

**Treasury Management Strategy 2025/26**  
(Including the Annual Investment Strategy)

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## **Key Considerations**

### **2021 revised CIPFA Treasury Management Code and Prudential Code – changes which will impact on future TMSS/AIS reports and the risk management framework.**

CIPFA published the revised Codes on 20th December 2021 and stated that revisions need to be included in the reporting framework from the 2023/24 financial year. This Council, therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

### **The revised Treasury Management Code required 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 a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. A council must not borrow to invest primarily for financial return.

### **The revised Treasury Management Code requires a council to implement the following: -**

- 1. Adopt a liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
- 2. Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;

3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;
4. Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;
5. **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the Council's integrated revenue, capital and balance sheet monitoring;
6. **Environmental, social and governance (ESG)** issues to be addressed within the Council's treasury management policies and practices (TMP1).

**The main requirements of the Prudential Code relating to service and commercial investments are: -**

1. 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;
2. A council must not borrow to invest for the primary purpose of commercial return;
3. 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 Council, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose;
4. 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;
5. A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream;
6. Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

## **1.0 Introduction**

### **1.1 Policy Statement and Background**

#### **1.1.1 Treasury Management Policy Statement**

- The Council defines its treasury management activities as the management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.
- 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 for the organisation 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.

#### **1.1.2 Background**

The Council is required to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and

balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

*“The management of the local council’s borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*

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

## **1.2 Reporting Requirements**

### **1.2.1 Capital Strategy**

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report which will provide the following:

-

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

The aim of the strategy is to ensure that all the Council’s elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

### **1.2.2 Treasury Management Reporting**

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers: -

- the capital plans, (including prudential indicators)
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
- the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and

- an Annual Investment Strategy, (the parameters on how investments are to be managed)
- b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Council will receive quarterly update reports.
  - c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

### **Scrutiny**

The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Overview and Scrutiny Panel (Performance and Growth).

**Quarterly reports** – 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/Board but do require to be adequately scrutinised. This role is undertaken by the Overview and Scrutiny Panel (Performance and Growth). (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

### **1.3 Treasury Management Strategy for 2025/26**

The strategy for 2025/26 covers two main areas:

#### **Capital issues**

- the capital expenditure plans and the associated prudential indicators
- the minimum revenue provision (MRP) policy (separate appendix)

#### **Treasury management issues**

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy; and
- the policy on use of external service providers

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

## **1.4 Training**

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.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making. The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Prepare tailored learning plans for treasury management officers and councilors.
- Require treasury management officers and councilors to undertake self-assessment against the required competencies.
- Have regular communication with officers and councilors, encouraging them to highlight training needs on an ongoing basis.”

In further support of the revised training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

The training needs of treasury management officers are periodically reviewed. A formal record of the training received by officers central to the Treasury function will be maintained as part of the officer’s CPD record.

## **1.5 Treasury Management Consultants**

The Council uses MUFG Corporate Markets (Link Group), as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services 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 subjected to regular review.



## 2. CAPITAL PRUDENTIAL INDICATORS 2025/26 – 2027/28

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist councillors' overview and confirm capital expenditure plans are prudent, affordable and sustainable.

### 2.1 Capital Expenditure and Financing

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

Capital expenditure	2023/24 Actual £000s	2024/25 Forecast £000s	2025/26 Budget £000s	2026/27 Budget £000s	2027/28 Budget £000s
Property, Plant and Equipment	2,421	5,677	9,751	1,499	2,648
Investment Property	1,833	963	300	0	0
Intangible Assets	81	1,312	40	70	70
REFCUS	8,477	22,179	4,436	4,306	1,600
Infrastructure Assets	0	20	0	0	0
Community Assets	0	494	0	0	0
Loans	0	100	0	0	0
Assets Under Construction	595	0	0	0	0
<b>Total</b>	<b>13,407</b>	<b>30,745</b>	<b>14,527</b>	<b>5,875</b>	<b>4,318</b>

<sup>(1)</sup>REFCUS is Revenue Expenditure Financed from Capital Under Statute, this would include DFGs and other grants given.

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments.

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

Financing of capital expenditure	2023/24 Actual £000s	2024/25 Forecast £000s	2025/26 Budget £000s	2026/27 Budget £000s	2027/28 Budget £000s
Capital receipts	136	300	100	50	50
Capital grants	1,817	19,668	5,303	1,501	1,501
Capital reserves	6,908	3,569	2,706	2,706	0
S106	4,543	0	0	0	0
MRP	2,658	2,824	3,184	3,785	3,864
<b>Total Financing</b>	<b>13,327</b>	<b>26,361</b>	<b>11,293</b>	<b>8,042</b>	<b>5,415</b>
Internal Borrowing	80	4,384	3,234	(2,167)	(1,097)
<b>Total</b>	<b>13,407</b>	<b>30,745</b>	<b>14,527</b>	<b>5,875</b>	<b>4,318</b>

## 2.2 The Borrowing Need (the Capital Financing Requirement)

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

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility provided by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £0.6m of such schemes within the CFR.

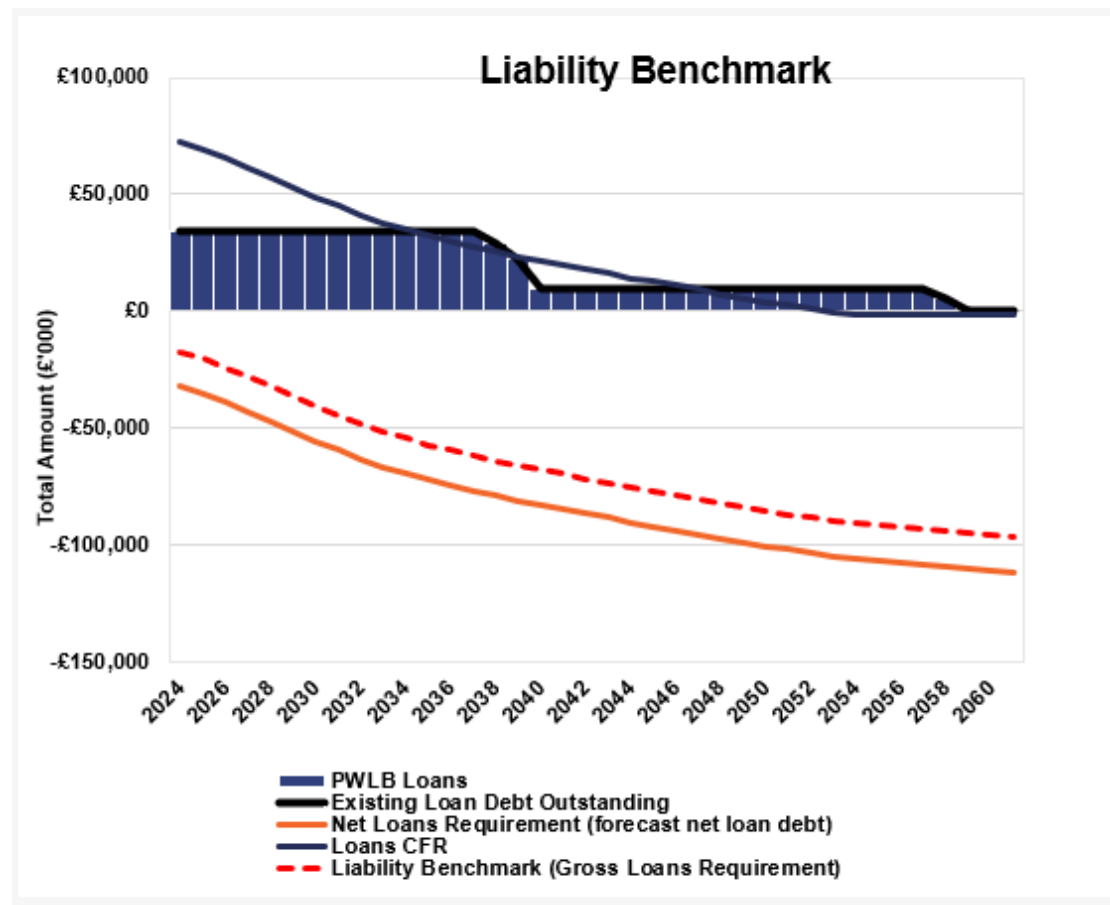
The Council is asked to approve the CFR projections below:

£000s	2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Budget	2027/28 Budget
<b>Capital Financing Requirement</b>					
General Fund	72,260	72,340	76,724	79,958	77,791
<b>Total CFR</b>	<b>72,260</b>	<b>72,340</b>	<b>76,724</b>	<b>79,958</b>	<b>77,791</b>
<b>Movement in CFR</b>	<b>1,882</b>	<b>80</b>	<b>4,384</b>	<b>3,234</b>	<b>(2,167)</b>

<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	2,738	7,208	6,418	1,618	2,767
Less MRP and other financing movements	(2,658)	(2,824)	(3,184)	(3,785)	(3,864)
<b>Movement in CFR</b>	<b>80</b>	<b>4,384</b>	<b>3,234</b>	<b>(2,167)</b>	<b>(1,097)</b>

## 2.3 Liability Benchmark

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



There are four components to the LB: -

1. **Existing loan debt outstanding:** the Council's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. This includes only current borrowing not future unplanned borrowing.
3. **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.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance. In practice this is the amount required to pay the regular precept payments.

The Council is currently in an under-borrowed position (external borrowing is less than the CFR, internal borrowing is being used i.e. reserves and working capital to fund capital expenditure), this according to the liability benchmark will continue until the mid 2030s, although as plans evolve the CFR will likely move outwards. The CFR is being gradually reduced by application of the minimum revenue provision (MRP) charge to revenue, although as new expenditure plans are made the CFR line will reduce at a slower rate, and will not in reality reach zero.

The cash available to invest will increase as the MRP builds up in the cash balances. The liability benchmark line (dotted) is the cash available to invest less a liquidity buffer to meet any immediate cashflow needs.

## 2.4 Core Funds and Expected Investment Balances

The application of resources (e.g., capital receipts, reserves) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (e.g., asset sales). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

<b>Year End Resources £000s</b>	<b>2023/24 Actual</b>	<b>2024/25 Forecast</b>	<b>2025/26 Budget</b>	<b>2026/27 Budget</b>	<b>2027/28 Budget</b>
General Fund Balance	2,175	2,175	2,175	2,175	2,175
Earmarked Reserves	33,300	35,345	35,241	33,090	32,813
Capital Receipts Reserve	4,547	4,527	4,527	4,527	4,527
Capital Grants Unapplied	2,153	1,650	1,650	1,650	1,650
CIL Reserve	54,614	54,989	54,989	54,989	54,990
<b>Total core funds</b>	<b>96,789</b>	<b>98,686</b>	<b>98,582</b>	<b>96,431</b>	<b>96,155</b>
Balance Sheet Resources (Working capital) <sup>(1)</sup>	(8,237)	(5,000)	(5,000)	(5,000)	(5,000)
Under/over borrowing	(38,069)	(42,461)	(45,704)	(43,537)	(42,440)
<b>Expected investments</b>	<b>50,483</b>	<b>51,225</b>	<b>47,878</b>	<b>47,894</b>	<b>48,715</b>

<sup>(1)</sup>Working capital balances shown are estimated year-end; these may be higher mid-year (42461)

### 3. BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury and prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

#### 3.1 Current Portfolio Position

The overall treasury management portfolio as at 01/04/2024 and for the position as at 31/12/2024 are shown below for both borrowing and investments.

<b>TREASURY PORTFOLIO</b>				
	actual <b>01.04.24</b>	actual <b>01.04.24</b>	current <b>31.12.24</b>	current <b>31.12.24</b>
	£000	%	£000	%
<b>Treasury investments</b>				
Banks	553	1	638	1
DMADF (H.M.Treasury)	45,600	69	59,250	71
Money Market Funds	16,200	24	19,600	23
Property Fund	4,000	6	4,000	5
<b>Total treasury investments</b>	<b>66,353</b>	<b>100</b>	<b>83,488</b>	<b>100</b>
<b>Treasury external borrowing</b>				
PWLB	34,254	99.95	34,255	99.96
Salix	18	0.05	13	0.04
<b>Total external borrowing</b>	<b>34,272</b>	<b>100</b>	<b>34,268</b>	<b>100</b>
<b>Net treasury investments / (borrowing)</b>	<b>32,081</b>		<b>49,220</b>	

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 any over or under borrowing.

£m	2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Budget	2027/28 Budget
<b>External Debt</b>					
Debt at 1 April	34.4	34.9	34.9	34.9	34.9
Expected change in Debt	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities (OLTL)	0.6				
Expected change in OLTL	0.0	0.0	0.0	0.0	0.0
Actual gross debt at 31 March	<b>35.0</b>	<b>34.9</b>	<b>34.9</b>	<b>34.9</b>	<b>34.9</b>
The Capital Financing Requirement	<b>72.3</b>	<b>76.7</b>	<b>80.0</b>	<b>77.8</b>	<b>76.7</b>
Under / (over) borrowing	<b>37.3</b>	<b>41.8</b>	<b>45.1</b>	<b>42.9</b>	<b>41.8</b>

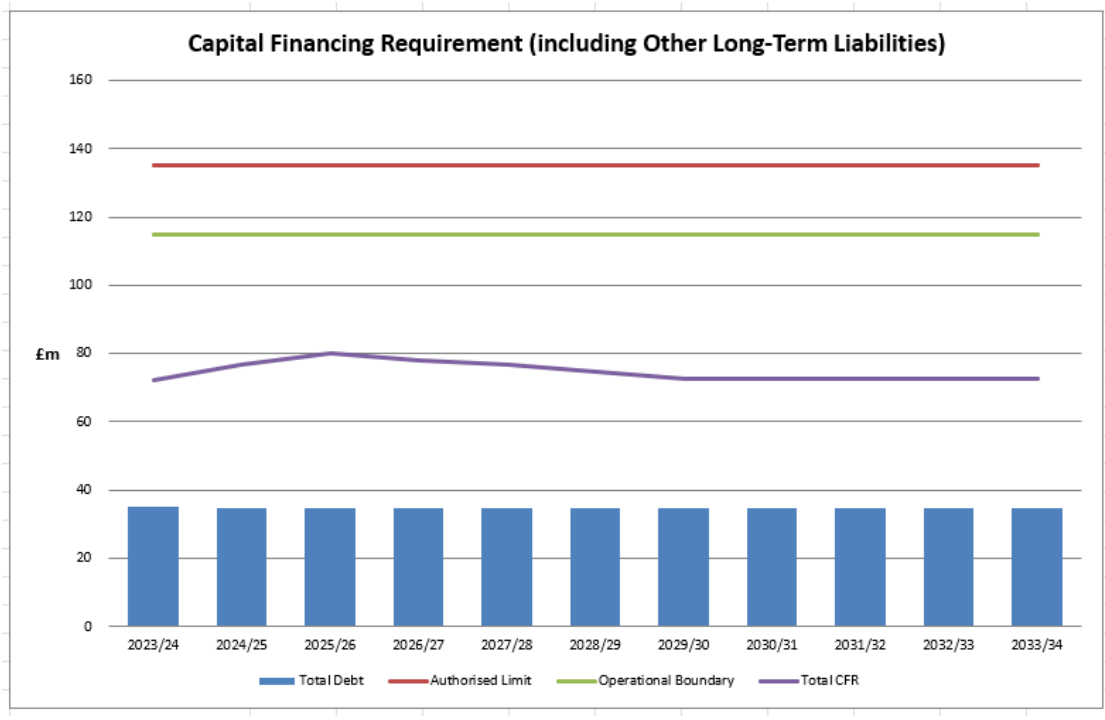
Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding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

The Corporate Director (Finance and Resources) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

### **3.2 Treasury Indicators: Limits to Borrowing Activity**

**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.







### 3.3 Interest Rate Forecasts

The Authority has appointed MUFG Corporate Markets (Link) as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. MUFG Corporate Markets (Link) provided the following forecasts on 11 November 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

*Additional notes by MUFG Corporate Markets (Link) on this forecast table: -*

- Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps (basis points) Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, we have significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.
- If we reflect on the 30 October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% year on year by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% year on year (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% year on year.
- The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.
- There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing and tax rises, and a tepid GDP performance.
- Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made

quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

- Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.
- Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.
- So far, we have made little mention of the US President election. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.
- Our revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.

### Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are to the upsides. Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB debt	Current borrowing rate as at 11.11.24 p.m.	Target borrowing rate now (end of Q3 2026)	Target borrowing rate previous (end of Q3 2026)
5 years	5.02%	4.30%	3.90%
10 years	5.23%	4.50%	4.10%
25 years	5.66%	4.90%	4.40%
50 years	5.42%	4.70%	4.20%

**Borrowing advice:** Our long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). 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 be obtained at the shorter end of the curve and short-dated fixed LA

to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

We will continue to monitor economic and market developments as they unfold. Typically, we formally review our forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider our position on an ad hoc basis as required.

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.

### 3.4 Borrowing Strategy

One of the main functions of the treasury management service is the funding of the Council's capital plans. Capital plans provide a guide to the borrowing need of the Council and help ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short term loans or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The Council's main objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. 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 long term stability of the debt portfolio.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current

levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Corporate Director (Finance and Resources) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances, if there were a requirement to borrow then;

- if it was felt that there was a significant risk of a sharp fall in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper rise in borrowing rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

### **3.5 Policy on Borrowing in Advance of Need**

The Council will not borrow more than or in advance of its needs purely in order to generate a surplus from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

### **3.6 Rescheduling**

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

If rescheduling is to be undertaken, it will be reported to the Cabinet and Council at the earliest meeting following its action.

### **3.7 Source of Borrowing and Types of Borrowing**

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to

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

The Council’s treasury advisors, MUFG Corporate Markets (Link), will keep the Council informed as to the relative merits of each of these alternative funding sources.

### 3.8 Approved Sources of Long and Short-term Borrowing

<b>On Balance Sheet</b>	<b>Fixed</b>	<b>Variable</b>
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock Issues	●	●
Local Temporary Borrowing	●	●
Local Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance Leases	●	●

## 4 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment Policy – Management of Risk

The Department of Levelling Up, Housing and Communities (MHCLG) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Investment Strategy.

The Council’s investment policy has regard to the following: -

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2021

The Council’s investment priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Council’s risk appetite.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” (staggered maturity dates to allow for reinvestment, potentially at a higher rate if rates are moving upwards) investments for periods up to 6 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the MHCLG and CIPFA places a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. 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.
2. **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 maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order

to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This Council has defined the list of **types** of investment instruments that the treasury management team are authorised to use. There are two lists in Appendix 5.4 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 or have less than a year left to run to maturity, if, originally they were classified as being non-specified investments solely due to the maturity period exceeding 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.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of £10m.
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2. Although lower limits may be applied in times of market stress.
7. This Council will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
8. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
9. This Council has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.
10. All investments will be denominated in **sterling**.
11. As a result of the change in accounting standards for 2023/24 under IFRS 9, this Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. More recently, a further extension to the over-ride to 31.3.25

has been agreed by Government. A further consultation is underway to determine the approach from April 2025.

However, this Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

### **Changes in risk management policy from last year.**

No major policy changes, for reference the changes below were made to the **2024/25** strategy

#### **2024/25 Changes**

Some limits have been increased due to the expected high cash balances, this allows further investment in the high quality counterparties already in use. counterparties.

The limit placed on Local Council investments has been increased back up to £4m (prior to 2023/24 limit) from £2m, but investments will be subject to due diligence on financial statements and advice from MUFG Corporate Markets (Link).

Bank investment limit has increased from £2m to £4m, this is so that access to a wider range of green funds and ESG investments is available, where counterparties impose a minimum investment limit above £2m.

Money market fund limits have been increased from £4m to £5m to reflect the wider spread of counterparties when compared to single counterparty investments e.g., banks. In addition this will allow for further investment if DMO interest rates fall faster than general market rates.

## **4.2 Creditworthiness Policy**

This Council applies the creditworthiness service provided by the MUFG Corporate Markets (Link). This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

1. "watches" and "outlooks" from credit rating agencies;
2. CDS spreads that may give early warning of changes in credit ratings;
3. sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will, therefore, use counterparties within the following durational bands;



- Yellow 5 years \*
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The MUFG Corporate Markets (Link) creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Council uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored as updates are received and taken into account for future investing. The Council is alerted to changes to ratings of all three agencies through its use of the MUFG Corporate Markets (Link) creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by MUFG Corporate Markets (Link). Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	Monetary Limit	Time limit
<b>Banks<sup>(1)</sup></b>	Yellow	£4m	5 years
<b>Banks</b>	Purple	£4m	2 years
<b>Banks</b>	Orange	£4m	1 year
<b>Banks – part nationalised</b>	Blue	£4m	1 year
<b>Banks</b>	Red	£4m	6 months
<b>Banks</b>	Green	£4m	100 days
<b>Banks</b>	No Colour	Not to be used	
<b>Council’s banker (if “No Colour”)</b>	No Colour	£4m	1 day
<b>Building Societies</b>	Orange	£1m	1 Year
<b>DMADF</b>	UK sovereign rating	Unlimited	5 Years DMO limit is currently 6 months
<b>Other Government Entities</b>	UK sovereign rating	£5m	5 Years
<b>Local authorities</b>	n/a	£4m	1 year
<b>Housing associations</b>	Colour bands	£1m	As per colour band up to 1 year
	Fund rating <sup>(2)</sup>	Monetary Limit	Time Limit
<b>Money Market Funds CNAV</b>	AAA	£5m	liquid
<b>Money Market Funds LVNAV</b>	AAA	£5m	liquid
<b>Money Market Funds VNAV</b>	AAA	£5m	liquid
<b>Ultra-Short Dated Bond Funds with a credit score of 1.25</b>	Dark Pink / AAA	£2m	liquid
<b>Ultra-Short Dated Bond Funds with a credit score of 1.50</b>	Light Pink / AAA	£2m	liquid

(1) Please note: the yellow colour category is for UK Government debt, or its equivalent, money market funds and collateralised deposits where the collateral is UK Government debt – see appendix 5.4.

(2) Please note: “fund” ratings are different to individual counterparty ratings (i.e. the counterparties the funds are invested with), coming under either specific “MMF” or “Bond Fund” rating criteria.

### **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 Council will not set a minimum rating for the UK.

### **CDS prices**

Although bank CDS prices, (these are market indicators of credit risk), spiked upwards 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. MUFG Corporate Markets (Link) monitor CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its MUFG Corporate Markets (Link)-provided Passport portal.

### **4.3 Limits**

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. **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being £10m of the total treasury management investment portfolio.
- b. **Country limit.** The Council has determined that it will only use approved counterparties from the UK, and from countries with a **minimum sovereign credit rating of AA- from fitch or equivalent** . The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 5.5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

**Other limits.** In addition: -

- no more than £2m will be placed with any non-UK country at any time (this applies to direct investments - MMFs may have exposure in excess of this)
- limits in place above will apply to a group of companies/institutions
- sector limits will be monitored regularly for appropriateness

### **4.4 Investment Strategy**

**In-house funds.** 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). Greater returns are usually obtainable by investing for longer periods.

Accordingly, while most cash balances are required to manage the ups and downs of cash flow, 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.

**Investment returns expectations.**

The current forecast shown in paragraph 3.3.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

**Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. 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.

The Council is asked to approve the following treasury indicator and limit: -

<b>Upper limit for principal sums invested for longer than 365 days</b>			
<b>£m</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
Principal sums invested for longer than 365 days	10.0	9.0	8.0
Current investments as at 31/12/2024 in excess of 1 year maturing in each year	4.0	4.0	4.0

#### **4.5 Investment Performance and Risk Benchmarking**

Through the normal reporting cycle the following indicators will be reported:

- Portfolio risk score
- Average credit rating
- Weighted average maturity
- Interest rate risk
- Rate of return

Security – The target for average credit rating is A-. This is the value weighted average credit rating of the investment portfolio.

Liquidity – The target is £15m of cash available for unexpected payments, over a 3 month rolling period.

Interest rate risk – The upper limit on the 1 year revenue impact of a 1% rise or fall in interest rates. The target is £600,000.

#### **4.6 End of Year Investment Report**

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

## **5. Annexes**

1. Capital prudential and treasury indicators
2. Interest rate forecasts
3. Economic background
4. Treasury management practice 1 – credit and counterparty risk management
5. Approved countries for investments
6. Treasury management scheme of delegation
7. The treasury management role of the section 151 officer
8. Glossary

## 5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2024/25 – 2026/27

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

### 5.1.1 Capital Expenditure

Capital expenditure £m	2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Budget	2027/28 Budget
Property, Plant and Equipment	2,421	5,677	9,751	1,499	2,648
Investment Property	1,833	963	300	0	0
Intangible Assets	81	1,312	40	70	70
REFCUS	8,477	22,179	4,436	4,306	1,600
Infrastructure Assets	0	20	0	0	0
Community Assets	0	494	0	0	0
Loans	0	100	0	0	0
Assets Under Construction	595	0	0	0	0
<b>Total</b>	<b>13,407</b>	<b>30,745</b>	<b>14,527</b>	<b>5,875</b>	<b>4,318</b>

<sup>(1)</sup>REFCUS is Revenue Expenditure Financed from Capital Under Statute, this would include DFGs and other grants given.

### 5.1.2 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators: -

## Ratio of Financing Costs to Net Revenue Stream

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.

	2023/24 Actual	2024/25 Forecast	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Net Revenue Stream	22,170	24,395	26,464	25,165	25,178
Financing Costs	3,644	3,796	4,156	4,757	4,836
<b>Total</b>	<b>16%</b>	<b>16%</b>	<b>16%</b>	<b>19%</b>	<b>19%</b>

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

### 5.1.3 Maturity Structure of Borrowing

Maturity structure of borrowing. 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.

The Council is asked to approve the following treasury indicators and limits: -

<b>Maturity structure of fixed interest rate borrowing 2025/26</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	80%
12 months to 2 years	0%	80%
2 years to 5 years	0%	80%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%
<b>Maturity structure of variable interest rate borrowing 2025/26</b>		
	<b>Lower</b>	<b>Upper</b>
Under 12 months	0%	80%
12 months to 2 years	0%	80%
2 years to 5 years	0%	80%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

### 5.1.4. Control of Interest Rate Exposure

Please see paragraphs 3.3, 3.4 and 4.4.



## 5.2 INTEREST RATE FORECASTS 2024-2027

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
<b>BANK RATE</b>	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

PWLB forecasts are based on PWLB certainty rates.

### 5.3 ECONOMIC BACKGROUND (MUFG Corporate Markets [Link](#) review)

The third quarter of 2024 (July to September):

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% quarter on quarter)
- A further easing in wage growth as the headline 3 month year on year rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

Over the period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession. However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.

If we reflect on the 30 October Budget, MUFG Corporate Market's (Link's) central case is that these policy announcements will prove to be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% year on year by the end of 2024 and staying higher until at least 2026. The Bank forecasts CPI to be elevated at 2.7% year on year (Q4 2025) before dropping back to below 2% in 2027. Nonetheless, since the Budget, the CPI measure of inflation has moved up to 2.3% year on year with the prospect that it will be close to 3% by the end of the year before falling back slowly through 2025. The RPI measure has also increased significantly to 3.4% year on year.

How high inflation goes will primarily be determined by several key factors. First amongst those is that the major investment in the public sector, according to the Bank of England, will lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material increase in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing and tax rises in the June 2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.

Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.

Currently, it also seems likely that net inward migration is set to fall, so there is likely to be a smaller pool of migrant workers available who, in the past, have filled the requirement for construction worker demand. The Government plans to heavily promote training schemes, particularly to the one million 16- to 24-year-olds who are neither in education nor work. But it is arguable as to whether the employee shortfall can be made up from this source in the requisite time, even if more do enter the workforce.

Against, this backdrop, there may be a near-term boost to inflation caused by a wave of public sector cash chasing the same construction providers over the course of the next year or so, whilst wages remain higher than the Bank currently forecasts because of general labour shortages, including in social care where Government accepts there is a 150,000 shortfall at present.

Unemployment stands at a low 4.3% (September), whilst wages are rising at 4.3% year on year (including bonuses) and 4.8% (excluding bonuses). The Bank would ideally like to see further wage moderation to underpin any further gradual relaxing of monetary policy. Indeed, over the next six months, the market is currently only pricing in Bank Rate reductions in February and May – which would see Bank Rate fall to 4.25% - but further cuts, thereafter, are highly likely to be even more data-dependent.

On borrowing, a term likely to be used throughout 2025 is “bond vigilante”. Essentially, this represents a generic term for when the market is ill at ease with the level of government borrowing and demands a higher return for holding debt issuance. In the UK, we do not need to go back too far to recall the negative market reaction to the Truss/Kwarteng budget of 2022. But long-term borrowing rates have already gradually moved back to those levels since their recent low point in the middle of September 2024. Of course, the UK is not alone in this respect. Concerns prevail as to what the size of the budget deficit will be in the US, following the election of Donald Trump as President, and in France there are on-going struggles to form a government to address a large budget deficit problem too. Throw into the mix the uncertain outcome to German elections, and there is plenty of bond investor concern to be seen.

Staying with the US, Donald Trump’s victory paves the way for the introduction and extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks continue to abound in Europe, the Middle East and Asia.

In the past month, the US Core CPI measure of inflation has indicated that inflation is still a concern (3.3% year on year, 0.3% month on month), as has the November Producer Prices Data (up 3.0 year on year against a market estimate of 2.6% year on year, 0.4% month on month against an estimate of 0.2% month on month) albeit probably insufficient to deter the FOMC (Federal Open Market Committee) from cutting US rates a further 0.25% at its December meeting. However, with Trump’s inauguration as President being held on 20 January, further rate reductions and their timing will very much be determined by his policy announcements and their implications for both inflation and Treasury issuance.

Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank’s August rate cut signalled the start of its loosening cycle. More recently, however, 10 year gilt yields have spiked back up to 4.35%.

The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8,304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% year on year. The catalyst

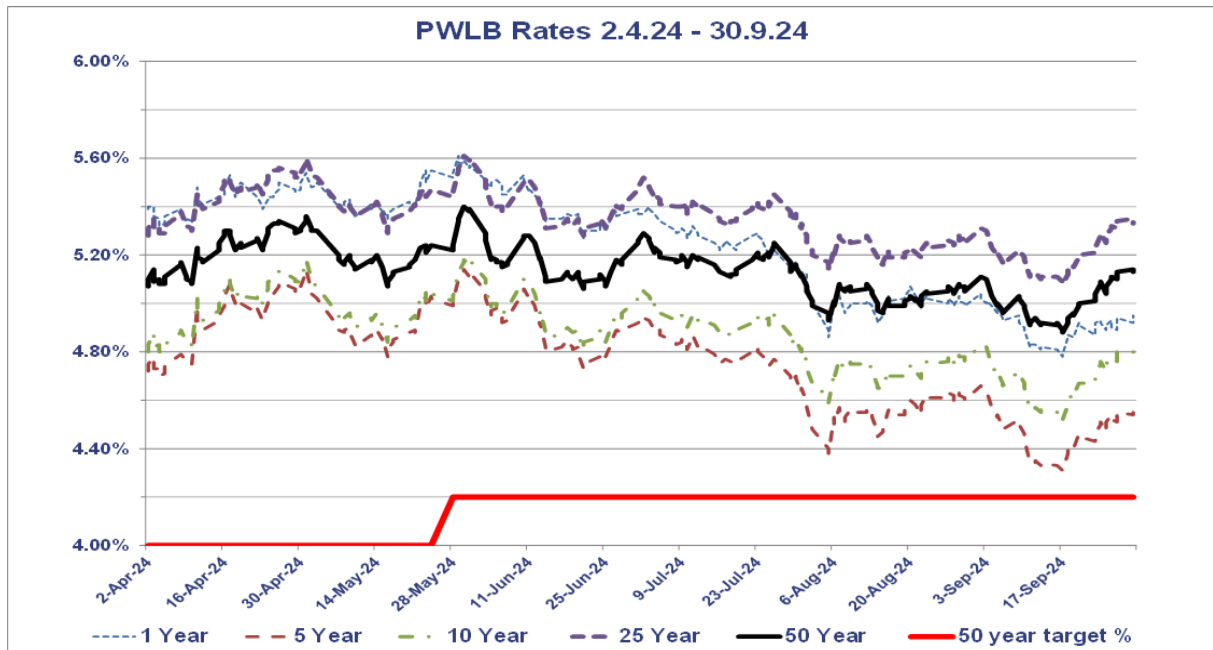
for any further rally (or not) is likely to be the breadth of Artificial Intelligence's impact on business growth and performance.

### MPC meetings: 9 May, 20 June, 1 August, 19 September, 7 November 2024

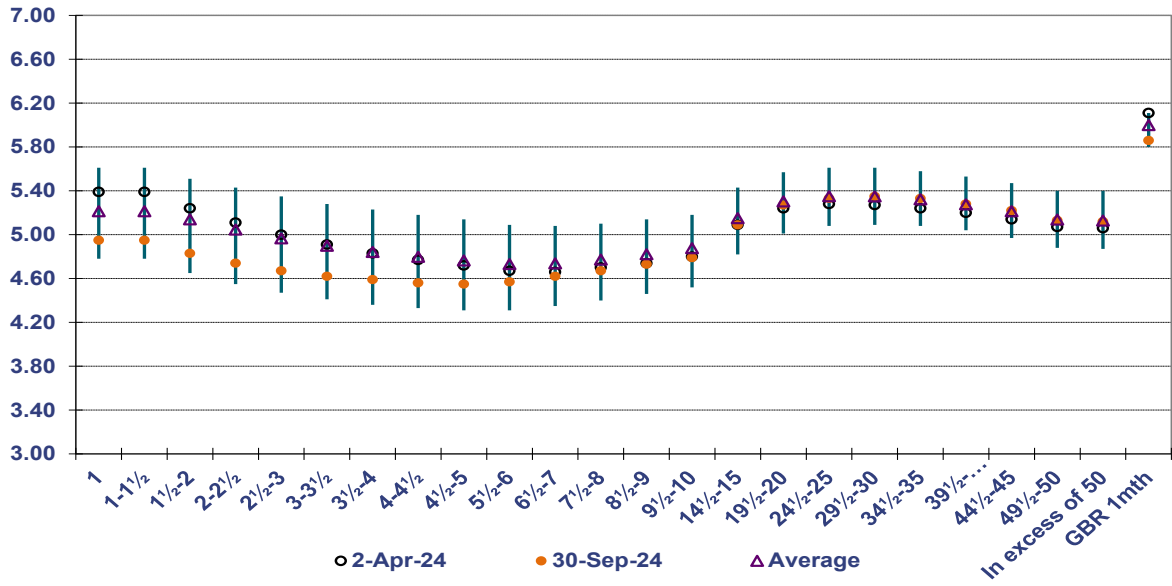
- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20<sup>th</sup> June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.

### PWLB RATES 02.04.24 - 30.09.24



**PWLB Certainty Rate Variations 2.4.24 to 30.9.24**



**HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24**

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>02/04/2024</b>	5.39%	4.72%	4.80%	5.28%	5.07%
<b>30/09/2024</b>	4.95%	4.55%	4.79%	5.33%	5.13%
<b>Low</b>	4.78%	4.31%	4.52%	5.08%	4.88%
<b>Low date</b>	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
<b>High</b>	5.61%	5.14%	5.18%	5.61%	5.40%
<b>High date</b>	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
<b>Average</b>	5.21%	4.76%	4.88%	5.35%	5.14%
<b>Spread</b>	0.83%	0.83%	0.66%	0.53%	0.52%

## 5.4 TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

**SPECIFIED INVESTMENTS:** All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

**NON-SPECIFIED INVESTMENTS:** These are any investments which do not meet the specified investment criteria. A maximum of £10m will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

Specified Investments	Minimum credit criteria / colour band	£ limit per institution	Maximum maturity period
<b>DMADF – UK Government</b>	Yellow	Unlimited	5 Years (6 months max. is set by the DMO <sup>(1)</sup> currently)
<b>UK Gilts</b>	Yellow	£2m	1 year
<b>UK Treasury Bills</b>	Yellow	£2m	364 days (max. is set by the DMO*)
<b>Bonds issued by multilateral development banks</b>	Yellow	£2m	1 year
<b>Money Market Funds CNAV</b>	AAA	£5m	Liquid
<b>Money Market Funds LNAV</b>	AAA	£5m	Liquid
<b>Money Market Funds VNAV</b>	AAA	£5m	Liquid
<b>Ultra-Short Dated Bond Funds with a credit score of 1.25</b>	Dark Pink/AAA	£2m	Liquid
<b>Ultra-Short Dated Bond Funds with a credit score of 1.5</b>	Light Pink/AAA	£2m	Liquid

<b>Local Authorities</b>	Yellow	£4m	1 year
<b>Term Deposits with Housing Associations</b>	Blue Orange Red Green No Colour	£1m	12 months 12 months 6 months 100 days Not for use
<b>Term Deposits with Banks</b>	Blue Orange Red Green No Colour	£4m	12 months 12 months 6 months 100 days Not for use
<b>Term Deposits Building Societies</b>	Orange Red Green No Colour	£1m	12 months 6 months 100 days Not for use
<b>CDs or Corporate Bonds with Banks and Building Societies</b>	Blue Orange Red Green No Colour	£4m	12 months 12 months 6 months 100 days Not for use
<b>Collective Investment Schemes structured as Open-Ended Investment Companies (OEICs)</b>			
<b>Gilt Funds</b>	UK sovereign rating	£2m	1 Year

(1) DMO – is the Debt Management Office of HM Treasury

**Accounting treatment of investments.** The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

<b>Non-Specified Investments</b>	<b>Minimum Credit Criteria</b>	<b>£ Limit per institution</b>	<b>Max. maturity period</b>
<b>Maturities of any period</b>			
<b>Property Funds - the use of these investments may constitute capital expenditure, if this is the case the investment will be an application of capital resources</b>	Yellow	£5m	Based on cash flow modelling
<b>Maturities in excess of 1 year</b>			
<b>Term Deposits – local authorities</b>	Purple	£4m	2 years

<b>Term Deposits – banks</b>	Purple	£4m	2 years
<b>Term Deposits - building societies</b>	Purple	£1m	2 years
<b>UK Gilts</b>	Yellow	£2m	2 years

## **Environmental, Social & Governance (ESG) Considerations**

### **General Approach**

The council recognises that Environmental, Social and Governance issues can have a significant impact on investment products. The council therefore will seek to be a responsible investor and consider ESG risks as part of normal treasury activity.

For treasury management Governance element of ESG is the of primary consideration. However the council will continue to comply with regulations and guidance that prioritises security, liquidity and yield (SLY) before other investment considerations.

In general ESG considerations are better developed in equity and bond markets than for short-term cash deposits, and even in these markets there is a diversity of approaches to ESG classification and analysis. This means that a consistent and well developed approach to ESG for public service organisations is currently difficult, even if local authorities are investing in those markets, which this council is not.

### **ESG and Socially Responsible Investing**

ESG based investing is different to Socially Responsible Investing (SRI). A SRI approach is usually directed at excluding certain types of investment based on an investor view e.g. to exclude gas or oil extraction companies from investments. The ESG approach would be to understand what ESG risks there are with a counterparty and to try to influence that counterparty to change its business approach, increasingly taking account of ESG factors. Clearly for an investor the size of the council this is not going to be possible, but for some larger investors this may be. As a result of this pressure from larger investors, over time more appropriately sized ESG investments may become available to the council.

### **Credit Considerations**

The three main credit agencies (Fitch, Moody's, Standard and Poor's), as used by the council when assessing counterparties, incorporate ESG factors into their credit ratings, and as a result ESG factors are taken into account when investing. The council may use other financial information relating to ESG factors if available to assess investments, but SLY considerations will take precedent. The balance of portfolio, and counterparty exposure will also need to be taken account of, to ensure that investments remain within the limits set in the Treasury Management Strategy.

### **Money Market Funds**

The council makes significant investments with money market funds (MMFs) which are well rated and offer good returns, but the council is a passive investor in these funds. In general these funds will hold investments in institutions of varying ESG quality, in order that the fund can meet its return and security targets. This means that whilst the council invests



in MMFs, it does not signify that the council approves of all the counterparty's ESG related practices. There are a limited number of MMFs that provide ESG investing, the council currently operates one ESG fund, HSBC ESG MMF.

### **ESG Credentials**

The institutions that the council uses for investing and banking are signed up to the UN Principles for Responsible Banking and Investments.

### **The Future**

The Council's treasury advisors, MUFG Corporate Markets (Link), also continue to look at ways in which ESG factors can be incorporated into their creditworthiness assessment service for counterparties, and they have advised clients that they will review the options and will update clients as progress is made. The current focus for investing is on the governance segment of ESG as good governance is suggestive of good financial processes and controls, and therefore a good investment prospect.

## **5.5 APPROVED COUNTRIES FOR INVESTMENTS**

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

This list is for direct investments, it is possible money market funds may be partly invested in countries outside this list as part of their strategy to spread risk, across many counterparties.

### ***Based on lowest available rating (as at 25/11/2024)***

#### **AAA**

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

#### **AA+**

- Canada
- Finland
- U.S.A.

#### **AA**

- Abu Dhabi (UAE)
- Qatar

#### **AA-**

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

## **5.6 TREASURY MANAGEMENT SCHEME OF DELEGATION**

### **(i) Full Council**

- receiving and reviewing reports on treasury management policies, practices and activities;
- 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;
- receiving and reviewing regular monitoring reports and acting on recommendations;

### **(ii) Overview and Scrutiny Panel (Performance and Growth)**

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

### **(iii) Cabinet**

- receiving and reviewing regular monitoring reports and acting on recommendations;

## 5.7 THE TREASURY MANAGEMENT ROLE OF THE SECTION 151 OFFICER

### The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a Capital Strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe.
- 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 Council.
- ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources.
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities.
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees.
- ensuring that members are adequately informed and understand the risk exposures taken on by the Council.
- ensuring that the Council 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.*

## 5.8 GLOSSARY

### **Bail in Risk**

Bail in risk arises from the failure of a bank. Bondholders or investors in the bank would be expected to suffer losses on their investments, as opposed to the bank being bailed out by government.

### **Bank Equity Buffer**

The mandatory capital that financial institutions are required to hold, in order to provide a cushion against financial downturns, to ensure the institution can continue to meet its liquidity requirements.

### **Bank Rate**

The official interest rate of the Bank of England, this rate is charged by the bank on loans to commercial banks.

### **Bank Stress Tests**

Tests carried out by the European Central Bank on 51 banks across the EU. The tests put banks under a number of scenarios and analyse how the bank's capital holds up under each of the scenarios. The scenarios include a sharp rise in bond yields, a low growth environment, rising debt, and adverse action in the unregulated financial sector.

### **Basis Point**

1/100<sup>th</sup> of 1% i.e. 0.01%. 10 basis points is 0.1%.

### **Bonds**

A bond is a form of loan, the holder of the bond is entitled to a fixed rate of interest (coupon) at fixed intervals. The bond has a fixed life and can be traded.

### **Call Account**

A bank account that offers a rate of return and the funds are available to withdraw on a daily basis.

### **Capital Financing Requirement (CFR)**

The CFR is a measure of the capital expenditure incurred historically but has yet to be financed; by for example capital receipts or grants funding. The current CFR balance is therefore financed by external borrowing, and internal borrowing (i.e. use of working capital on the balance sheet – creditors, cash etc).

### **Capital Receipts**

Funds received when an asset is sold. This can be used to fund new capital expenditure.

### **Certificate of Deposit**

Evidence of a deposit with a financial institution repayable on a fixed date. They are negotiable instruments, and have a secondary market, and can be sold before maturity.

### **Collar (Money Market Fund)**

The fund "collar" forms part of the valuation mechanism for the fund. LVNAV funds allow investors to purchase and redeem shares at a constant NAV calculated to 2 decimal places, i.e. £1.00. This is achieved by the fund using amortised cost for valuation

purposes, subject to the variation against the marked-to-market NAV being no greater than 20 basis points (0.2%). (This compares to current Prime CNAV funds which round to 50 basis points, or 0.5%, of the NAV.)

### **Constant Net Asset Value (CNAV)**

Constant Net Asset Value refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a Net Asset Value (NAV), or value of a share of the fund at £1 and calculate their price to 2 decimal places.

### **Counterparty**

Another organisation with which the Council has entered into a financial transaction with, for example, invested with or borrowed from. There will be an exposure of risk with a counterparty.

### **Credit Default Swaps (CDS)**

A financial agreement that the seller of the CDS will compensate the buyer in the event of a loan default. The seller insures the buyer against a loan defaulting.

### **Credit Ratings**

A credit rating is the evaluation of a credit risk of a debtor and predicting their ability to pay back the debt. The rating represents an evaluation of a credit rating agency of the qualitative and quantitative information, this result in a score, denoted usually by the letters A to D and including +/-.

### **DMADF**

The Debt Management Account Deposit Facility. This is run by the UK's Debt Management Office and provides investors with the ability to invest with UK central government.

### **ECB**

The European Central Bank, one of the institutions that makes up the EU. Its main function is to maintain price stability across the Eurozone.

### **ESG**

Environmental, society, and governance investing, makes reference to a set of standards for an organisation's behaviour, which can be used by a socially aware investor to make investment decisions. Environmental factors include how an organisation safeguards the environment, social criteria look at how the organisation manages its relationships with the community, employees, suppliers, and customers, and governance deals with leadership, internal controls and audits.

### **Federal Reserve (Fed)**

The central bank of the United States.

### **FOMC (Federal Open Market Committee)**

The committee within the US Federal Reserve that makes decisions about interest rates, and the US money supply.

**Forward Deal**

The act of agreeing today to deposit/loan funds for an agreed time limit at an agreed date and rate.

**GDP (Gross Domestic Product)**

The total value of all final goods and services produced and sold in a year by a country.

**Gilts**

Bonds issued by the Government in Sterling.

**Link Group**

The council's treasury advisors, who took over from Arlingclose in March 2023. Now called MUFG Corporate Markets.

**Liquidity**

The degree to which an asset can be bought or sold quickly.

**LVNAV Money Market Fund**

Low volatility net asset value. The fund will have at least 10% of its assets maturing on a daily basis and at least 30% of assets maturing on a weekly basis.

**MiFID**

Markets in Financial Instruments Directive, is a regulation that increases the transparency across the EU's financial markets and standardises the regulatory disclosures required. In force since 2008.

**Minimum Revenue Provision (MRP)**

An amount set aside annually from revenue to repay external debt.

**Monetary Policy Committee (MPC)**

A committee of the Bank of England that meets to decide on the UK interest rate.

**Monetary Policy**

A policy adopted by government to affect monetary and financial conditions in the economy.

**Money Market Funds**

An open-ended mutual fund that invests in short-term debt securities. A deposit will earn a rate of interest, whilst maintaining the net asset value of the investment. Deposits are generally available for withdrawal on the day.

**MUFG Corporate Markets**

The council's treasury advisors, was called Link Group.

**Passive Investor**

An investor that does not usually or frequently buy individual stocks, and does not individually pick investments to beat the market. Holdings are usually long term. This contrasts with an active investor.



**Prudential Code**

The CIPFA code of practice which ensures local authorities spending plans are affordable, prudent and sustainable.

**Public Works Loans Board (PWLB)**

The PWLB is an agency of the Treasury, it lends to public bodies at fixed rates for periods up to 50 years. Interest rates are determined by gilt yields.

**Purchasing Managers Index**

Economic indicators derived from monthly surveys of private sector companies.

**REFCUS**

Revenue Expenditure Funded from Capital Under Statute. Expenditure which would normally be considered revenue expenditure, but has been statutorily defined as capital expenditure, including the giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the authority, be capital expenditure. Or expenditure incurred on the acquisition, production or construction of assets for use by, or disposal to, a person other than the local authority which would be capital expenditure if those assets were acquired, produced or constructed for use by the local authority.

**Reserves**

The accumulation of past revenue surpluses and contributions, which can be used to meet future expenditure. The reserves can be general reserves, or earmarked for a specific purpose.

**Security, Liquidity, Yield (SLY)**

The factors taken into account when investing and are prioritised in the order.

**SONIA**

Sterling overnight index average interest rate. On each London business day, SONIA is measured as the trimmed mean, rounded to four decimal places, of interest rates paid on eligible sterling denominated deposit transactions.

**Transactional Banking**

Use of a bank for day-to-day banking requirement, e.g. provision of current accounts, deposit accounts and on-line banking.

**UN Principles for Responsible Banking**

Are a unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement.

The framework consists of 6 Principles designed to bring purpose, vision and ambition to sustainable finance. They were created in 2019 through a partnership between founding banks and the United Nations. Signatory banks commit to embedding these 6 principles across all business areas, at the strategic, portfolio and transactional levels.

- **Principle 1:** Alignment, align business strategy with individual's goals as expressed in the sustainable development goals, the Paris Climate Agreement and national and regional frameworks.
- **Principle 2:** Impact and Target Setting, increase positive impacts and reduce negative impacts on, and managing the risks to people and environment.
- **Principle 3:** Clients and Customers, work with clients and customers to encourage sustainable practices and enable economic activities that create shared prosperity.
- **Principle 4:** Stakeholders, engage with stakeholders to achieve society's goals.
- **Principle 5:** Governance and Culture, implement the commitment to these principles through effective governance.
- **Principle 6:** Transparency and Accountability, periodic review of the implementation of these principles, and be transparent about and accountable for the positive and negative impacts, and the contribution to society's goals.

A 3-step process guides signatories through implementing their commitment:

1. **Impact Analysis:** identifying the most significant impacts of products and services on the societies, economies and environments that the bank operates in.
2. **Target Setting:** setting and achieving measurable targets in a banks' areas of most significant impact.
3. **Reporting:** publicly report on progress on implementing the Principles, being transparent about impacts and contributions.

### **UN Principles for Responsible Investments**

The 6 principles for responsible investments offer possible actions for incorporating ESG issues into investment practice.

The principles that the signatories sign up to are;

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.