

SOUTH STAFFORDSHIRE COUNCIL

COUNCIL – 25 FEBRUARY, 2025

**TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS
2025/26 – 2029/30**

**REPORT OF FINANCE DIRECTOR (S151 OFFICER) AND FINANCE MANAGER (DEPUTY
S151 OFFICER)**

LEAD CABINET MEMBER, KATH PERRY MBE, LEADER OF THE COUNCIL

PART A – SUMMARY REPORT

1. SUMMARY OF PROPOSALS

- 1.1 The Council is required to annually approve (at Full Council, further to Audit and Risk Committee recommendation) a Treasury Management Strategy Statement (TMSS).
- 1.2 The TMSS, in light of the Council's proposed budget, establishes investment and borrowing policies for the Council for the current and future financial years. The Strategy also includes the Council's Prudential Indicators and sets out the expected treasury operations for the period 2025/26 – 2029/30. Prudential Indicators are designed to demonstrate that the Council has a prudent, affordable and sustainable approach to financing its capital spending plans. It fulfils four key legislative requirements:
 - The reporting of the **prudential indicators** setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities - Appendix A):
 - The Council's **Minimum Revenue Provision (MRP) Policy**, which sets out how the Council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007 – Also Appendix A);
 - The **Treasury Management Strategy** which sets out how the Council's treasury service will support the capital decisions taken above, the day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the **Authorised Limit**, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code and shown at Appendix A:
 - The **Investment Strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the sector's Investment Guidance and also shown in Appendix A.

2. SUMMARY IMPACT ASSESSMENT

POLICY/COMMUNITY IMPACT	Do these proposals contribute to specific Council Plan objectives?	
	Yes	Maximising investment income whilst managing risks and minimising borrowing costs helps to support the council's overall financial position and therefore the delivery of all policy objectives.
	Has an Equality Impact Assessment (EqIA) been completed?	
	No	The setting of a Treasury Management Strategy does not impact on equalities.
SCRUTINY POWERS APPLICABLE	No (Council decision)	
KEY DECISION	No (Council decision)	
FINANCIAL IMPACT	Yes	Where appropriate these are detailed in the body of the report.
LEGAL ISSUES	Yes	The Council's Treasury Strategy has to comply with the relevant statute, codes and guidance which are set out both in the main body of this report and Appendix A. The Finance Director (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Finance Director is meeting one of the key responsibilities of the post.
OTHER IMPACTS, RISKS & OPPORTUNITIES	Yes	The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.
IMPACT ON SPECIFIC WARDS	No	

PART B – ADDITIONAL INFORMATION

3. BACKGROUND INFORMATION

- 3.1 The Prudential Code operates by the provision of prudential indicators which highlight particular aspects of capital expenditure planning. Each indicator has been updated and provided for the next three years and included in Appendix A section 2. This is in accordance with the Prudential Code which requires that the Council approves as a minimum, certain mandatory prudential indicators.
- 3.2 The purpose of the indicators is to provide a framework for capital expenditure decision-making. It is intended to highlight, through the prudential indicators, the level of capital expenditure, the impact on investment levels and the overall controls in place to ensure the activity remains affordable, prudent and sustainable.
- 3.3 The Treasury Management Strategy outlined in detail in Appendix A sets the Council's **operational boundary limit** for external debt at £43 million and the **authorised limit** at £46 million. These limits are based on prior years spend on the capital programme as well as the planned capital programme for 2025/26 onwards of £18.190 million subject to approval by Council on 25 February 2025. Should these plans change, these limits will be revisited.
- 3.4 Borrowing undertaken, both internal and external, up to the approved limits, is repaid via the Minimum Revenue Provision (MRP). The TMSS also sets out a Minimum Revenue Provision Statement for approval which ensures all borrowing will be repaid in prudent timescales.
- 3.5 Within this overall capital expenditure framework there is a clear impact on the Council's operational treasury management activity through the application of investment balances. As a consequence, the Treasury Management Strategy for 2025/26 also includes at Appendix A (section 3) details of operational constraints and treasury prudential indicators.
- 3.6 The production of the Treasury Management Strategy covers the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the sector's MRP and Investment Guidance.
- 3.7 The Treasury Management Strategy requires the formulation of an Annual Investment Strategy. In accordance with guidance, and in order to minimise the risk to investments, the Council has clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The detailed criteria utilised are included in Appendix B.
- 3.8 Security, Liquidity and Yield has always been at the forefront of the councils thinking when making investment decisions, however we will now also consider non-financial factors when making investment decisions, these include any ethical considerations as well as any environmental, social and governance (ESG) factors, this is detailed further in Appendix A 4.1.
- 3.9 The above policies and parameters provide an approved framework within which officers undertake the day-to-day capital and treasury activities.
- 3.10 The TMSS is closely aligned to the Council's Capital Strategy. The approved Capital Programme is the main determinant of the council's borrowing need.

- 3.11 It should also be noted that at the time of writing this report, there are various geo-political events taking place both nationally and internationally that are impacting financial markets. The impacts of these are continuously monitored and any political or economic shocks that require any adjustment to the Treasury Management Strategy will be reported back to the Audit and Risk Committee (and Council) at a later date.

4. IMPACT ASSESSMENT – ADDITIONAL INFORMATION

- 4.1 None identified.

5. PREVIOUS MINUTES

- 5.1 Not Applicable

6. BACKGROUND PAPERS

Appendix A - Treasury Management Strategy and Capital Prudential Indicators 25/26 – 29/30

Appendix B - Credit and Counterparty Risk Management

Appendix C - Approved Countries for Investment

Appendix D - Treasury Management Scheme of Delegation

Appendix E – Prospect for Interest Rates & Economic Background

7. RECOMMENDATIONS

- 7.1 Members are requested to note and approve the indicators, limits and policies detailed below, in accordance with the Treasury Management Strategy.

- 1) The Prudential Indicators and Limits for 2025/26 - 2029/30 contained within Appendix A of the report.
- 2) The Minimum Revenue Provision (MRP) Statement contained within Appendix A (paragraph 2.3) which sets out the Council's policy on MRP.
- 3) The Treasury Management Strategy 2025/26 - 2029/30 contained within Appendix A.
- 4) The Authorised Limit Prudential Indicator contained within Appendix A (para 3.2).
- 5) The Investment Strategy 2025/26 contained in the Treasury Management Strategy (Appendix A), and the detailed criteria (included in Appendix B).

Report by:

Rebecca Maher, Director Finance

John Mayhew, Finance Team Manager

Treasury Management Strategy and Capital Prudential Indicators 2025/26 to 2029/30

1 INTRODUCTION

1.1 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 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 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 contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

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.”

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 Prudential Code for Capital Finance in Local Authorities (the code) requires all local authorities to prepare a 'Capital Strategy'.

The Council's Capital Strategy builds upon the Council's Commercial Asset Strategy and Treasury Management Strategy to ensure that:

- Property acquisitions and commercial developments to deliver economic growth, are properly appraised, budgeted and financed to ensure Council Plan objectives are achieved.

- Capital acquisitions that do not clearly meet economic objectives can demonstrably achieve other objectives listed in the Council Plan.
- The proper maintenance of the capital asset base is considered in the medium term and appropriately budgeted for and financed.
- Processes exist for the ongoing appraisal of the asset base and a rigorous methodology applied should any decision be required in relation to disposal.
- The required budget and financing in relation to all capital decisions is fully incorporated into the Medium-Term Financial Strategy (MTFS).

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

1.2.2 Treasury Management reporting

Members receive for approval, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

- 1. Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report 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 Investment Strategy (the parameters on how investments are to be managed).
- 2. A periodic treasury management report** – This will update members with the progress of the capital position, amending prudential indicators if necessary, and whether the treasury strategy and/or policies require revision.
- 3. An annual treasury report** – This 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 Council. This role is undertaken by the Audit & Risk Committee.

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.

Treasury management issues

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

These elements cover the requirements of the Local Government Act 2003, DLUHC (Now MHCLG) Investment Guidance, DLUHC (Now 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, the Code states 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. Organisations should consider how to assess whether treasury management staff and board/ council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

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

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/council members.
- Require treasury management officers and board/council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).

- Have regular communication with officers and board/council members, 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.

1.5 Treasury Management Consultants

The Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon 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 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 subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2025/26 – 2029/30

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

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans. The capital expenditure forecasts to 2029/30 (which form part of the Capital Programme subject to approval by Council on 25th February, 2025) are as follows:

Capital expenditure £000s	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Corporate Services	335	55	75	170	45
Estates, Assets & Community Services	3,623	0	0	0	0
Welfare Services	2,229	1,229	1,229	1,229	1,229
Community Services	5,384	724	393	215	25
Planning & Enterprise Services	0	0	0	0	0
Total	11,572	2,008	1,697	1,614	1,299

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 borrowing need (to be met either through internal funds or external borrowing).

Capital expenditure £000s	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Total	11,572	2,008	1,697	1,614	1,299
Financed by:					
Capital Receipts	1,195	54	75	170	45
Capital Grants & Other Contributions	3,495	1,229	1,229	1,229	1,229
Revenue	700	90	0	0	0
Revenue Grant	0	0	0	0	0
Total Internal Financing	5,391	1,373	1,304	1,399	1,274
Net External Financing Requirement	6,181	635	393	215	25

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

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

Audit & Risk Committee is asked to recommend to Full Council that the following CFR projections are approved:

Capital Financing Requirement (CFR) £000s	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Capital Financing Requirement (CFR)	41,970	41,780	41,227	40,457	39,444
Movement in CFR	5,528	-190	-553	-770	-1,013
Movement in CFR is represented by					
Net financing need for the year	6,181	635	393	215	25
Less MRP & other financing movements	-653	-825	-946	-985	-1,038
Movement in CFR	5,528	-190	-553	-770	-1,013

The above table shows that as a result of the Council's capital plans (as set out in 2.1) the CFR (which essentially is a measure of the Council's underlying borrowing need) will increase to £41.970m in 2025/26 before starting to reduce from 2026/27 as the planned capital spend slows down and MRP contributions are made.

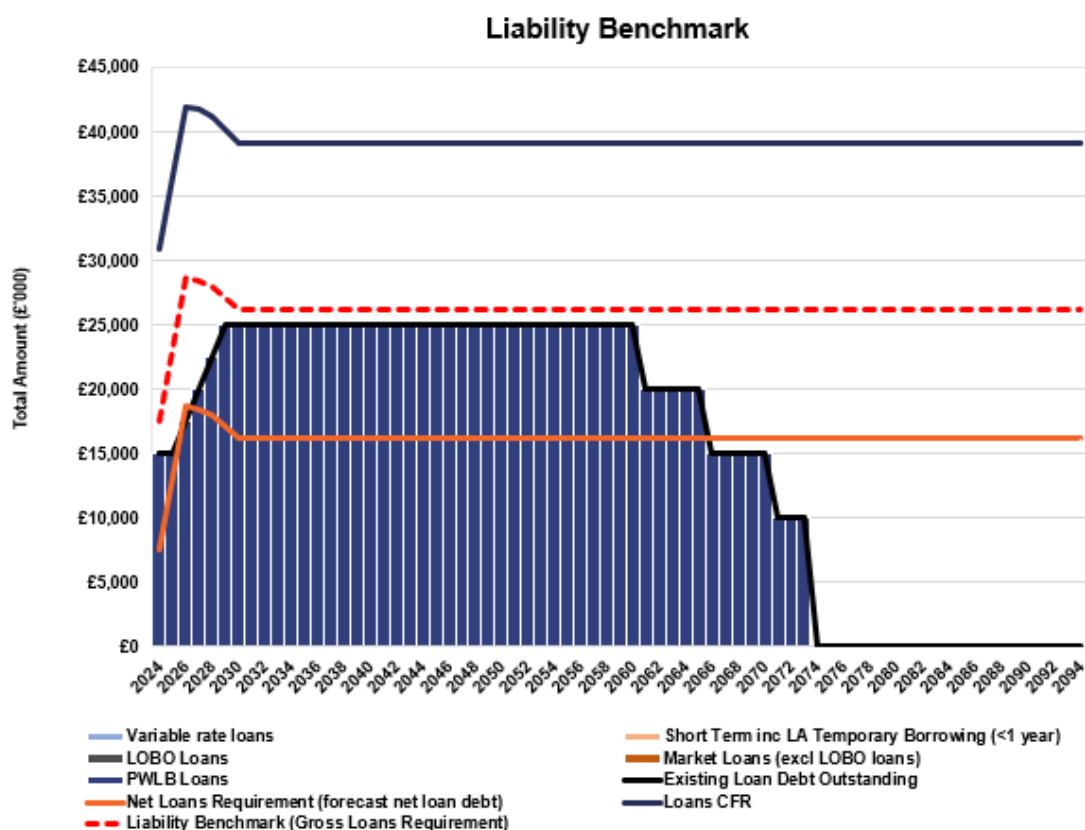
2.3 Liability Benchmark

The third prudential indicator for 2025/26 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

Please note, CIPFA strongly recommends that the LB is produced for at least 10 years and should ideally cover the full debt maturity profile of a local authority. In this case we have produced a LB up to the point at which the authority becomes debt free in 2072.

There are four components to the LB: -

- 1. Existing loan debt outstanding:** the Authority'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.
- 3. Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- 4. Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.



2.4 Core Funds (available to invest or cover the borrowing position)

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

Year End Resources £000s	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
General Fund Balance	6,727	3,449	1,298	-1,700	-1,870
Capital Receipts Reserve	1,761	1,706	1,631	1,461	1,416
Earmarked Reserves	6,966	4,966	3,366	3,366	3,366
Total Core Funds	15,454	10,121	6,295	3,127	2,912
Working Capital*	1,000	1,000	1,000	1,000	1,000
Total Core Funds Available to Invest	14,454	9,121	5,295	2,127	1,912

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

2.5 Minimum Revenue Provision (MRP) Policy Statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP). MHCLG regulations have been issued which require the full Council to approve an **MRP Statement** in advance of each year. A variety of options are provided to

councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For capital expenditure which in the future will be Supported Capital Expenditure, the MRP policy will be based on the CFR.

From 1 April 2008 for all unsupported borrowing (including finance leases) the MRP policy will be based on the Asset life methodology:

- MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction) (option 3).

This option provides for a reduction in the borrowing need over approximately the asset's life. Finance leases are applied to revenue as MRP.

MRP Overpayments - A change introduced by the revised MHCLG MRP Guidance was the allowance that any 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. At the date of this report the council has not made, nor has any plans to make, any VRP overpayments.

IFRS16 Leases

Following the mandatory adoption of IFRS 16 for Local Government from 1st April 2024 off balance sheet leased assets are required to be brought onto the balance sheet. The accounting standard requires that where Local Authorities have lease arrangements where they are the lessee, to recognise these on their balance sheet as a right of use asset with corresponding lease liabilities. Exemption does exist for leases of small value and of short-term duration.

Any lease that has been brought onto the balance sheet will have an impact on the Councils CFR, External Debt, Authorised Limit and Operational boundary.

Within South Staffordshire, the immediate impact of these changes has been insignificant on these figures due to the low value of leases that have been brought onto the balance sheet (most are covered by the exemptions above).

3 TREASURY MANAGEMENT

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 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 / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current Portfolio Position

The current treasury position as at 31st December, 2024 and the estimated portfolio as at 31st March, 2025 are shown below for both investments and borrowing

Treasury Position £000s	31st Dec, 2024	Estimated 31st Mar, 2025
Investments		
CCLA	7,000	0
Federated MMF	8,900	3,300
Total Investments	15,900	3,300
External Borrowing		
PWLB	15,000	15,000
Total External Borrowing	15,000	15,000

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.

External Debt £000s	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Debt at 1st, April	15,000	17,500	20,000	22,500	25,000
Expected change in Debt	2,500	2,500	2,500	2,500	0
Other long-term liabilities (OLTL)	0	0	0	0	0
Expected change in OLTL	0	0	0	0	0
Actual gross debt at 31st, March	17,500	20,000	22,500	25,000	25,000
The Capital Financing Requirement	41,970	41,780	41,227	40,457	39,444
Under/(over) borrowing	24,470	21,780	18,727	15,457	14,444

Within the 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 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Finance Director (S151 Officer) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future, as set out in the above table. This view takes into account 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.

Operational boundary £000s	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Debt	42,000	42,000	41,000	40,000	39,000
Other long-term liabilities	1,000	1,000	1,000	1,000	1,000
Total	43,000	43,000	42,000	41,000	40,000

The authorised limit for external debt. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by 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.

Audit and Risk Committee is asked to recommend to Full Council that the following authorised limit is approved:

Authorised Limit £000s	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Debt	45,000	45,000	44,000	43,000	42,000
Other long-term liabilities	1,000	1,000	1,000	1,000	1,000
Total	46,000	46,000	45,000	44,000	43,000

In order to ensure that the Council has the overall scope to borrow, the Authorised Limit is annually adjusted to reflect the approved Capital Programme. This provides the flexibility to borrow, but not the obligation.

The authorised limit has been set at a level higher than the (net) external borrowing need in 3.1. This provides some headroom for changes in available funds/working balances.

It should be noted that these limits have been set based on the current planned capital programme. Should proposals come forward for additional capital items these limits would be reviewed and risks and rewards reconsidered.

3.3 Borrowing Strategy

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.

The table below summarises the council forecast under-borrowing position.

Year End Resources £000s	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Under borrowing	24,470	21,780	18,727	15,457	14,444

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Finance Director (S151 Officer) will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be delayed or taken short term.*
- *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.*

Any decisions will be reported to the Audit and Risk Committee at the next available opportunity.

Treasury Management Limits on Activity

There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments:
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates:

- 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.

Audit and Risk Committee is asked to recommend to Full Council that the following treasury indicators and limits are approved:

Interest Rate Exposures £000s	2025/26 Upper	2026/27 Upper	2027/28 Upper	2028/29 Upper	2029/30 Upper
Limits on fixed interest rates	45,000	45,000	44,000	43,000	42,000
Limits on variable interest rates	15,000	15,000	15,000	14,000	14,000

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.

Audit and Risk Committee is asked to recommend to Full Council that the following treasury indicators and limits are approved:

Maturity structure of variable interest rate borrowing 2025/26		
	Lower	Upper
Under 12 months	0%	50%
12 months to 2 years	0%	50%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years and above	0%	50%

**Please note that this excludes other long term liabilities (leases)*

There are no limits to fixed rate borrowing which can be upto 100% of our debt portfolio.

3.4 Policy on Borrowing in Advance of Need

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

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.

3.5 Debt Rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings
- helping to fulfil the treasury strategy
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short-term rates on investments are likely to be lower than rates paid on current debt.

All rescheduling will be reported to the Audit & Risk Committee, at the earliest meeting following its action.

3.6 New financial institutions as a source of borrowing and / or types of borrowing

The Public Works Loans Board (PWLB) forms part of HM treasury, part of its function is to provide loans to local authorities in the UK, primarily to fund capital projects. The council has the ability to borrow from PWLB at the Certainty Rate, which is a rate set at 0.20% below its standard interest rate.

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. 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, and often 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).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

3.7 Approved sources of long- and short-term borrowing

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – Management of risk

The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of assets regeneration, are covered in the Council’s approved Capital 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 Code Guidance Notes 2021

The Council’s investment priorities will be security first, portfolio liquidity second and then yield, (return).

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: -

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 banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix B 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.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being 40% of the total investment portfolio, (see Appendix B).
6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
7. **Transaction limits** are set for each type of investment in paragraph 4.2.
8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).
9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).
10. This authority 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 authority in the context of the expected level of cash balances and need for liquidity throughout the year.
11. All investments will be denominated in **sterling**.
12. As a result of the change in accounting standards for 2023/24 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 Ministry of Housing, Communities and Local Government (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 31st, March 2023. More recently, a further extension to the over-ride to 31st, March 25 has been agreed by Government.

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, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

It is also recognised that Security, Liquidity and Yield should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector in relation to the economic and political environments in which institutions operate. In addition, there are other risks of material importance to the treasury portfolio from an ethical, environmental, social and governance perspective. It is important, therefore, to assess these categories as well and to understand if these create potential longer-term financial and reputational risks for the Council, and if there are any commonalities with the Council's key objectives in this regard. To this end, the Council will use information sources and its advisors as appropriate to assist it in scrutinising and understanding if these might affect the suitability of potential counterparties.

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

4.2 Creditworthiness policy

The Council has utilised and applied the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies:
- CDS spreads to give early warning of likely changes in credit ratings:
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product 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 Enhanced money market funds (EMMFs) with a credit score of 1.25
•	Light pink	5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
•	Purple	2 year
•	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 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 use 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 are regularly monitored. The Council is alerted to changes to ratings of all three agencies through its use of the 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 Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by 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)	Money and / or % Limit	Time Limit
Banks	Yellow	£4m / 25%	5 years
Banks	Purple	£3m / 25%	2 years
Banks	Orange	£3m / 25%	1 year
Banks – part nationalised	Blue	£3m / 25%	1 year
Banks	Red	£1m / 10%	6 months
Banks	Green	£1m / 10%	100 days
Banks	No colour	Not to be used	
Limit 3 category – Council's banker (not meeting Banks 1)	n/a	£10m	14 days
Other institutions limit*	-	£100,000	3 years
DMADF	AAA	100%	6 months
Local authorities	n/a	£4m / 25%	3 years
	Fund rating	Money and / or % Limit	Time Limit
Money market funds	AAA	£15m per MMF	liquid
Ultra-Short Dated Bond funds with a credit score of 1.25	Dark pink / AAA	£4m / 25%	liquid

	Colour (and long-term rating where applicable)	Money and / or % Limit	Time Limit
Ultra-Short Dated Bond funds with a credit score of 1.5	Light pink / AAA	£3m / 25%	liquid

*The Council, from time to time, may also issue small short-term loans to local parishes, charities and similar organisations. These organisations do not have a credit rating and so fall outside of the normal credit rating assessments; however these are covered under other institutions within the criteria set above

4.3 Other 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 40% 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 AA1** 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 C. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.
- c) **Other limits.** In addition:
 - no more than 50% 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.

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. While most cash balances are required in order 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.

- If it is thought that 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 it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations.

Interest rate forecast are included in Appendix E. Interest rates continued to increase since the autumn of 2022, reaching a peak of 5.25%. Since that peak, two reductions in 2024 have left the current BoE base rate sitting at 4.75% since 6th November, 2024 with tentative expectations that this rate may reduce slightly over the medium term.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year.

Year	Average Interest Rate Earned
2024/25 (remainder)	4.25%
2025/26	3.75%
2026/27	3.50%
2027/28	3.00%
2028/29	2.75%
2029/30	2.50%

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 treasury indicator and limit: -

Maximum principal sums invested longer than 365 days					
£m	2025/26	2026/27	2027/28	2028/29	2029/30
Principal sums invested longer than 365 days*	£4m	£4m	£4m	£4m	£4m

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

*Currently the council does not have any investments invested for more than 365 days.

4.5 Property Funds

The Council current uses CCLA as one of its main Money Market Funds, CCLA also offer investments in property funds. The use of these instruments can be deemed capital expenditure, and as such will be an application (spending) of capital resources. This Authority will seek guidance on the status of any additional funds it may consider using. Appropriate due diligence will also be undertaken before investment of this type is undertaken.

The council does not currently have any investments in property funds.

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.

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

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum ‘high’ quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria. A maximum of 40% 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:

	Minimum credit criteria / colour band	£ limit per institution / Max % of total investment	Max. maturity period
Specified			
Debt Management Account Deposit Facility (DMADF) – UK Government	Yellow	100%	6 months (max set by DMO)
UK Government gilts	Yellow	£4 million / 50%	5 Years
UK Government Treasury bills	Yellow	£4 million / 50%	364 days (Max set by DMO)
Bonds issued by multilateral development banks	Yellow	£2m / 25%	5 Years
Local authorities	N/A	£4m / 25%	3 Years
Council’s banker (Barclays)		£10 million	14 days
Money Market Funds, Constant Net Asset Value (CNAV)	AAA	£15 million Per fund	Liquid
Money Market Funds, Variable Net Asset Value (VNAV)	AAA	£15 million per fund	Liquid
Money Market Funds, Low Volatility Net Asset Value (LVNAV)	AAA	£15 million per fund	Liquid

Ultra-Short Dated Bond Funds with a credit score of 1.25 *	AAA	£4 million / 25%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5*	AAA	£3 million / 25%	Liquid
Term Deposits with part nationalised banks	Blue Orange Red Green	Max £3 million / 25%	1 Year 1 Year 6 Months 100 days
Term deposits with banks and building societies	Blue Orange Red Green	Max £3million/ 25%	1 Year 1 Year 6 Months 100 days
Certificate of Deposit(CD) or corporate bonds with banks and building societies	Blue Orange Red Green	Max £3million/ 25%	1 Year 1 Year 6 Months 100 days
Non-Specified			
Term Deposits with part nationalised banks	Red Green	Max £1 million / 10%	6 months 100 days
Term deposits with banks and building societies	Red Green	Max £1 million / 10%	6 months 100 days
CDs or corporate bonds with banks and building societies	Red Green	Max £1 million / 10%	6 months 100 days
Ultra-Short Dated Bond Funds with a credit score of 1.25*		Max £3 million / 25%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5*		Max £3 million / 25%	Liquid
Property funds - The use of these instruments will normally be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The key exception to this is an investment in the CCLA Local Authorities Property Fund. This Authority will seek guidance on the status of any fund it may consider using.	AAA	£4 million / 25%	10 years

*Any investments in ultra-short dated bond funds will be considered on an individual basis due to the complex nature of this type of investment. These types of funds do not always have an official rating, in the event that the Council wishes to invest in the type of fund the council will seek guidance from its treasury advisors and undertake additional due diligence prior to any decision.

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.

APPROVED COUNTRIES FOR INVESTMENTS

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, Norway and Luxembourg), 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

- Abu Dhabi (UAE)
- Qatar

AA-

- Belgium
- France
- U.K.

THIS LIST IS CORRECT AS AT 25th November, 2024

Treasury Management Scheme of Delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Audit & Risk Committee (responsibility for scrutiny)

- 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;
- reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- receiving and reviewing regular monitoring reports and acting on recommendations;

The treasury management role of the Finance Director (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.

LINK GROUP – PROSPECTS FOR INTEREST RATES AND ECONOMIC BACKGROUND

Prospects for Interest Rates

The Authority has appointed Link Group as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 11th 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 Link on this forecast table: -

- Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps 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% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.
- 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 & 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. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).

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.

ECONOMIC BACKGROUND (to 30th September 2024)

- The third quarter of 2024 (July to September) saw:
- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy 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.
- The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP

growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.

- The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.
- The Government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.
- The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.
- Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.
- CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.
- The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.

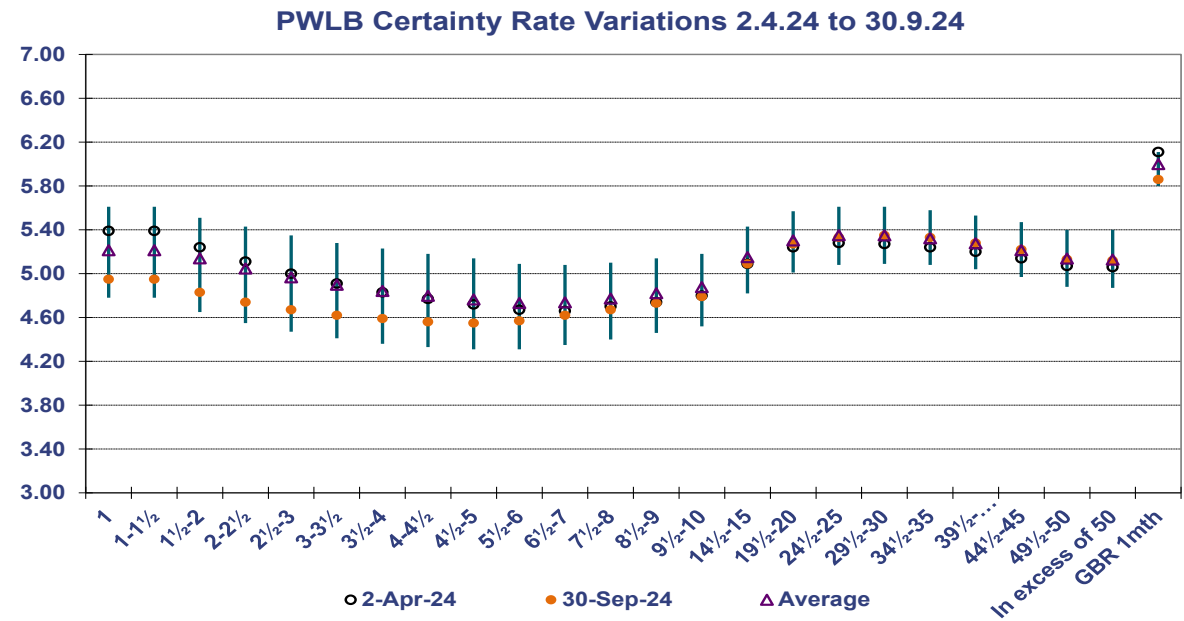
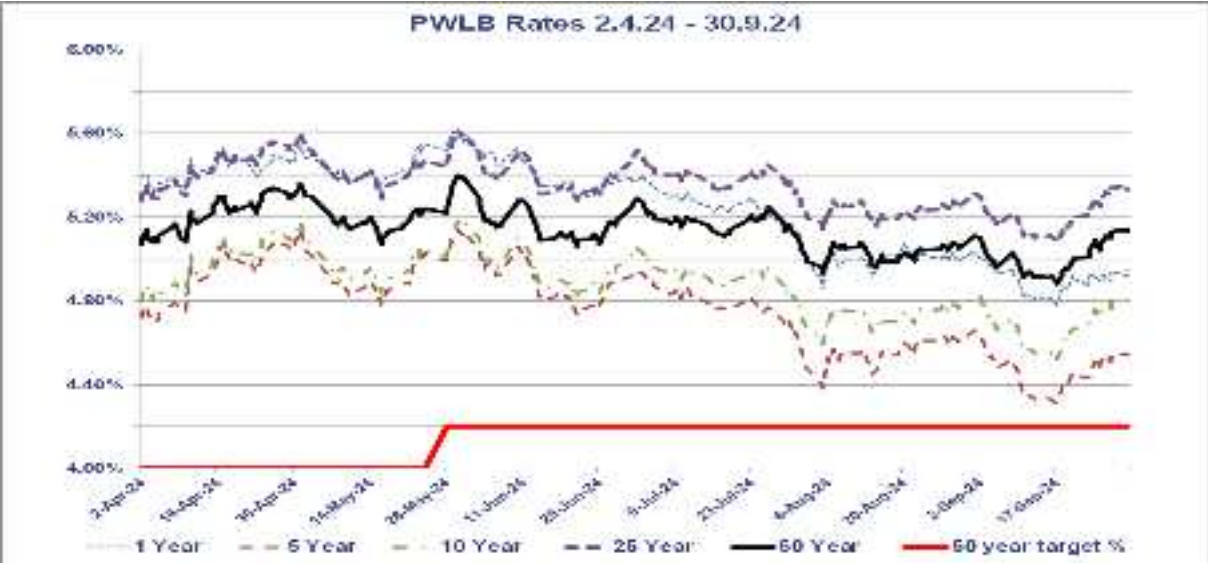
- Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.
- Our forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.
- 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. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.
- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

MPC meetings: 9 May, 20 June, 1 August, 19 September 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 20th 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.
- Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

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



HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

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