Appendix 2

Treasury Management Strategy Statement

Warwickshire County Council
2024/25

1.0 Introduction

Background

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines Treasury Management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 The Council is required to operate a balanced 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 and managed with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.3 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.

1.4 The contribution the Treasury Management function makes to the authority is critical, as the balance of debt and investment operations ensure cash liquidity and the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The costs of debt and the investment income arising from cash deposits have an effect on the Council's available budget. Since cash balances generally exist to serve specific purposes, it is paramount to ensure adequate security of the sums invested so that ultimately the cash is still available to be used for the reason it was originally being held for.

Treasury Management reporting

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

a.) **Prudential and Treasury indicators and Treasury strategy** (this report) -:

- the 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).

b.) **A mid-year Treasury Management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c.) **An annual Treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and Treasury indicators and actual Treasury operations compared to the estimates within the strategy.

d.) **Scrutiny -** The above reports are scrutinised by the Resources and Fire and Rescue Overview and Scrutiny Committee.

e.) **Quarterly reports** – In addition to the three major reports detailed above, from 2023/24 quarterly reporting is also required. However, these additional reports do not have to be reported to full Council/Cabinet but do need to be adequately scrutinised. This role is undertaken by the Resources and Fire and Rescue Overview and Scrutiny Committee.

Capital Strategy and Investment Strategy

1.6 The Treasury Management Strategy Statement (TMSS) interacts with both the Capital Strategy and the Investment Strategy.

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

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

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

b.) **Investment Strategy -** The Council is required to set out separately an Investment Strategy (IS) in relation to non-Treasury investments. Non-Treasury investments must consider security, liquidity, and yield, however the relative priority of these three factors does not have to follow Treasury Management principles as non-Treasury investments are, by their nature, not intended to deliver Treasury Management objectives. The Council's Investment Strategy is a separate document; however, it does interrelate with the Treasury Management Strategy and Capital Strategy.

1.7 The table below summarises these different strategies.

Capital Strategy	**Treasury Management Strategy – including Treasury Investment Strategy**	**Investment Strategy**
Traditional capital expenditure to directly meet service objectives.	Management of cash and debt to service the delivery of day-to-day operations and the long-term financing of investments.	Non-Treasury investments with the primary objective of meeting service objectives.

Treasury Management Strategy for 2024/25

1.8 The strategy for 2024/25 covers two main areas:

a.) Capital considerations -
- Capital expenditure plans and the associated prudential indicators; and
- Minimum revenue provision (MRP) policy.

b.) Treasury Management considerations -
- The current Treasury position;
- Treasury indicators which limit the Treasury risk and activities of the Council;
- Prospects for interest rates;
- Borrowing Strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- Investment Strategy;
- Creditworthiness policy;
- The policy on use of external service providers; and
- The Councils Income Management Policy.

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

1.10 The Treasury Management scheme of delegation, and responsibilities of the Section 151 officer are set out in Annex 6 and 7 respectively.

Training

1.11 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.

1.12 The following is carried out to monitor and review knowledge and skills:

a.) Planned and recorded attendance at training and events.
b.) Tailored learning plans for Treasury Management officers and board/Council members.
c.) Treasury Management officers and board/Council members undertake a self-assessment against the required competencies.
d.) Regular communication with officers and board/Council members to highlight training needs on an ongoing basis.

1.13 A formal record of the training received by officers central to the treasury function will be maintained by the treasury team. Similarly, a formal record of the Treasury Management/capital finance training received by members will also be maintained by the Treasury Manager. Both records will be included in Treasury Management Outturn reports at the end of the financial year.

Treasury Management Consultants

1.14 The Council currently contracts with Link Group, Treasury Solutions as its external Treasury Management advisers.

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

1.16 The Council also recognises that there is value in employing external providers of Treasury Management services in order to acquire access to specialist skills and resources as and when required. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly contracted, agreed and documented and subjected to regular review.

1.17 In respect of non-Treasury investments, two adviser contracts are used for access to specialist skills and resources. These are detailed in the Investment Strategy and are separate to the above treasury adviser contract.

2.0 The Capital Prudential Indicators 2024/25 – 2028/29

2.1 The Council's capital expenditure plans are the key driver of Treasury Management activity. The outputs of the capital expenditure plans are reflected in the prudential indicators (Annex 1), which are designed to assist members to review and confirm capital expenditure plans.

Prudential Indicator – Capital Expenditure and Financing

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

Table 1 – Total Capital Programme

£000's	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Capital Expenditure	183,666.00	214,885.29	143,251.03	75,761.74	56,936.62	55,586.40
Non-Treasury Investment WPDG*	10,738.00	15,725.38	11,420.13	11,367.23	15,013.46	5,555.21
Non-Treasury Investment WRIF*	-	20,000.00	15,000.00	15,000.00	-	-
Total	**194,404.00**	**250,610.67**	**169,671.16**	**102,128.98**	**71,950.08**	**61,141.61**

***WPDG Warwickshire Property and Development Group**

***WRIF Warwickshire Recovery and Investment Fund BIG and PIF Pillars**

2.3 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 need to borrow to fund the shortfall.

Table 2 – Financing of Capital Expenditure

£000's	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Capital receipts	222.91	2,683.20	144.00	192.00	-	-
Capital grants	138,221.48	74,340.38	42,035.38	36,916.38	36,064.38	35,966.38
Self Financed Borrowing	-	-	-	-	-	-
Revenue	547.00	272.00	-	-	-	-
Capital Programme Funding/Income	138,991.39	77,295.58	42,179.38	37,108.38	36,064.38	35,966.38
WPDG Receipts	5,643.00	6,419.79	12,993.40	19,610.56	18,351.55	15,171.09
WRIF Receipts	-	-	4,400.00	7,000.00	10,000.00	10,000.00
Non Treasury Investment Funding/Income	5,643.00	6,419.79	17,393.40	26,610.56	28,351.55	25,171.09
Total Funding/Income	**144,634.39**	**83,715.37**	**59,572.78**	**63,718.94**	**64,415.93**	**61,137.47**
Total Capital Expenditure	194,404.00	250,610.67	169,671.16	102,128.98	71,950.08	61,141.61
Net financing need for the year	**49,769.61**	**166,895.29**	**110,098.37**	**38,410.04**	**7,534.15**	**4.14**
Minimum Revenue Provision (MRP)	- 10,082.80	- 11,670.27	- 17,879.27	- 21,568.03	- 22,241.71	- 21,653.41
Borrowing Requirement	**39,686.81**	**155,225.03**	**92,219.11**	**16,842.00**	**- 14,707.57**	**- 21,649.27**

2.4 The net financing need split between capital expenditure and non-Treasury investments is shown below, to help show the relative scale of non-Treasury investments.

Table 3 – Financing of Non-Treasury Investments

£000's	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
WPDG Capital Investment	10,738.00	15,725.38	11,420.13	11,367.23	15,013.46	5,555.21
Less: WDPG Related Receipts and Repayments	- 5,643.00	- 6,419.79	- 12,993.40	- 19,610.56	- 18,351.55	- 15,171.09
WRIF Capital Investment	-	20,000.00	15,000.00	15,000.00	-	-
Less: WRIF Related Receipts and Repayments	-	-	- 4,400.00	- 7,000.00	- 10,000.00	- 10,000.00
Net financing need for the year	**5,095.00**	**29,305.59**	**9,026.73**	**- 243.32**	**- 13,338.09**	**- 19,615.88**
Percentage of total net financing need %	10.2%	17.6%	8.2%	n/a *	n/a *	n/a *

*** Note that reciepts exceed payments from 2026/27-2028/29 so no net financing is needed for non treasury investments**

2.5 Further details in respect of non-Treasury investments are set out in the separate Investment Strategy document.

Prudential Indicator – The Council's Borrowing Need (Capital Financing Requirement)

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

2.7 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 for the economic consumption of capital assets as they are used.

Table 4 – Capital Financing Requirement

£000's	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
CFR – Capital Programme	291,445.69	417,365.13	500,557.51	517,642.83	516,273.36	514,239.97
CFR - WPDG	5,095.00	14,400.59	12,827.32	4,584.00	1,245.90	(8,369.98)
CFR - WRIF	0.00	20,000.00	30,600.00	38,600.00	28,600.00	18,600.00
Total CFR	**296,540.69**	**451,765.72**	**543,984.82**	**560,826.83**	**546,119.26**	**524,469.99**
Movement in CFR - Capital Prog		137,589.70	101,071.65	38,653.36	20,872.24	19,620.02
Movement in CFR - WPDG		9,305.59	(1,573.27)	(8,243.32)	(3,338.09)	(9,615.88)
Movement in CFR - WRIF		20,000.00	10,600.00	8,000.00	(10,000.00)	(10,000.00)
Movement in CFR - Total		**166,895.29**	**110,098.37**	**38,410.04**	**7,534.15**	**4.14**
Movement in CFR represented by						
Net financing need for the year	49,769.61	166,895.29	110,098.37	38,410.04	7,534.15	4.14
Less MRP and other financing	(10,082.80)	(11,670.27)	(17,879.27)	(21,568.03)	(22,241.71)	(21,653.41)
Movement in CFR net of MRP	**39,686.81**	**155,225.03**	**92,219.11**	**16,842.00**	**(14,707.57)**	**(21,649.27)**

Prudential Indicator – Liability Benchmark

2.8 A third and new prudential indicator for 2024/25 is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

2.9 There are four components to the LB:

a.) Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years.

b.) 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.

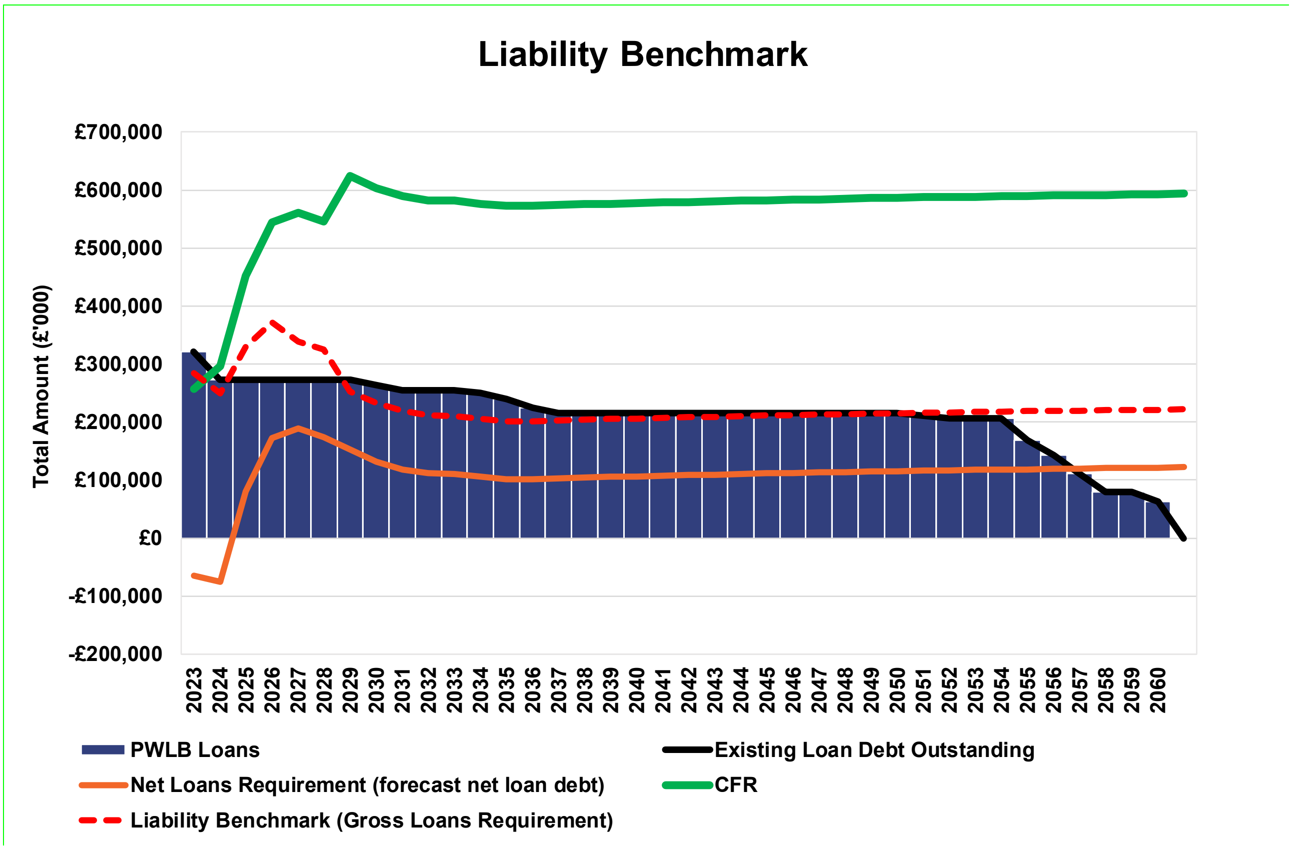
c.) Net loans requirement: this will show the Authority's gross loan debt less Treasury Management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

d.) Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Table 6 Liability Benchmark

In £000's	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34
Existing Loan Debt	£272,413	£272,413	£272,413	£272,413	£272,413	£272,413	£264,413	£254,413	£254,413	£254,413	£250,413
Net Loans Requirement	-£74,965	£80,260	£172,479	£189,321	£174,614	£152,965	£132,177	£118,642	£111,200	£110,808	£105,404
CFR	£296,541	£451,766	£543,985	£560,827	£546,119	£624,295	£603,507	£589,973	£582,531	£582,138	£576,734
Liability Benchmark	**£250,035**	**£330,260**	**£372,479**	**£339,321**	**£324,614**	**£252,965**	**£232,177**	**£218,642**	**£211,200**	**£210,808**	**£205,404**
Forecast Investments	£344,320	£160,086	£106,572	£107,546	£122,121	£100,000	£100,000	£100,000	£100,000	£100,000	£100,000
(Over)/Under LB	-£22,378	£57,847	£100,066	£66,908	£52,201	-£19,448	-£32,236	-£35,771	-£43,213	-£43,605	-£45,009

Chart 1 Liability Benchmark



Core Funds and Expected Investment Balances

2.10 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 estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Table 7 – Expected Investments

£000's	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Fund balances / reserves	226,608.43	197,599.04	193,304.04	193,120.04	192,988.04	192,988.04
Capital receipts	-	-	-	-	-	-
Other	5,852.46	5,852.46	5,852.46	5,852.46	5,852.46	5,852.46
Total core funds	**232,460.89**	**203,451.50**	**199,156.50**	**198,972.50**	**198,840.50**	**198,840.50**
Working capital	136,000.00	136,000.00	136,000.00	136,000.00	136,000.00	136,000.00
(Under)/over borrowing	- 24,140.69	- 179,365.72	- 228,584.82	- 227,426.83	- 212,719.26	- 199,069.99
Expected treasury investments	**344,320.20**	**160,085.78**	**106,571.68**	**107,545.67**	**122,121.24**	**135,770.51**

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

Minimum Revenue Provision (MRP) Policy Statement

2.11 Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP).

2.12 The MRP should be designed to make prudent provision to redeem debt liabilities over a period which is reasonably commensurate with the associated capital expenditure benefits.

2.13 Having regard to these requirements, the MRP provision will be calculated as set out below.

MRP for Capital Programme Expenditure.

2.14 The MRP provision will be calculated on the average remaining useful life of the Council's asset portfolio. We will calculate and apply the remaining useful life over two categories of asset:

- Land, buildings and infrastructure; and
- Vehicles, plant and equipment and intangible assets.

2.15 The proportion of debt outstanding in each category of asset will be determined by the value of assets included in the balance sheet at the end of each financial year.

2.16 The 2020 review shows that the remaining useful life of our assets is now 22 years. By using an average life of 25 years for our assets equates to an annual provision of 4% straight line MRP.

2.17 For vehicles, plant and equipment, the remaining useful life is assumed to be 6 years e.g. 5 years average remaining useful life will result in 20% straight line MRP.

MRP for the Warwickshire Property Development Group (WPDG)

2.18 Unlike mainstream capital spending where provision for purchase of replacement assets has to be made in order to have funding available for replacement assets, expenditure (investment) in the WPDG will at a later date be repaid in full.

2.19 It is possible to assume that these repayments of principal amount to the necessary revenue provision. However, there is a risk that repayment of principal is not made, or not made in full. In order to mitigate this risk, the MRP policy for the WPDG will be to make a provision as follows:

- No MRP will be charged to the revenue account on any equity land or asset transfers into Wholly Owned subsidiaries.
- No MRP will be charged on working capital loans. Any anticipated impairments will be treated following the relevant accounting standards (namely IFRS9 - Financial Instruments), and not charged through the capital financing regime.
- MRP on development loans made to DevCo (a subsidiary of WPDG) will be charged over 25 years of equivalent to 4% per year on any amount reasonably expected to default, rather than the full value of the loan.
- MRP on loans to ManCo (a subsidiary of WPDG for purchase of assets from DevCo) will be charged to the revenue account over 25 years (4% per year) on any amount expected to default, rather than the full value of the loan.
- Any capital receipts then received as repayment of the loan principal from ManCo and Dev Co will be used to offset “traditional” borrowing requirements for financing the wider capital programme.

MRP for the Warwickshire Recovery Investment Fund (WRIF)

2.20 Unlike mainstream capital spending where provision for purchase of replacement assets has to be made in order to have funding available for replacement assets, expenditure (investment) in the WRIF will at a later date be repaid in full.

2.21 It is possible to assume that these repayments of principal amount to the necessary revenue provision. However, there is a risk that repayment of principal is not made, or not made in full. In order to mitigate this risk, the MRP policy for the WRIF will be to make a provision as follows:

> “*MRP on WRIF loans that are capital in nature will be charged over 25 years or equivalent to 4% per year on any amount reasonably expected to default, rather than the full value of the loan*”

2.22 Any capital receipts then received as repayment of the loan principal from WRIF will be used to offset “traditional” borrowing requirements for financing the wider capital programme.

MRP For International Financial Reporting Standard 16 (IFRS16) - Leases

2.23 On 1 April 2024 the Council is required to adopt a new accounting standard for leases (IFRS16). This means that for all leases where we are the lessee, our right-to-use the asset will be recognised and we will account for the leased asset on our Balance Sheet as though we had purchased the asset.

2.24 The introduction of increased numbers of leases onto the Balance Sheet will increase the Capital Financing Requirement. Without any other change this would increase the MRP charge. However, lease rental payments are already made from revenue budgets for these assets and therefore, to avoid double counting the cost of the leased assets, a technical adjustment will be made to ensure a “net nil” effect on the revenue budget.

2.25 For assets under lease contracts existing from 2024/25 onwards, the annual MRP charge will match the element of the rent/charge that goes to write down the lease liability. Therefore, there will be no impact on available capital resources or the capital financing requirement from this new accounting requirement.

MRP Calculation

2.26 The actual calculation of MRP will be based on the [Total Capital Financing Requirement x 4%]. This is deemed to be a prudent overall level of provision based upon the requirements set out above.

2.27 The Council has the option to directly and specifically link internal borrowing to specific investments and where this is the case a MRP would not be made. This would mean that repayments associated with the loan would not be capital and would therefore not be ringfenced to financing capital spending. Any anticipated impairments will be treated following the relevant accounting standards (namely IFRS9 - Financial Instruments), and not charged through the capital financing regime. However, the default position is that specific funding sources are not directly linked to specific investments therefore an express decision to link specific funding to a specific investment would need to be made for this to happen.

3.0 BORROWING

3.1 The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The Treasury Management function ensures that the Council’s cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Capital Strategy. This involves 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

3.2 In recent years the Council has held an over borrowed position (meaning external borrowing was greater than the total capital financing requirement), however this is forecast to change by the end of the financial year 2023/24 when we expect a marginal under borrowed postion. Going forward, the capital programme and use of internal borrowing will mean the Council expects to maintain an under borrowed position. The need for further borrowing will be kept under review.

Current Portfolio Position

3.3 The overall Treasury Management portfolio as at 31st March 2023, 30th September 2023 and 31 December 2023 are shown below for both borrowing and investments.

Table 8 – Current Portfolio Position

Treasury Portfolio						
	Actual 31.03.2023 £m	Actual 31.03.2023 %	Actual 30.09.2023 £m	Actual 30.09.2023 %	**Actual 31.12.2023 £m**	**Actual 31.12.2023 %**
Treasury investments						
Banks	38.29	8.35%	17.00	4.35%	17.17	5.11%
Building Societies	50.34	10.98%	50.00	12.79%	30.00	8.93%
Local authorities	201.14	43.86%	192.00	49.12%	172.35	51.29%
Housing Associations			30.00	7.68%	30.00	8.93%
Total managed in house	**289.77**	**63.19%**	**289.00**	**73.94%**	**249.52**	**74.26%**
Bond funds	29.40	6.41%	28.98	7.41%	29.44	8.76%
Property funds	10.02	2.19%	9.89	2.53%	9.82	2.92%
Cash fund managers	129.39	28.22%	63.00	16.12%	47.23	14.06%
Total managed externally	**168.81**	**36.81%**	**101.87**	**26.06%**	**86.49**	**25.74%**
TOTAL TREASURY INVESTMENTS	**458.58**	**100%**	**390.87**	**100%**	**336.01**	**100%**
Treasury external borrowing						
PWLB	321.406	100%	272.400	100%	272.400	100%
Total external borrowing	**321.406**		**272.400**		**272.400**	
Net Treasury Investments / (Borrowing)	**137.17**		**118.47**		**63.61**	

3.4 Annex 2 sets out the current maturity profile of the borrowing portfolio. Currently there is a significant concentration of debt maturities across the period 2050-2060.

3.5 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.

Table 9 – External Debt Forecast

£m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
External Debt						
Current Debt	272.400	272.400	272.400	272.400	272.400	264.400
New Debt	-	-	43.000	61.000	61.000	61.000
Actual gross debt at 31 March	**272.400**	**272.400**	**315.400**	**333.400**	**333.400**	**325.400**
The Capital Financing Requirement	296.541	451.766	543.985	560.827	546.119	524.470
Under / (over) borrowing	**24.141**	**179.366**	**228.585**	**227.427**	**212.719**	**199.070**

Internal Debt

3.6 The Council will seek to hold efficient levels of cash and will therefore run-down external investment balances and use cash to finance a share of the Capital Financing Requirement. This is referred to as internal borrowing. The level of internal borrowing will be kept under review to ensure that the level of liquid Treasury investments (a liquidity buffer) does not fall below £75m, and total Treasury Investments does not fall below £100m.

Table 10 – Internal Debt Forecast

£m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
External Debt	272.400	272.400	315.400	333.400	333.400	325.400
Internal Debt (internal borrowing)	24.141	179.366	228.585	227.427	212.719	199.070
Internal borrowing as % of CFR	**8.1%**	**39.7%**	**42.0%**	**40.6%**	**39.0%**	**38.0%**

3.7 Where it is deemed appropriate to add to the level of current external loan finance, any risks associated with such borrowing will be subject to prior appraisal (including borrow now or borrow later analysis) and subsequent reporting through the mid-year or annual reporting mechanism.

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

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

Treasury Indicators: Limits to Borrowing Activity

3.10 **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.

Table 11 – Operational Boundary

£m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
External Debt	393.313	496.942	598.383	616.910	600.731	576.917
Total	**393.313**	**496.942**	**598.383**	**616.910**	**600.731**	**576.917**

The Authorised Limit for External Debt

3.11 This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

3.12 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

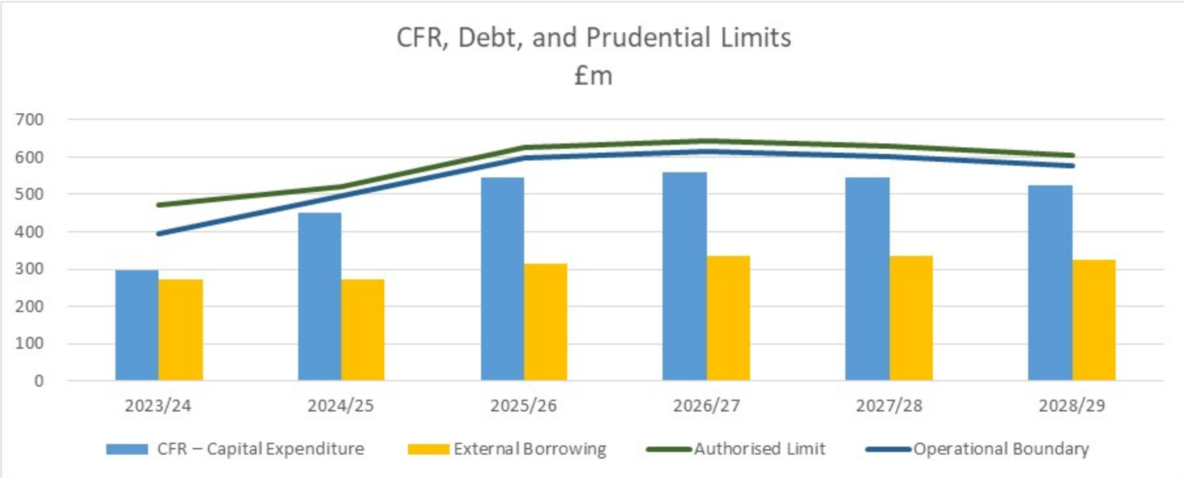
Councils' plans, or those of a specific Council, although this power has not yet been exercised.

3.13 The Council is asked to approve the following authorised limit.

Table 12 – Authorised Limit

£m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
External Debt	472.00	520.00	626.00	645.00	629.00	604.00
Total	**472.000**	**520.000**	**626.000**	**645.000**	**629.000**	**604.000**

Chart 2 - Capital Financing Requirement, Debt and Prudential Limits



Prospects for Interest Rates

3.14 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 07 November 2023. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

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

3.15 Additional notes by Link on this forecast table:

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

- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.
- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

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

3.17 **The balance of risks to the UK economy** – The overall balance of risks to economic growth in the UK is to the downside.

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

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

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

- Despite the recent tightening to 5.25%, the Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term US treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. We saw some movements of this type through October although generally reversed in the last week or so.
- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating

Link Group Forecast

3.20 We now expect the MPC will keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

3.21 **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, as inflation starts to fall through the remainder of 2023 and into 2024.

PWLB debt	Current borrowing rate as at 06.11.23 p.m.	Target borrowing rate now (end of Q3 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	5.02%	3.80%	3.90%
10 years	5.15%	3.80%	3.80%
25 years	5.61%	4.20%	4.10%
50 years	5.38%	4.00%	3.90%

3.22 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:

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

3.23 Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps and set out below.

You will note that investment earnings have been revised somewhat higher for all years from 2025/26 as Bank Rate remains higher for longer.

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.70%	4.70%
2025/26	3.20%	3.00%
2026/27	3.00%	2.80%
2027/28	3.25%	3.05%
Years 6 to 10	3.25%	3.05%
Years 10+	3.25%	3.05%

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

3.25 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.

Borrowing Strategy

3.26 Being mindful of the economic outlook for 2024/25 (Annex 8) the following assumptions will be adopted in the borrowing strategy:

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates.
- Internal borrowing will be weighed against potential long-term costs that will be incurred if market loans at long term rates are higher in future years.
- Long term fixed rate market loans at rates significantly below PWLB rates will be considered where available, to ensure the best rates and to maintain an appropriate balance between PWLB and market debt in the debt portfolio.
- PWLB borrowing for periods under ten years will be considered where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a current concentration in longer dated debt.
- To ensure that the Council considers all options to secure long-term certainty, the Council may also look to make use of forward starting loans as this will allow us to lock into a known financing rate out of a future date. These loans tend to be offered by Financial institutions (primarily insurance companies and pension funds but also some banks, where the objective is to use the forward loan with a mix of internal loans/temporary borrowing to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Policy on Borrowing in Advance of Need

3.27 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.

3.28 However, the Council may borrow in advance of need for risk management or borrowing efficiency purposes. In determining whether borrowing will be undertaken in advance of need, the Council will:

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to fund in advance of need;
- Ensure the ongoing revenue liabilities created, and the implications on future plans and budgets have been considered;
- Evaluate the economic and market factors that might influence the manner and timing of any decision;
- Consider the merits and demerits of alternative forms of funding;
- Consider the alternative interest rate bases available, the most appropriate time periods and repayment profiles; and
- Consider the impact of temporarily increasing cash balances until cash is required to finance capital expenditure, and the consequent increase in exposure to counterparty and other risks.

Debt Rescheduling

3.29 As short-term borrowing rates are cheaper than longer term rates, there may be opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of their short-term nature and the cost of debt repayments. Reasons for debt rescheduling would include:

- The generation of cash savings and/or discounted cash flow savings;
- Helping to fulfil the strategy; and
- Enhancing the balance of the portfolio, for example reducing concentration of the debt maturity profile.

3.30 The option to make repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt position will be kept under review.

New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

3.31 Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both Housing Revenue Account and non-Housing Revenue Account borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons (for full list see Annex 3):

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

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

4. ANNUAL INVESTMENT STRATEGY

Investment Policy – Management of Risk

4.1 The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly 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 Treasury (financial) investments, (as managed by the Treasury Management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).

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

- DLUHC’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the Code”)
- CIPFA Treasury Management Guidance Notes 2018

4.3 The Council’s investment priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council’s risk appetite. In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider spreading investments for periods up to 18 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options

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

- Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector

on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisers to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

- **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- This authority has defined the list of **types of investment instruments** that the Treasury Management team are authorised to use. There are two lists in annex 4 under the categories of 'specified' and 'non-specified' investments -

4.5 **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

4.6 **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.

- **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total Treasury Management investment portfolio to non-specified Treasury Management investments of £150m.
- **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in Annex 4.
- **Sector Limits.** The Council has determined that it will limit the maximum exposure within different sectors of investments. These are set out in Annex 4
- **Transaction limits** are set for each type of investment in Annex 4.
- Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.10).
- This authority has engaged **external consultants**, (see paragraph 1.11), 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.

4.7 As a result of the change in accounting standards for 2022/23 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. The Government has extended the Override for an additional two-year period until 31 March 2025.)

4.8 However, this authority will also pursue **value for money** in Treasury Management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

4.9 The above risk management policy criteria are **unchanged** from last year.

Creditworthiness Policy

4.10 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that it:

- Maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- Has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

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

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

4.13 The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

a.) **Banks of good credit quality –** the Council will only use banks which are:
- UK banks; or
- non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of A-and have, as a minimum, the following Fitch Ratings:
- Short Term – F1
- Long Term – A-

b.) **Council's own Bank** – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.

c.) **Building Societies** - The Council will use all societies which meet the ratings for banks outlined above;

d.) **Money Market Funds (MMFs)**:
- CNAV (constant net asset value) – AAA rated
- LVNAV (low volatility net asset value)– AAA rated
- VNAV (variable net asset value) – AAA rated

e.) **Property Funds** - CCLA

f.) **Social Bond Funds** - Threadneedle

g.) **Ultra-Short Dated Bond Funds** – at least AA rated

h.) **Local Authorities and Parish Council Loans** - both spot and forward dates

i.) **Housing Association Loans** - both spot and forward dates

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

4.15 **Time and monetary limits applying to investments** – The time and monetary limits for institutions on the Council's counterparty list are detailed in Annex 4.

4.16 **Creditworthiness** – Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating was placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. After the Sunak/Hunt government has calmed markets, the outlook of the UK sovereign debt has since been rated stable by Moody's (20 October 2023), S&P (21 April 2023) and DBRS (13 January 2023). Accordingly, when setting minimum sovereign debt ratings, the Council will not set a minimum rating for the UK.

4.17 **Credit Default Swaps (CDS) prices** – Although bank CDS prices (these are market indicators of credit risk) spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitors CDS prices as part of their creditworthiness service to local authorities and the Council has access to this information via its Link-provided Passport portal.

Other Limits

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

a.) **Country limit** – The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of *A-*** from Fitch Ratings. The list of countries that qualify using this credit criteria as at the date of this report are shown in Annex 5. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

b.) **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 Performance / Risk Benchmarking

4.19 **Benchmarks** are guides to risk, they may be breached depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is so that officers can monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Current advice suggests using the investment benchmark – 'returns above the 7-day SONIA compounded rate'.

Non-Treasury Investment Strategy

4.20 A separate document entitled "Investment Strategy" covers the Council's position in respect of non-Treasury Management investments held for service reasons or commercial reasons.

End of Year Investment Report

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

External Fund Managers

4.22 The County Council uses a number of external managers to spread risk and obtain maximum market exposure. Current external fund managers actively used during the last year are listed below. This list is not exhaustive and new fund managers may be engaged if necessary. Officers will periodically review the position, performance, and costs of external fund managers, and may meet with client relationship managers or fund managers as appropriate.

- Blackrock
- Deutsche Bank
- Goldman Sachs

- Insight
- Aberdeen
- Federated Hermes
- CCLA
- Threadneedle

4.23 The council currently holds investments with two variable net asset value funds, CCLA and Threadneedle. Both funds have experienced volatility driven by Covid followed by a period of stabilisation. These Funds are kept under review.

Environmental, Social, and Governance Policy

4.24 As a responsible investor, the Council is committed to considering environmental, social, and governance (ESG) issues, and has a particular interest in taking action against climate change and pursuing activities that have a positive social impact.

4.25 However, the Treasury Management function is controlled by statute and by professional guidelines and the first priorities of Treasury must remain security, liquidity, and yield. With those priorities kept in place, the following activity will be undertaken in respect of climate change and responsible investing. Steps will be taken to:

- Ensure an understanding of the degree to which investments may contribute towards climate change. This may take the form of measuring the carbon footprint or some similar measure.
- Where appropriate, move cash balances to funds that have are ESG driven targets, or “green funds”, to ensure our investment is contributing towards tackling ESG issues.
- Identify and understand the extent to which investments which are exposed to risks driven by climate change, for example investments in assets at risk of weather change (e.g. property or infrastructure at risk of flooding), assets at risk of becoming stranded (e.g. fossil fuel investments), or assets at risk from geopolitical risks driven by climate change (e.g. water access, the capacity for food production, or economic conflict).
- Keep abreast of new investment opportunities that have regard to ethical investing and climate change as this is a quickly developing arena.
- Understand the ESG policies of funds, other local authorities, when considering new investment opportunities.

Pension Fund Cash

4.26 This Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, implemented 1 January 2010. With effect 1 April 2010, the Council does not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with this local authority after 1 April 2010 must comply with the requirements of SI 2009 No 393. The council has a separate statement for Pension Fund investment purposes.

ANNEXES

1. Prudential and Treasury Indicators
2. Treasury Management - Portfolio
3. Approved Sources of Long and Short Term borrowing
4. Treasury Management - Practice
5. Approved Countries for Investments
6. Treasury Management - Scheme of Delegation
7. Treasury Management - Role of the Section 151 Officer
8. Economic background

Annex 1

Prudential and Treasury Indicators

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

The following indicators are set out in the main body of the report:

Prudential Indicator	Reference
Capital Expenditure	Table 1
Gross Debt	Table 2
Capital Financing Requirement	Table 4
Liability Benchmark	Table 6
Over/Under Borrowing	Table 7
Borrowing - Operational Boundary	Table 11
Borrowing - Authorised Borrowing Limit	Table 12

In addition, the prudential indicators below will be applied.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Upper limit for fixed interest rate exposure						
Net principal re fixed rate borrowing / fixed term investments	100%	100%	100%	100%	100%	100%
Upper limit for variable rate exposure						
Net principal re fixed rate borrowing / fixed term investments	25%	25%	25%	25%	25%	25%
Upper limit for total principal sums invested for over 365 days	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
(per maturity date)	150,000	150,000	150,000	150,000	150,000	150,000

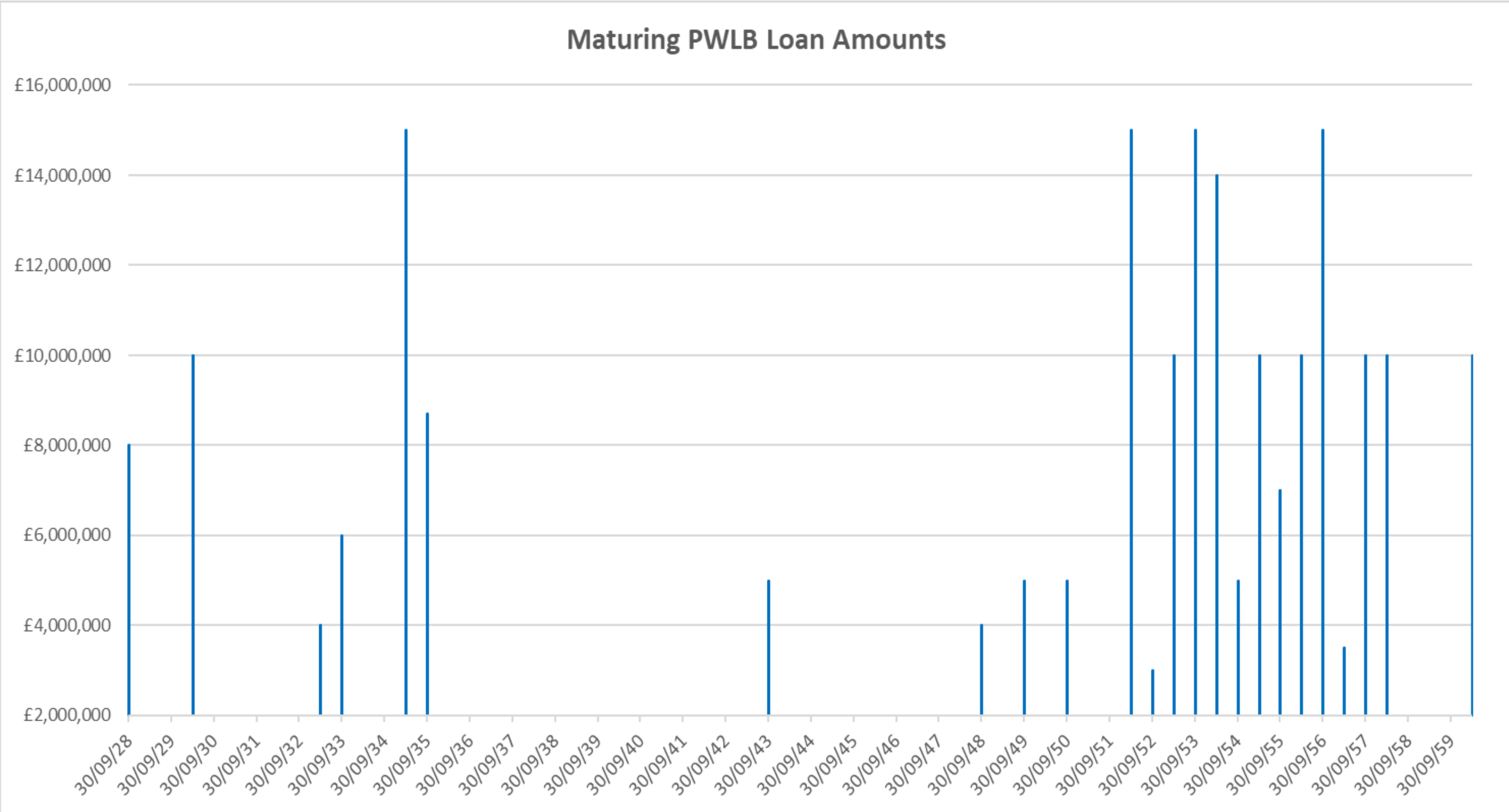
Maturity structure of new fixed rate borrowing during year	upper limit	lower limit
under 12 months	20%	0%
12 months and w ithin 24 months	40%	0%
24 months and w ithin 5 years	60%	0%
5 years and w ithin 10 years	100%	0%
10 years and above	100%	0%

Maturity structure of new external borrowing during year	upper limit	lower limit
under 12 months	35%	0%
12 months and w ithin 24 months	45%	0%
24 months and w ithin 5 years	65%	0%
5 years and w ithin 10 years	100%	0%
10 years and above	100%	0%

Annex 2

Treasury Management Portfolio

1. Debt Schedule



2. Balance Sheet Forecast

Warwickshire County Council
Balance Sheet Projections

2023/24 (£'000)		2024/25 (£'000)	2025/26 (£'000)	2026/27 (£'000)	2027/28 (£'000)	2028/29 (£'000)
CAPITAL FINANCING REQUIREMENT						
296,541	CFR Relating to General Fund	442,563	535,150	552,345	537,977	516,653
296,541	Total CFR	442,563	535,150	552,345	537,977	516,653
-	Finance Lease Liabilities		-	-	-	-
296,541	Underlying Borrowing Requirement	442,563	535,150	552,345	537,977	516,653
272,400	External Borrowing c/fwd	272,400	272,400	315,400	333,400	333,400
	Loan Maturities					(8,000)
-	New Loans	-	43,000	18,000		
272,400	External Borrowing	272,400	315,400	333,400	333,400	325,400
24,141	Under / (Over) Borrowing	170,163	219,750	218,945	204,577	191,253
8%	*Borrowing as a % of Requirement*	*38%*	*41%*	*40%*	*38%*	*37%*
RESERVES / BALANCES, INVESTMENTS & WORKING CAPITAL (£'000)						
17,835	General Fund Balance	17,835	17,835	17,835	17,835	17,835
(618)	Collection Fund Adjustment Account	(618)	(618)	(618)	(618)	(618)
209,391	Earmarked reserves	180,382	176,087	175,903	175,771	175,771
-	Capital Receipts Reserve	-	-	-	-	-
3,453	Provisions	3,453	3,453	3,453	3,453	3,453
2,399	Capital Grants Unapplied	2,399	2,399	2,399	2,399	2,399
(24,141)	Over / (Under) Borrowing	(170,163)	(219,750)	(218,945)	(204,577)	(191,253)
136,000	Working Capital	136,000	136,000	136,000	136,000	136,000
344,320	Expected Treasury Investments	169,289	115,407	116,027	130,263	143,587

*Year end balances currently estimated for 2023/24

Annex 3

Approved Sources of Long and Short-Term Borrowing

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

Annex 4

Treasury Management – Practice

4.1 Counterparty Limits

	Fitch Long term Rating	Money Limit	Transaction limit	Time Limit
Banks	*A-*	£20m	£20m	1yr
Building Societies	*A-*	£20m	£20m	18 months
Local authorities	N/A	£10m	£10m	2yr
Housing Associations	N/A	£10m	£10m	3yr
DMADF	UK sovereign	unlimited	unlimited	6 months
Other Institutions limit	N/A	£10m	£10m	1yr
	Fund rating**	Money Limit	Transaction Limit	Time Limit
Money Market Funds CNAV	AAA	£60m	£60m	liquid
Money Market Funds LVNAV	AAA	£60m	£60m	liquid
Money Market Funds VNAV	AAA	£60m	£60m	liquid
Ultra-Short Dated Bond Funds	AA	£60m	£60m	liquid
Property Fund	N/A	£15m	£15m	90 day
Social Bond Funds	N/A	£40m	£40m	90 day

4.2 Sector Limits

Sector Type	Limit Applied
Money Market Funds (overnight funds) and Instant Access funds	£300m aggregate
Money Market Funds (overnight funds) and Instant Access funds	Maximum holding in any one fund should not represent more than 5% of that funds total asset value
Short Term Investments 7-95 day (deposits, call and notice accounts, property and social bond funds)	£200m aggregate
Medium Term Investments 95-365 day (lending, deposit, call and notice accounts)	£100m aggregate
Lending to Local Authorities	Maximum £250m total
Lending to Local Authorities	Forward deals (deals agreed in advance of the loan issue date) allowed up to a total of 2 years to include both notice and loan term
Deposits with Housing Associations	Maximum £100m total
Deposits with Housing Associations	Forward deals (deals agreed in advance of the loan issue date) allowed up to a total of 3 years to include both notice and loan term
Deposits with Building Societies	Maximum £100m total
Deposits with Building Societies	Forward deals (deals agreed in advance of the loan issue date) allowed up to a total of 18 months to include both notice and loan term

4.3 Specified Investments

Investment Type	Credit Criteria (Fitch Ratings)	Limits (per institution)	Use
DMO Deposit Facility	--	No Limit	In-house
Term deposits: Local Authorities	--	£10m	In-house
Term deposits: Housing Associations	--	£10m	In-house
Nationalised Banks	Short-term F1, Support 1	£20m	In-house and External Manager
Term deposits: UK Banks	Short-term F1, Long-term A, Viability a, Support 3	£20m	In-house and External Manager
Term deposits: Bank Council uses for current account	--	£25m	In-house and External Manager
Term deposits: UK Building Societies	Top five largest societies as reported annually. (To be continually monitored)	£20m	In-house and External Manager
Term deposits: Overseas Banks	Short-term F1+, Long-term AA- Viability aa, Support 1	£20m	In-house and External Manager
Certificates of deposits issued by UK banks and building societies	Short-term F1, Long-term A, Viability a, Support 3	£20m	External Manager
Money Market Funds	AAA	£60m	In-house and External Manager
Ultra Short Dated Bond Funds	AA	£40m	In-house and External Manager
UK Government Gilts, Treasury Bills	--	No Limit	External Manager
Gilt Funds and Bond Funds	Long-term A	No Limit	External Manager

(All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

4.4 Non-Specified Investments

Investment Type	Credit Criteria (Fitch Ratings)	Limits (per institution)	Use
Term deposits: UK banks and building societies with maturities in excess of one year with a maximum of three years allowed for in-house deposits	Short-term F1, Long-term A, Viability a, Support 3	£20m	In-house and External Manager
Fixed Term Deposit with Variable Rates and Variable Maturities	Short-term F1, Long-term A, Viability a+, Support 3	£20m	In-house and External Manager
Certificates of Deposits issued by UK banks and building societies	Short-term F1, Long-term A, Viability a, Support 3	£20m	External Manager
UK Government Gilts with maturities in excess of 1 year	--	£20m	External Manager
Local Government Association Municipal Bond Agency	--	£20m	--
CCLA Property Fund	--	£20m	--
Threadneedle Social Bond Fund	--	£40m	--
Local Authority wholly owned trading company	--	£5m	In-house

Annex 5

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
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- **U.K.**

Annex 6

Treasury Management - Scheme of Delegation

(i) Council

- approval of annual strategy.
- budget consideration and approval.
- approval of the division of responsibilities.

(ii) Cabinet

- scrutinise the proposed annual strategy.
- approval of/amendments to the organisation's adopted clauses, Treasury Management policy statement and Treasury Management practices.
- Receiving and reviewing half year and annual monitoring reports and acting on recommendations.

(iii) Resources and Fire & Rescue Overview and Scrutiny Committee

- Overview and scrutiny of Treasury Management policy, practice, and activity as required.
- Receiving quarterly monitoring reports for overview and scrutiny.

Annex 7

Treasury Management – Role of the Section 151 Officer

The S151 (responsible) officer

- recommending clauses, Treasury Management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular Treasury Management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the Treasury Management function;
- ensuring the adequacy of Treasury Management resources and skills, and the effective division of responsibilities within the Treasury Management function;
- approve the early payment of pension fund contributions
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and Treasury Management, with a long term timeframe.
- Recommending the MRP policy.

Annex 8

ECONOMIC BACKGROUND-

Provided by Link Treasury Advisors

The first half of 2023/24 saw:

- Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

• The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

• The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.

• The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

• As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

• The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in June, July and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

- CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.

- In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. It is clear that some members of the MPC are still concerned about the stickiness of inflation.

- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.

- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.

PWLB RATES 01.04.23 - 29.09.23

HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS

Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).