# APPENDIX 1

**TREASURY MANAGEMENT STRATEGY 2024/25**

## 1. INTRODUCTION

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

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

## 2 EXTERNAL CONTEXT

2.1 The below update is provided by the Council's advisors, Arlingclose:

2.2 Economic background: The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Council's treasury management strategy for 2024/25.

2.3 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. Members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

2.4 The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

2.5 Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

2.6 ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

2.7 The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth remained strong, with regular pay (excluding bonuses) up 7.8% over the period and total pay (including bonuses) up 8.1%. Adjusted for inflation, regular pay was 1.1% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

2.8 Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve appears now to have concluded the hiking cycle. It is likely this level represents the peak in US rates following a more dovish meeting outcome in December 2023. US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But the impact from higher rates has started to feed into economic activity and growth will weaken in 2024. Annual CPI inflation was 3.1% in November.

2.9 Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.9% in October 2023. Economic growth has been weak, and GDP was shown to have contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has been increasing rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

2.10 **Credit outlook**: Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

2.11 On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

2.12 Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

2.13 Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

2.14 There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

2.15 However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

2.16 Interest rate forecast (December 2023): Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

2.17 Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

2.18 A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix 1A.

## 3 LOCAL CONTEXT

3.1 On 31 December 2023 the Council held £121m of investments and £139m of borrowing. This is set out in further detail in the table below and in Appendix 1B.

| | **31/12/2023 Actual £m** | **31/03/2024 Estimate £m** | **31/03/2025 Estimate £m** |
|---|---|---|---|
| Loans CFR | 195.832 | 190.856 | 188.262 |
| PFI & Leases | 90.617 | 89.080 | 84.397 |
| Total CFR | 286.450 | 279.936 | 272.659 |
| External Borrowing | 139.025 | 136.025 | 136.025 |
| Internal Borrowing | 56.807 | 54.831 | 52.237 |
| Treasury Investments | 121.400 | 120.000 | 100.000 |

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The strategy of internal borrowing is beneficial as the interest charged on borrowing is greater than that available on investments, and also has the benefit of reducing the Council's exposure to counterparty credit risk.

## 4 BORROWING STRATEGY

4.1 The Council currently holds £139m of loans as part of the strategy for funding previous capital expenditure. It is not anticipated that any further borrowing will be taken up in the short term.

4.2 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term and bearing refinancing risk.

4.3 By using internal resources, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by taking up borrowing. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. The monitoring output may determine whether the Council borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.4 The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to reduce interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available for any form of borrowing need to local authorities where they declare plans to buy investment assets primarily for yield.

4.5 Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

4.6 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank Ltd
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

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

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback
- similar asset based finance

4.8 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report.

4.9 **LOBOs:** The Council holds £30m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. These LOBOs have options during 2024/25, and with interest rates having risen recently, there is now an increased likelihood that lenders will exercise their options. If they do, each decision will be reviewed but it is likely the Council will elect to repay and either use internal borrowing or take up alternative borrowing

4.10 **Short-term and variable rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. The Council currently has no variable borrowing.

4.11 **Debt rescheduling**: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

## 5 TREASURY INVESTMENT STRATEGY

5.1 The Council has held an average of £140m in invested funds over 2023/24 to date, representing income received in advance of expenditure plus balances and reserves held. It is anticipated that similar levels will be maintained going forwards.

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

5.3 **Strategy**: As outlined above, the Council has significant cash balances, and expects to continue to do so in 2024/25. Treasury investments primarily include short-term low risk instruments to manage cash flows; however, longer term investments with the potential for higher returns will be evaluated, particularly in expectation of current higher rates falling later in the year.

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

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

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

| Sector | Time limit | Counterparty limit | Sector limit |
|---|---|---|---|
| The UK Government | 50 years | Unlimited | n/a |
| Local authorities & other government entities | 25 years | £15m | Unlimited |
| Secured investments * | 25 years | £15m | Unlimited |
| Banks (unsecured) * | 13 months | £15m | Unlimited |
| Building societies (unsecured) * | 13 months | £15m | £15m |
| Registered providers (unsecured) * | 5 years | £15m | £30m |
| Money market funds * | n/a | £15m | Unlimited |
| Strategic pooled funds | n/a | £15m | £75m |
| Real estate investment trusts | n/a | £15m | £30m |
| Other investments * | 5 years | £15m | £30m |

5.7 This table represents the Council's upper limits only and is to be used in combination with the recommended limits set out in Arlingclose's regularly updated credit list. At the time of writing this report the Arlingclose list mostly has significantly shorter limits than those in the table above, as a result of market conditions. The table should be read in conjunction with the following notes:

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

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

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

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

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

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

5.14 **Strategic pooled funds**: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

5.15 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

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

5.17 **Operational bank accounts**: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £15m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

5.18 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

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

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

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

## 6 GREATER MANCHESTER PENSION FUND (GMPF)

6.1 The Council also carries out treasury management activities on behalf of Greater Manchester Pension Fund (GMPF). GMPF holds cash in accordance with its strategic asset allocation as determined by the GMPF Management Panel, which may be increased or decreased on a tactical basis by the external investment managers within risk parameters also set by the Panel. As at 31 December 2023 the Pension Fund cash totalled around £575m.

6.2 The GMPF counterparty list mirrors that of Tameside MBC, along with the following operating constraints:

a) The maximum duration for an investment is 1 year.
b) The maximum investment per counterparty is £75m

6.3 Along with these limits, further constraints are in place for the different categories of cash. The bulk of the fund managers' allocations must be available at short notice; therefore the following constraints are enforced:

a) 35% must be available within one week
b) 70% must be available within two weeks

## 7 RECOMMENDATIONS

7.1 That the Treasury Management Strategy be recommended for approval.

7.2 That the MRP policy (Appendix 1C) be recommended for approval.

7.3 That the Prudential Indicators (Appendix 1D) be recommended for approval.

# APPENDIX 1A

**Arlingclose Economic & Interest Rate Forecast – December 2023**

The below is provided by the Council's advisors, Arlingclose:

**Underlying assumptions:**

- UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.
- The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.
- Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.
- Employment demand is easing. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household and business spending will therefore be weak.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premier and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium- term level for Bank Rate.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

**Forecast:**

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

| | Current | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Official Bank Rate | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.00 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 1.00 | 1.00 |
| Central Case | 5.25 | 5.25 | 5.25 | 5.25 | 5.00 | 4.75 | 4.25 | 4.00 | 3.75 | 3.50 | 3.25 | 3.00 | 3.00 |
| Downside risk | 0.00 | 0.00 | -0.25 | -0.50 | -0.75 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| 3-month money market rate | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.00 | 0.25 | 0.25 | 0.50 | 0.50 | 0.50 | 0.50 | 0.50 | 0.75 | 0.75 | 1.00 | 1.00 |
| Central Case | 5.40 | 5.40 | 5.40 | 5.30 | 5.15 | 4.80 | 4.30 | 4.10 | 3.80 | 3.50 | 3.25 | 3.05 | 3.05 |
| Downside risk | 0.00 | 0.00 | -0.25 | -0.50 | -0.75 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| 5yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.25 | 0.75 | 0.85 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Central Case | 3.77 | 3.75 | 3.75 | 3.75 | 3.70 | 3.60 | 3.50 | 3.50 | 3.40 | 3.30 | 3.30 | 3.30 | 3.35 |
| Downside risk | 0.00 | -0.25 | -0.75 | -0.85 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| 10yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.25 | 0.75 | 0.85 | 0.85 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Central Case | 3.72 | 3.75 | 3.80 | 3.80 | 3.80 | 3.80 | 3.80 | 3.80 | 3.75 | 3.65 | 3.60 | 3.65 | 3.70 |
| Downside risk | 0.00 | -0.25 | -0.75 | -0.85 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| 20yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.25 | 0.75 | 0.85 | 0.85 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Central Case | 4.16 | 4.20 | 4.20 | 4.20 | 4.20 | 4.20 | 4.20 | 4.20 | 4.20 | 4.20 | 4.20 | 4.20 | 4.25 |
| Downside risk | 0.00 | -0.25 | -0.75 | -0.85 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |
| 50yr gilt yield | | | | | | | | | | | | | |
| Upside risk | 0.00 | 0.25 | 0.75 | 0.85 | 0.85 | 0.90 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Central Case | 3.76 | 3.80 | 3.85 | 3.90 | 3.90 | 3.90 | 3.90 | 3.90 | 3.90 | 3.90 | 3.95 | 3.95 | 3.95 |
| Downside risk | 0.00 | -0.25 | -0.75 | -0.85 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 | -1.00 |

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%
**UK Infrastructure Bank Rate = Gilt yield + 0.40%**

# APPENDIX 1B

**Investments**

The below table shows all of the Council's treasury investments as at 31st December 2023.

| | Amount £m | Rate | Start | End |
|---|---|---|---|---|
| **Fixed Deposits - Local Authorities** | | | | |
| Eastbourne BC | 5.000 | 4.20% | 13-Feb-23 | 15-Jan-24 |
| | **5.000** | | | |
| **Fixed Deposits - Banks** | | | | |
| Landsman Hessen Thuringen Girozentrale (Helaba) | 5.000 | 5.19% | 18-Dec-23 | 18-Jan-24 |
| | **5.000** | | | |
| **Instant Access - Banks** | | | | |
| Bank of Scotland | 13.400 | 5.14% | n/a | |
| | **13.400** | | | |
| **Money Market Funds** | | | | |
| Invesco | 15.000 | 5.35% | n/a | |
| Insight | 11.800 | 5.32% | n/a | |
| SSGA | 15.000 | 5.32% | n/a | |
| Federated | 9.200 | 5.38% | n/a | |
| DB Advisors | 15.000 | 5.34% | n/a | |
| AAM | 2.000 | 5.30% | n/a | |
| Legal & General | 15.000 | 5.35% | n/a | |
| Morgan Stanley | 15.000 | 5.38% | n/a | |
| | **98.000** | | | |
| **Total Investments** | **121.400** | | | |

# APPENDIX 1C

**Minimum Revenue Provision (MRP) Policy**

The Council is required to pay off an element of the accumulated General Fund capital spend each year through a revenue charge (the Minimum Revenue Provision - MRP), although it is also allowed to undertake additional voluntary payments (VRP).

Regulations require Full Council to approve an MRP Statement in advance of each year. The Council is recommended to approve the following MRP Statement. *Additions to the previous policy are in italics.*

Borrowing taken up prior to 1 April 2015 will be provided for using a straight-line method of calculating MRP. £185.215m will be provided for in equal instalments over 50 years, which will result in an annual charge of £3.704m. The debt will be extinguished in full by 31 March 2065. If the Council elects to make additional voluntary MRP then the annual charge will be adjusted accordingly.

For borrowing taken up on or after 1 April 2015, MRP is to be provided for based upon the average expected useful life of the assets funded by borrowing in the previous year. The debt will be repaid on a straight-line basis over the average useful life calculated, meaning the debt will be fully extinguished at the end of period. If the Council elects to make additional voluntary MRP then the annual charge will be adjusted accordingly.

For certain investment projects it may be deemed more prudent to use the asset life annuity method in order to calculate MRP. In this case the Council will use the annuity method, with the MRP based on the prevailing PWLB interest rate for a loan with a term equal to the estimated life of the project. If the Council uses capital receipts to repay borrowing for the year then the value of MRP which would have otherwise been set aside to repay borrowing will be reduced by the this amount. The level of capital receipts to be applied to redeem borrowing will be determined annually by the Section 151 Officer, taking into account forecasts for future expenditure and the generation of further receipts.

For any leases and any on-balance sheet Public Finance Initiative (PFI) schemes, the MRP charge will be equal to the principal repayment during the year, calculated in accordance with proper practices. In previous years only finance leases were on balance sheet and contributed towards the MRP. However, following the adoption of IFRS 16 in April 2024, all leases will fall on balance sheet and impact the MRP calculation. The full impact of this change is yet to be determined but updates will be provided as part of the regular Treasury Management reporting process.

There will be no MRP charge for any cash backed Local Authority Mortgage Scheme (LAMS) that the Council operates. As for this type of scheme, any future debt liability would be met from the capital receipt arising from the deposit maturing after a five-year period. Any repossession losses for this type of scheme would be charged to a LAMS reserve.

The Council has considered the Statutory Guidance, which recommends a 25 year repayment charge for loans to third parties, and concluded that this provision is not necessary where there is a realistic expectation that the loan will be repaid. The Council considers an MRP charge is not necessary in respect of any loans made to third parties as the debt liability is covered by the existence of a debtor; typically long term depending on the life of the loan. The only expenditure consequence of a loan for an authority is the interest on its cash shortfall whilst the loan is outstanding, so provision for the principal amount would be over-prudent until such time as the assumption has to be made that the loan will not be repaid.

For any Equity Investment or other investments not specified above, the Council will have regard to the DLUHC Statutory Guidance on Minimum Revenue Provision.

The revised DLUHC MRP Guidance provides a disclosure item for any revenue resources over and above of the required MRP applied to capital expenditure within the MRP Policy. The disclosure of the amounts applied allows some flexibility in financing future capital programmes and the implications on the budget. Revenue resources applied to 31 March 2023 as overpayments or VRP were £123m.

# APPENDIX 1D

**Prudential Indicators**

## 1. Ratio of Financing Costs to Net Revenue Stream

| Limit/Indicator | 2024/25 % | 2025/26 % | 2026/27 % |
|---|---|---|---|
| Ratio of financing costs to net revenue stream | 6.6 | 6.6 | 6.5 |

This ratio represents the total of all financing costs e.g. interest payable and minimum revenue provision (MRP) that are charged to the revenue budget as a percentage of the amount to be met from Government grants and taxpayers (net revenue stream).

This ratio has been calculated based on the future year's level of borrowing.

## 2. Capital Financing Requirement (CFR)

| Limit/indicator | 2024/25 £m | 2025/26 £m | 2026/27 £m |
|---|---|---|---|
| Core Capital Financing Requirement | 190.856 | 188.262 | 183.110 |
| Other long term liabilities (e.g. PFI and leases) | 84.397 | 79.620 | 74.758 |
| Total Capital Financing Requirement | 275.253 | 267.882 | 257.868 |

The Capital Financing Requirement is aimed to represent the underlying need to borrow for a capital purpose and is calculated from the aggregate of specified items on the balance sheet. The opening balance at 1 April 2023 has been estimated together with the movement in the Capital Financing Requirement for future years.

Following accounting changes the Capital Financing Requirement now includes any other long term liabilities (e.g. PFI schemes and leases) brought onto the balance sheet. Whilst this increases the Capital Financing Requirement, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes.

From the 2024/25 financial year a new accounting standard on leases (IFRS16) is to be implemented. This will result in a number of leases that would previously have been classified as operating leases being moved on to the Council's balance sheet. This in turn will result in an increase in the level of other long term liabilities and the total CFR. As the Council is still in the data gathering stage of implementing this new standard the level of this increase is not yet know. This indicator will therefore be updated mid-year as part of the regular Capital and Treasury Management reporting process.

The CFR increases by the value of capital expenditure not immediately financed (i.e. borrowing) and is reduced by the annual MRP repayment.

## 3. Capital Expenditure

| Limit/indicator | 2024/25 £m | 2025/26 £m | 2026/27 £m |
|---|---|---|---|
| Capital expenditure | 56.111 | 8.027 | 0 |

This is the estimate of the total capital expenditure to be incurred (from all funding sources) for future years and recommended for approval.

This estimate will continue to be updated as part of the monitoring process as new resources are subsequently identified.

## 4. Incremental Impact of Capital Investment Decisions

| Limit/indicator | 2024/25 £ | 2025/26 £ | 2026/27 £ |
|---|---|---|---|
| For the Band D Council Tax | 0.01 | 2.17 | 2.17 |

This is the estimate of the net incremental impact of the capital investment decisions, based on the level of borrowing set out in the report and reflects the total cost of this additional borrowing (interest payments and minimum revenue provision), as a cost on Council Tax. The actual cost will depend on final funding. For every £1 increase on Band D properties, approximately £0.066m would be raised.

## 5. Operational Boundary and Authorised Limit on External Debt and Other Long Term Liabilities

| Limit/indicator | 2024/25 £m | 2025/26 £m | 2026/27 £m |
|---|---|---|---|
| Operational Boundary for external debt | 201.400 | 206.248 | 211.646 |
| Operational Boundary for other long term liabilities | 84.397 | 79.620 | 74.758 |
| **Operational Boundary** | **285.797** | **285.868** | **286.404** |
| Authorised Limit for external debt | 221.400 | 226.248 | 231.646 |
| Authorised Limit for other long term liabilities | 85.937 | 80.620 | 75.758 |
| **Authorised Limit** | **306.797** | **306.868** | **307.404** |

These limits include provision for borrowing in advance of our requirement for future capital expenditure. This may be carried out if it is thought to be financially advantageous to the Council.

The limits are made up as follows:

| Limit/indicator | 2024/25 £m | 2025/26 £m | 2026/27 £m |
|---|---|---|---|
| Estimated 31 March 2023 | 136.025 | | |
| Previous year Operational Boundary | | 201.400 | 206.248 |
| Add debt maturing in year | - | 0 | 0.550 |
| Add borrowing for 2023/24 and previous years' requirement not taken up | 60.383 | | |
| Add borrowing in advance for 2024/25 and future years | 10.000 | 10.000 | 10.000 |
| Less already borrowed in advance for future years | | | |
| Less previous year maturing fall out | | 0 | 0 |
| Less MRP | (5.009) | (5.152) | (5.152) |
| **Operational Boundary - borrowing** | **201.400** | **206.248** | **211.646** |
| Add allowances for cash flow etc. | 20.000 | 20.000 | 20.000 |
| **Authorised Limit - borrowing** | **221.400** | **226.248** | **231.646** |

The allowance for cash flow is made up of 2 elements. (a). it is possible that a rescheduling exercise where the Council borrows prior to repayment could take place. The Council has allowed £10 million for this. (b). Normally the amount of investments that the Council holds would mean that there would be no need to borrow, however, an allowance of £10 million has been made for liquidity purposes.

The Council is also required to set operational boundaries and authorised limits for Other Long Term Liabilities (e.g. PFI schemes and finance leases), which are now shown on balance sheet, following recent accounting changes. The table below includes all current PFI schemes and finance leases in place, with an allowance of £1 million for any new agreements that may arise.

| Limit/indicator | 2024/25 £m | 2025/26 £m | 2026/27 £m |
|---|---|---|---|
| Operational Boundary for other long term liabilities | 84.397 | 79.620 | 74.758 |
| Add allowance for new agreements | 1.000 | 1.000 | 1.000 |
| Authorised Limit for other long term liabilities | 85.397 | 80.620 | 75.758 |

The total authorised limit of £306m (including both external borrowing and other long-term liabilities) should be set as the Council's affordable borrowing limit for 2024/25 as required under the provisions of the Local Government Act 2003.

## 6. Gross Debt and the Capital Financing Requirement.

| Limit/indicator | 2024/25 £m | 2025/26 £m | 2026/27 £m |
|---|---|---|---|
| Core capital financing requirement | 190.856 | 188.262 | 183.110 |
| Gross borrowing | 190.856 | 188.262 | 183.110 |

To ensure that medium term debt will only be for a capital purpose, the Council will ensure that the gross external borrowing does not, except in the short term, exceed the highest forecast capital financing requirement (CFR) in any one year.

## 7. Upper and lower limits on Interest Rate Exposures

| Limit/indicator | 2024/25 £m | 2025/26 £m | 2026/27 £m |
|---|---|---|---|
| Upper limit for fixed interest rate exposure | 190.856 | 188.262 | 183.110 |
| Upper limit for variable interest rate exposure | 63.619 | 62.754 | 61.037 |

These limits are in respect of our exposure to the effects of changes in interest rates.

The limits reflect the net amounts of fixed/variable rate debt (i.e. fixed/variable loans less fixed/variable investments).

## 8. Maturity Structure of Borrowing for the Forthcoming Financial Year

These limits set out the amount of projected borrowing that is fixed rate maturing in each period expressed as a percentage of total projected borrowing that is fixed rate.

| | | Upper % | Lower % |
|---|---|---|---|
| Upper/lower limit for maturity structure | Under 12 months | 15 | 0 |
| | 12 months and within 24 months | 15 | 0 |
| | 24 months and within 5 years | 30 | 0 |
| | 5 years and within 10 years | 40 | 0 |
| | 10 years and above | 100 | 50 |

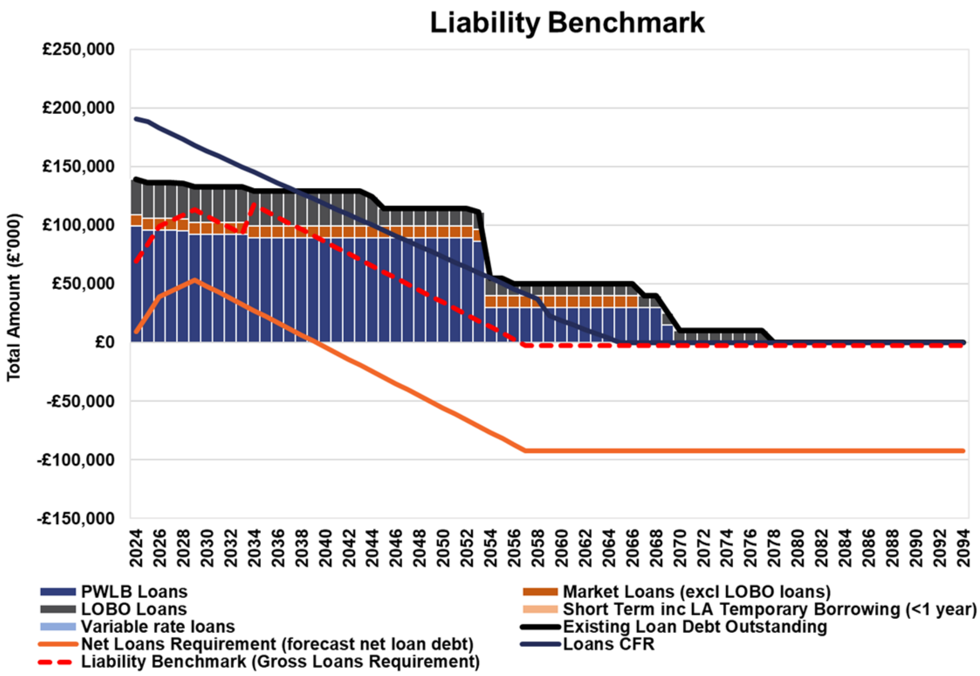
Future fixed rate borrowing will normally be for periods in excess of 10 years, although if longer term interest rates become excessive, shorter-term borrowing may be used. Given the low current long term interest rates, the Council feels that it is acceptable to have a long maturity debt profile.

## 9. Limit for Total Principal Sums Invested for Periods Longer than 364 days

| 2024/25 £m | 2025/26 £m | 2026/27 £m |
|---|---|---|
| 30 | 30 | 30 |

The Council can invest for periods greater than one year providing the counterparty is of sufficient credit quality. It is felt that the amounts shown above should be the limits maturing in future years.

## 10. Liability Benchmark




The liability benchmark is a new prudential indicator introduced for 2023/24. This gives a long-term view of the Council's borrowing needs based on current commitments. This demonstrates that there is currently no borrowing need and the Council currently has a significant level of surplus cash which makes up its investment portfolio. If further schemes to be funded by borrowing are added to the Capital Programme in future then the benchmark will increase and more borrowing could potentially be required.