

2.1 The Chartered Institution 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."

2.2 DLUHC and CIPFA have extended the meaning of *'investments'* to include both financial and non-financial investments. This Treasury Management Strategy Statement deals solely with financial investments. Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

2.3 There are 3 key treasury management principles:

1. **Security** – To ensure monies are not placed at undue risk, by ensuring all monies are invested in appropriate counterparties or instruments commensurate with the organisation's risk appetite.
2. **Liquidity** - To ensure that cash flow is adequately planned, with cash being available when it is needed, and that sufficient funding is available to finance the organisation's capital investment plans.
3. **Yield** - To maximise investment returns (commensurate with risk) and minimise borrowing costs to minimise the costs to the organisation.

2.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as "non-treasury" activities, (arising usually from capital expenditure), and are separate from day to day treasury management activities. The exception to this is from commercial loans made primarily for yield (as opposed to primarily for service reasons).

3. Treasury Management Strategy Statement

3.1 This Treasury Management Strategy Statement for 2024/25 encompasses a number of areas as follows:

Section 4	Treasury Management Policy Statement
Section 5	Annual Investment Strategy
Section 6	Expected Investment Returns
Section 7	Treasury Management Practices
Section 8	Treasury Mgt Scheme of Delegation & Reporting Requirements
Section 9	Policy on use of External Service Providers
Section 10	Prudential Indicators
Section 11	Minimum Revenue Provision (MRP) Policy Statement
Section 12	Borrowing Strategy
Section 13	Prospects for Interest Rates.

3.2 These documents do not tend to change significantly from year to year. However, it is a regulatory requirement that these be approved annually by Full Council.

3.3 CIFPA publishes Treasury Management and Prudential Codes. Councils must have regard to these codes of practice when they prepare their Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year.

3.4 The Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes:

Treasury Management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service Delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial Return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

3.5 The main requirements of the Prudential Code relating to Service and Commercial investments are:

- The risks associated with Service and Commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.
- An authority must not borrow to invest for the primary purpose of commercial return.
- It is not prudent for local authorities to make any investment or spending decision that will increase the CFR, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
- An annual review should be conducted to evaluate whether Commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.
- A prudential indicator is required for the net income from Commercial and Service investments as a proportion of the net revenue stream.
- To have Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

3.6 An authority's Capital Strategy or Annual Investment Strategy should include:

- The authority's approach to investments for Service or Commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence.
- An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (i.e. whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).
- Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed.
- Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments).
- Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the authority's overall strategy).
- State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

3.7 As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report. However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for the authority to determine whether it feels it is relevant to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

4. Treasury Management Policy Statement

4.1 In line with CIPFA's Treasury Management in the Public Services: Code of Practice the Council maintains a Treasury Management Policy Statement. This is the cornerstone to effective treasury management.

4.2 This Treasury Management Policy Statement is included in ***Appendix 1*** and details the policies, objectives, and approach to risk management of the Council's treasury management activities, including policies where the Council has commercial investments held for financial return.

4.3 It is this Policy that sets out that the Council's primary objective in relation to investments is the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary and tertiary considerations respectively.

5. Annual Investment Strategy

5.1 The Annual Investment Strategy (***Appendix 2***) sets out the Authority's:

- Investment Approach
- Investment Risk Management Policy
- Creditworthiness Policy
- Other Investment Limits
- Investment Risk Benchmarking.

5.2 As at the end of December 2023 the Council has treasury investments of £36.1m. However, the application of resources (capital receipts, reserves etc.) to finance capital expenditure is expected to reduce the level of investments over time.

5.3 The Annual Investment Strategy categorises investments between:

- **Specified investments.** Investments that have a high level of credit quality and are subject to a maturity limit of one year.
- **Non-specified investments**. Investments with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration before being authorised for use.

5.4 The Annual Investment Strategy also sets time and monetary limits for institutions on the Council's counterparty list.

6. Expected Investment Returns

6.1 The bank rate rose from 5.00% to 5.25% in August 2023, the fifth change in the rate in 12 months. There have been no changes to the bank rate since. Forecasts from Link Asset Services (Link), the Council's appointed treasury advisors, anticipate that the rate will stay at 5.25% until September 2024 and then decline to 5.00%. Link anticipate a further decline in the rate to 3.00% by December 2025. However, as interest rates have been volatile in recent months, it has been assumed that investment earnings will achieve a rate of return of 4.5% for 2024/25.

6.2 In addition, an investment return is being generated on our externally managed funds of approximately £28,000 a month.

6.3 On the basis of the assumptions in 6.1 and 6.2 above, the expected investment return for 2024/25 has been calculated as £1,120,000.

6.4 For comparison the investment return in 2023/24 is expected to be £1,748,000.

7. Treasury Management Practices (TMPs)

7.1 Treasury Management Practices set out the manner in which the Council will seek to achieve the Treasury Management policies and objectives, and prescribe how it will manage and control those activities.

7.2 Treasury Management Practices (TMP1) Credit and Counterparty Risk Management is included as ***Appendix 3.***

8. Treasury Management Scheme of Delegation, Reporting Requirements and Training

Scheme of Delegation

8.1 The Council delegates:

- Responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet, and
- Responsibility for the execution and administration of treasury management decisions to the Section 151 Officer.

8.2 The Council also nominates the Overview and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

8.3 Further details are included in ***Appendix 4.***

Reporting Requirements

8.4 Members are required to receive and approve, as a minimum, three treasury reports each year as follows:

1. Treasury Management strategy (this report) – This is forward looking and covers the plans for the year ahead. Approval is through Cabinet and then Council.

2. A mid-year Treasury Management report – This is a progress report and will update on the mid-year treasury management position. Approval is through Cabinet.

3. An annual Treasury report – This is a backward looking document and provides details of actual Treasury Management operations compared to the estimates. Approval is through Cabinet and then Council.

In addition to the three major reports detailed above, quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council but are required to be adequately scrutinised. This role is undertaken by the Corporate Leadership Team. The reports, specifically, should comprise updated Treasury/Prudential Indicators.

Training

8.5 The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in Treasury Management. This especially applies to members responsible for scrutiny. The Code states that there is an expectation that all organisations will have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of Treasury Management knowledge and skills for those responsible for management, delivery, governance and decision making.

8.6 The training needs of Treasury Management officers and members are periodically reviewed.

9. Policy on Use of External Service Providers

9.1 The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon the services of our external service providers.

9.2 All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers. It also recognises that there is value in employing external providers of Treasury Management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

9.3 The Council currently uses Link Asset Services as its external Treasury Management advisors.

9.4 The Council purchased units in Ninety One's pooled funds some time ago. Changes in the value of the Council's share reflect the net growth in the overall value of the funds. At the 31 December 23 the market value of the Diversified fund with Ninety One Asset Management totalled £7.114m.

10. Prudential Indicators

10.1 The CIPFA Prudential Code sets out a number of indicators for authorities to use to ensure that their capital expenditure plans are affordable. These fall under 2 subheadings:

- Prudential Indicators for Affordability
- Prudential Indicators for Prudence.

10.2 The Council's proposed Prudential indicators are included as ***Appendix 5.***

11. Minimum Revenue Provision (MRP) Policy Statement

11.1 The Council is required to pay off an element of its accumulated capital borrowing need (the CFR) through an annual revenue charge (the Minimum Revenue Provision – MRP).

11.2 The Council will use the Asset life method of calculating MRP, which means MRP will be based on the estimated life of the assets.

11.3 Further details about MRP are included in ***Appendix 6.***

12. Borrowing Strategy

Borrowing Requirement

12.1 The Authority is currently debt free, and the current capital expenditure plans show no need to borrow.

Sources of Borrowing

12.2 The authority seeks to borrow at the most cost-effective rate. It is therefore permitted to borrow from any of the following sources:

- PWLB – The primary source for most local authority borrowing due to its cost-effective pricing structure (e.g. a percentage over gilt yields).
- Bank overdraft – Can be cost-effective for short term cashflow needs.
- Other local authorities – Can be cost-effective for shorter dated maturities out to 3 years.
- Financial institutions (primarily insurance companies and pension funds but also some banks). Can be used to borrow out of forward dates where the objective is

to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

- Municipal Bonds Agency – A developing viable alternative depending on market circumstances prevailing at the time of bond issue.

Policy on Borrowing in Advance of Need

12.3 The authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed.

12.4 Any decision to borrow in advance will be within the approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

13. Prospects for Interest Rates

13.1 The Council has appointed Link as its treasury advisor and ***Appendix 7*** provides their advice on interest rates and a number of other treasury related matters.

14. Issues and Risks

14.1 **Resource implications** – The Treasury Management Strategy ensures funding is available to meet the Council’s needs. It also delivers investment income for the Council and helps to minimise the costs of borrowing.

14.2 **Legal implications** – Adoption of the CIPFA Code of Practice on Treasury Management is recommended by CIPFA and therefore falls within the remit of section 15 of the Local Government Act 2003.

14.3 Local Authorities are required by Regulations 2 and 24 of the Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 [SI 3146] to have regard to the current editions of the CIPFA codes of best practice.

14.4 **Equity implications** - Treasury decisions are made impartially, within the guidelines.

14.5 **Risks** - Treasury management is not risk free. The primary objective of the Council’s Treasury Management function is to minimise risk to the principal amounts involved, whilst still maintaining optimum liquidity.

15. Recommendations

15.1 Cabinet is recommended to approve the following and recommend these to Council:

1. The Treasury Management Strategy Statement 2024/25
2. The Treasury Management Policy Statement 2024/25 (***Appendix 1***)
3. The Annual Investment Strategy 2024/25 (***Appendix 2***)
4. The Treasury Management Practice (TMP1) (***Appendix 3***)
5. The Treasury Management Scheme of Delegation (***Appendix 4***)
6. The Prudential Indicators (***Appendix 5***)
7. The Minimum Revenue Provision (MRP) Statement (***Appendix 6***).

Background Papers
CIPFA Treasury Management Code of Practice
CIPFA Prudential Code of Practice

Appendix 1: Treasury Management Policy Statement

The Council adopts the CIPFA definition of treasury management namely:

"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 optimum performance consistent with those risks."

The Council regards the successful identification, monitoring, and control 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 for the Council, and any financial instruments entered into to manage these risks.

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 value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

The Council's primary objective in relation to investments is the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary and tertiary considerations respectively.

The Council's borrowing will be affordable, sustainable, and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken, and the type of borrowing should allow the Council transparency and control over its debt.

Where the Council has made commercial investments in property, in wholly owned companies or in joint ventures, the performance of these investments will be monitored and reported in line with the overall Treasury Management policy.

The Council, in making investments through its treasury management function, supports the ethos of socially responsible investments. We will actively seek to communicate this support to those institutions we invest in, as well as those we are considering investing in, by:

- Encouraging those institutions to adopt and publicise policies on socially responsible investments.
- Requesting those institutions to apply council deposits in a socially responsible manner.

Appendix 2: Annual Investment Strategy

1. The Annual Investment Strategy sets out the Authority's:
   - Investment Approach
   - Investment Risk Management Policy
   - Creditworthiness Policy
   - Other Investment Limits
   - Investment Risk Benchmarking.

Investment Approach

2. Cash investments will be made with reference to the core balance and cash flow requirements, and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

3. Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow and to fund the Council's capital programme, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

4. For its cash flow generated balances, the Council will seek to utilise instant access and notice accounts, money market funds and short-dated deposits, (overnight to 364 days), in order to benefit from the compounding of interest.

5. If there is a risk that the Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable. Conversely, if the risk is that Bank Rate is likely to fall significantly within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment Risk Management Policy

6. The Council's Investment Risk Management Policy has regard to the following:
   - DLUHC's Guidance on Local Government Investments ("the Guidance")
   - CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the Code")
   - CIPFA Treasury Management Guidance Notes.

7. As set out in the Treasury Management Policy Statement, the Council's investment priorities will be security first, portfolio liquidity second and then yield (return).

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

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

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

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

- This authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year.

    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

- **Lending limits***, (*amounts and maturity), for each counterparty will be set through applying a matrix table.

- **Transaction limits** are set for each type of investment.

- This authority will set a limit for the amount of its investments which are invested for longer than 365 days.

- Investments will only be placed with counterparties from countries with a specified minimum sovereign rating.

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

- All investments will be denominated in sterling.

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

10. As a result of the change in accounting standards for 2022/23 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Department for Levelling Up, Housing and Communities, [DLUHC], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending in 31/03/23). In December 2022, DLUHC announced that following further consultation, Ministers decided to extend the override to 31/03/2025.

Creditworthiness Policy

11. The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:
    - It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
    - It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

12. The Section 151 Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

13. Credit rating information is supplied by our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to counterparty at the minimum Council criteria may be suspended from use, with all others being reviewed in light of market conditions.

14. The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:
    - Banks 1 - good credit quality **–** the Council will only use banks which:
        i. are UK banks; and/or
        ii. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of AA, matching the UK's rating.

      and have, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):

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

- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland ring-fenced operations. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above.
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested. The Council's provider of banking services is Barclays Bank PLC.
- Bank subsidiary and treasury operation -. The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
- Building societies. The Council will use all societies which meet the ratings for banks outlined above
- Money Market Funds (MMFs) CNAV (consistent net asset value) – AAA
- Money Market Funds (MMFs) LVNAV (low volatility net asset value) – AAA
- Money Market Funds (MMFs) VNAV (variable net asset value) – AAA
- UK Government (including gilts, Treasury Bills and the Debt Management Account Deposit Facility (DMADF))
- Local authorities, parish councils etc subject to due diligence.
- Housing associations subject to due diligence.
- Wholly owned or Joint Ventures companies.
- The Authority may also invest cash with other organisations, for example by making loans to small businesses. Because of the higher perceived risk of unrated businesses, such investments may provide considerably higher rates of return. They will however only be made following a favourable external credit assessment, on the specific advice of the Authority's treasury management adviser and on the provision of appropriate security, e.g. through a charge on assets.

15. *Use of additional information other than credit ratings*. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

16. **External Fund Managers**

£7.114m of the Council's funds are externally managed on a pooled basis by Ninety One. The Council fully appreciates the importance of monitoring the activity and resultant performance of the funds. In order to aid this assessment, the Council is provided with regular reporting from its fund managers, including monthly statements and quarterly commentaries. In addition to formal reports, the

Council has named fund manager representatives who are available for consultation and advice as and when required.

Time and monetary limits applying to investments

17. The criteria for specified and non-specified investments are detailed in TMP1. The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Long Term Rating (or equivalent)	Money Limit	Time Limit
Banks 1 higher quality	AA-	£12.5m	2 years
Banks 1 medium quality	A	£10m	18 months
Banks 1 lower quality	A-	£7.5m	1 year
Banks 2 – part nationalised	N/A	£12.5m	2 years
Limit 3 category – Council's banker (not meeting Banks 1)	N/A	£12.5m	6 months
Other institutions limit	-	£5m	1 year
DMADF (debt management account deposit facility)	UK sovereign rating	unlimited	2 years
Local authorities	N/A	£7.5m	2 years
Housing associations higher quality	AA	£10m	2 years
Housing associations medium quality	A	£7.5m	1 year
Housing associations lower quality	A-	£5m	1 year
	Fund rating	Money Limit	Time Limit
Money Market Funds CNAV (constant net asset value)	AAA	£10m	liquid
Money Market Funds LVNAV (low volatility net asset value)	AAA	£10m	liquid
Money Market Funds VNAV (variable net asset value)	AAA	£10m	liquid

Other Investment Limits

18. Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Country limit.**
The Council has determined that it will only use approved counterparties from countries with a **minimum sovereign credit rating of AA** from Fitch (or equivalent).

b) **Other limits.**
In addition:

- No more than £5 million of total cash will be placed with any non-UK country at any time.
- Limits in place above will apply to a group of companies.
- Sector limits will be monitored regularly for appropriateness.

Investment Risk Benchmarking

19. In order to ensure security, the Council will use appropriate benchmarks. These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report. The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:
    - 0.1% (1 in 1000) historic risk of default when compared to the whole portfolio.
    - This benchmark is an average risk of default measure and would not constitute an expectation of loss against a particular investment.

20. Liquidity – in respect of this area the Council seeks to maintain:
    - Bank overdraft - £0m
    - Liquid short-term deposits of at least £4m available with a week's notice.

21. Yield - local measures of yield benchmarks are:
    - Investments – internal returns above the 7-day SONIA (Sterling Overnight Index Average) rate, which is the risk-free rate for sterling markets administered by the Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. Link, the Council's treasury advisors provide compounded SONIA rates to clients, including them in their regular reporting templates and digital publications.

Appendix 3: Treasury Management Practice (TMP1) Credit and Counterparty Risk Management

1. Treasury Management Practices set out the manner in which the Council will seek to achieve the Treasury Management policies and objectives, and prescribe how it will manage and control those activities.

2. This TMP covers Credit and Counterparty Risk Management.

Guidance

3. DLUHC issued Investment Guidance in 2018, and this forms the structure of the Council's policy below.

4. The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective, the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council has adopted the Code and applies its principles to all investment activity. In accordance with the Code, the Section 151 Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual Investment Strategy

5. The key requirements of both the Code and the investment guidance are to set an Annual Investment Strategy, as part of the Council's annual treasury strategy for the following year, covering the identification and approval of following:
   - The strategy guidelines for choosing and placing investments, particularly non-specified investments.
   - The principles to be used to determine the maximum periods for which funds can be committed.
   - Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
   - Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

6. The investment policy proposed for the Council is:

Specified Investments

7. These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

- The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
- Supranational bonds of less than one year's duration.
- A local authority, housing association, parish council or community council.
- Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.
- A body that is considered to be of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum Short-Term rating of A- (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

8. Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are set out in the report in Appendix 2 para. 17.

Non-specified investments

9. These are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

10. Non-specified investments would include any sterling investments with:

	Non-Specified Investment Category	**Limit (£)**
a	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	£5 million
b	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	£12.5 million
c	Any **bank or building society** that has a minimum long-term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	£10 to £12.5 million depending on the institution
d	Any **non-rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to the same criteria as for the parent company and assurance on the robustness of the group structure.	As per parent company, but total limit not to be exceeded
e	**Share capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources	£20 million

	will not be invested in corporate bodies. See note 1 below.	
f	**Loan capital** in a body corporate. See note 1 below.	£30 million
g	**Bond funds.** See note 1 below.	
h	**Property funds** – The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any fund it may consider using.	

Note1: This Authority will seek further advice on the appropriateness and associated risks with investments in these categories.

Within categories b and c, and in accordance with the Code, the Council has developed additional criteria to set the overall amount of monies which will be invested in these bodies.

The Monitoring of Investment Counterparties

11. The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly).

12. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest.

13. Any counterparty failing to meet the criteria will be removed from the list immediately by the Section 151 Officer, and new counterparties which meet the criteria will be added to the list.

14. The monitoring of counterparties Environmental, Social & Governance (ESG) factors is a developing area within the Treasury Code. ESG issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult. This is a developing area, and the Code does not imply that an ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level. However, where appropriate and taking into account the prime considerations of security, liquidity, yield and counterparty limits the authority will endeavour to place investments that it considers suitable with regard to ESG criteria. Link continues to look at ways in which they can incorporate these factors into their creditworthiness assessment service and will continue to review the options and will update clients as progress is made.

Approved Countries for Investments

15. This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Norway), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

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

AA+
- Canada
- Finland
- U.S.A.

AA

AA-
- Belgium
- France
- U.K.

16. The following countries, although they meet the minimum required sovereign rating, are not approved for investment.

AA
- Abu Dhabi (UAE)

AA-
- Hong Kong
- Qatar

Appendix 4: Treasury Management Scheme of Delegation

The following Treasury Management Scheme of Delegation shall apply.

Full Council

The following matters are the responsibility of Full Council:

- Approval of annual strategy.
- 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.

Cabinet

The following matters are delegated to Cabinet:

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Receiving and reviewing reports on treasury management policies, practices and activities.
- Receiving and reviewing regular monitoring reports and making recommendations to the responsible body.
- Approving the selection of external service providers and agreeing terms of appointment.
- Receiving and reviewing regular monitoring reports and acting on recommendations.

Corporate Leadership Team (CLT)

The following matters are delegated to CLT:

- Receiving and reviewing additional monitoring reports (end of June/end of December, specifically comprising updated Treasury/Prudential Indicators) and acting on recommendations.

s151 (responsible) officer

The following matters are delegated to the Council's s151 Officer:

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- Recommending the appointment of external service providers.
- Preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe.
- Ensuring that the capital strategy is prudent, sustainable, affordable, 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:
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios.
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments.
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making.
    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken.
    - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

Appendix 5: Prudential Indicators

Prudential Indicator for Affordability 1 - Capital expenditure

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.

	Estimated Outturn 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000	Estimate 2027/28 £'000	Estimate 2028/29 £'000
Total Capital Expenditure	11,260	11,675	3,163	2,519	1,994	1,693

Prudential Indicator for Affordability 2 – Financing Cost to Net Revenue Stream

2. This prudential indicator calculates the ratio of financing costs to net revenue stream. Financing costs are broadly defined as the net of the return on investments and other financial assets, against the payments made on debt and similar financial liabilities.

3. This is a measure of the authority's ability to meet any debt payments from its revenue. An increasing positive figure indicates an increasing inability to meet such payments.

	Estimate 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28	Estimate 2028/29
Financing Cost	-1,338	-1,238	-1,138	-1,038	-938
Net Revenue Stream	13,776	14,156	14,610	14,948	15,266
Ratio of Financing Costs to Net Revenue Stream	-9.7%	-8.7%	-7.8%	-6.9%	-6.1%

Prudential Indicator for Affordability 3 – Capital Financing Requirement

4. The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so it's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

	Estimated Outturn 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000	Estimate 2027/28 £'000	Estimate 2028/29 £'000
Total Capital Expenditure	11,260	11,675	3,163	2,519	1,994	1,693
Capital receipts	-1,819	-2,500	0	0	0	0
Capital grants	-3,703	-2,644	-1,000	-1,000	-1,000	-1,000
Revenue	-5,738	-6,531	-2,163	-1,519	-994	-693
Net financing need for the year (borrowing required)	0	0	0	0	0	0

Prudential Indicator for Affordability 4 – External Debt

6. The **authorised limit** for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

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

	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000	Estimate 2027/28 £'000	Estimate 2028/29 £'000
Authorised Limit	5,000	5,000	5,000	5,000	5,000	5,000
Operational Boundary	3,000	3,000	3,000	3,000	3,000	3,000

8. Full Council should be advised at the earliest opportunity if the Operational Boundary is exceeded. The Authorised Limit must not be exceeded without formal agreement in advance by Council.

Prudential Indicator for Finance Risk Management – Liability Benchmark

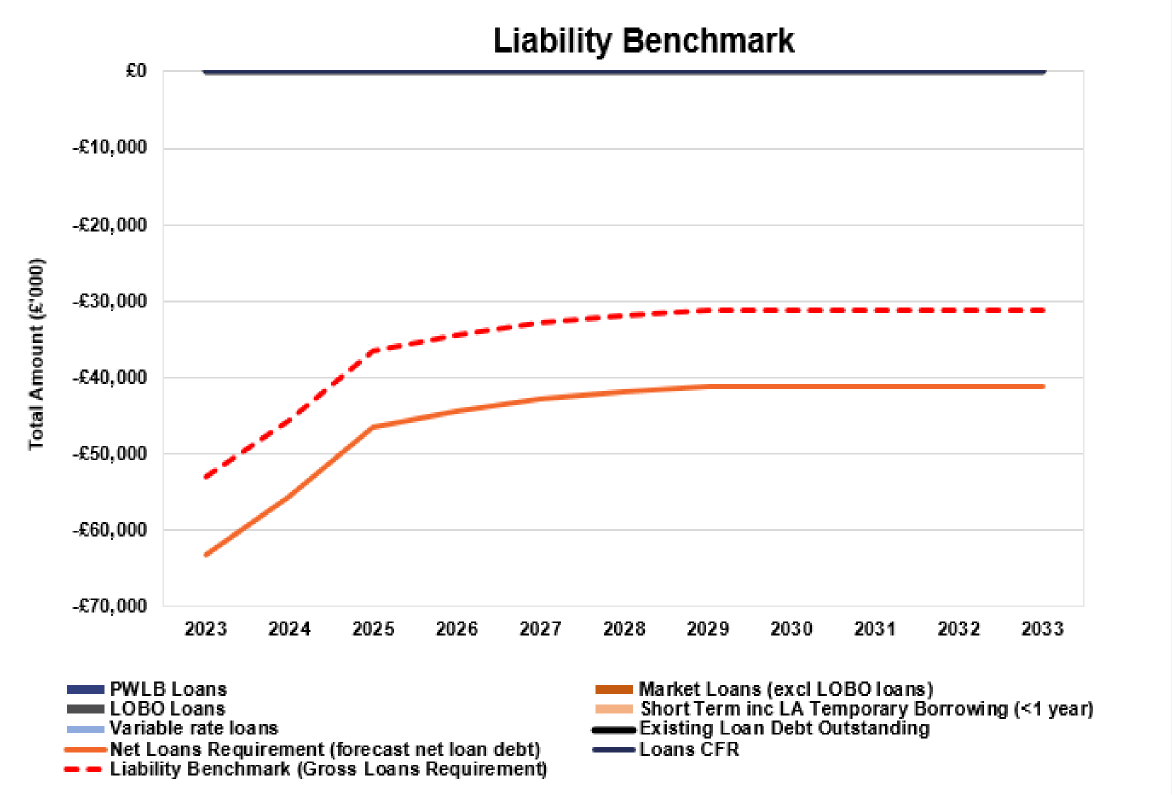
9. There are four components to the Liability Benchmark:

10. **Existing loan debt outstanding**: the Council's existing loans that are still outstanding in future years. As the Council is debt free with no planned borrowing this does not apply in the LB graph.

11. **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.

12. **Net Loans Requirement**: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

13. **Liability Benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance. As the Council is debt free with no borrowing required, the graph below shows investment levels for the duration of the capital programme as profiled to 2028-29.



Prudential Indicator for Prudence 1 – Gross Debt and the Capital Financing Requirement

14. Within the range of prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within well-defined limits.

15. 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 2023/24 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.

16. The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting that the Council has not anticipated the need to undertake any external or internal borrowing for the duration of the projected period.

	Estimate 2022/23 £'000	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000	Estimate 2027/28 £'000
External Debt at 1 April	0	0	0	0	0	0
Expected change in External Debt	0	0	0	0	0	0
Actual gross external debt at 31 March	0	0	0	0	0	0
The Capital Financing Requirement	0	0	0	0	0	0
(Under)/over borrowing	0	0	0	0	0	0

17. The s151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Prudential Indicator for Prudence 2 - Maturity structure of borrowing

18. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

	Lower Limit (Cumulative)	Upper Limit (Cumulative)
Under 12 months	0%	50%
12 months to 2 years	0%	80%
2 years to 5 years	0%	90%
5 years to 10 years	0%	95%
10 years and above	0%	100%

19. If the authority decides to take up long-term debt to finance a major capital project in the future, it will discuss the matter with its treasury advisors to determine the best option in terms of repayment pattern, term and whether fixed or variable rates would be more efficient.

Prudential Indicator for Prudence 3 – Principal sums invested for longer than 365 days

20. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

	Estimate 2022/23 £'000	Estimate 2023/24 £'000	Estimate 2024/25 £'000	Estimate 2025/26 £'000	Estimate 2026/27 £'000	Estimate 2027/28 £'000
Principal sums invested for longer than 365 days	5,000	5,000	5,000	5,000	5,000	5,000

Appendix 6: MRP Statement

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

The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options as follows for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent.

- Option 1: Regulatory Method
- Option 2: CFR Method
- Option 3: Asset Life Method
- Option 4: Depreciation Method.

The Council has adopted Option 3 as its policy.

This means MRP will be based on the estimated life of the assets, in accordance with the regulations. This option provides for a reduction in the borrowing need over approximately the asset's life.

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

MRP in respect of leases brought on balance sheet under the IFRS-based Local Authority Accounting Code of Practice will match the annual principal repayment for the associated deferred liability.

For capital expenditure on loans to third parties for housing 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 instead of MRP. If the Council borrows to fund these loans, the Capital Financing Requirement (CFR) will increase by the amount of loans advanced and once loans are repaid to the Authority the CFR will reduce accordingly.

MRP Overpayments

Any MRP charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2023 the total VRP overpayments were £0.

Appendix 7: Prospects for Interest Rates

The Council has appointed Link as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. This appendix provides this and their advice on a number of treasury related matters.

Interest rates

Link provided the following forecasts on 07.11.23. These are forecasts for certainty rates, gilt yields plus 80bps:

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

Additional notes by Link on this forecast table:

Our central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

Naturally, timing on this matter will remain one of fine judgement: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB Rates

Gilt yield curve movements have broadened since our last Newsflash. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve.

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

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation, and, thus, could keep gilt yields high for longer).
- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- **UK/EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks,** for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

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

- Despite the recent tightening to 5.25% the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- **The pound weakens** because of a lack of confidence in the UK government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term **US treasury yields** rose strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so.)
- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields compensating.

Investment and Borrowing Rates

Our long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

Creditworthiness

Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices

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