Greater Manchester Combined Authority

Date: 22 March 2024

Subject: Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2024/25

Report of: Councillor David Molyneux, Portfolio Lead for Resources & Investment and Steve Wilson, GMCA Treasurer

Purpose of Report

To set out the proposed Treasury Management Strategy Statement, Borrowing Limits and Prudential Indicators for 2024/25 to 2026/27 for the Authority. The strategy reflects the 2023-2027 capital programme for Transport, Economic Development, Fire and Rescue, Waste and Police.

Recommendations:

The GMCA is recommended to:

Approve the Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

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Equalities Impact, Carbon and Sustainability Assessment:

N/A

Risk Management

There are considerable risks to the security of the GMCA’s resources if appropriate Treasury Management strategies and policies are not adopted and followed. The GMCA has established good practice in relation to Treasury Management.

Legal Considerations

This report fulfils the statutory requirements to have the necessary prudential indicators to be included in a Treasury Management Strategy.

Financial Consequences – Revenue

Financial revenue consequences are contained within the body of the report.

Financial Consequences – Capital

Financial capital consequences are contained within the body of the report.

Number of attachments to the report:

None

Comments/recommendations from Overview & Scrutiny Committee

N/A

Background Papers

N/A

Tracking/ Process

Does this report relate to a major strategic decision, as set out in the GMCA Constitution

No

Exemption from call in

Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?

N/A

GM Transport Committee

N/A

Overview and Scrutiny Committee

N/A

1. Key Considerations

1.1. Background

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

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

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

1.1.4 Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

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

1.2. Reporting Requirements

1.2.1. Capital Strategy

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

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

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

1.2.2. Treasury Management Reporting

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

a) **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers: -
   i. the capital plans, (including prudential indicators)
   ii. a Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
   iii. the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   iv. an Annual Investment Strategy, (the parameters on how investments are to be managed
b) **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.
c) **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.2.2.2 The above reports are required to be adequately scrutinised before being recommended to the Full Authority. This role is undertaken by the Audit Committee.

1.2.2.3 In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Authority but do require to be adequately scrutinised. This role is undertaken by the Audit Committee.

1.3. Treasury Management Strategy for 2024/25

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

Capital issues

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

Treasury management issues

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

1.3.2 These elements cover the requirements of the Local Government Act 2003, Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

1.4. Training

1.4.1 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.

1.4.2 Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

1.4.3 The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ Members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

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

a) Record attendance at training and ensure action is taken where poor attendance is identified.
b) Prepare tailored learning plans for treasury management officers and committee/ authority members.
c) Require treasury management officers and committee/ Members to undertake self-assessment.
d) Have regular communication with officers and board/ Members, encouraging them to highlight training needs on an ongoing basis.

1.4.5 Treasury training has been undertaken by Members on 17 January 2024 and further training will be arranged as required.

1.4.6 The training needs of treasury management officers are periodically reviewed.

1.4.7 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 team.

1.5. Treasury Management Consultants

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

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

1.5.3 It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

2. The Capital Prudential Indicators 2024/25 – 2026/27

2.1 The Authority’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 are prudent, affordable and sustainable.

2.2 Capital Expenditure and Financing

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

Capital Expenditure	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Transport	215.849	329.408	303.113	396.305	498.757
Economic Development & Regeneration	171.659	229.170	342.961	199.721	146.630
Fire & Rescue Service	9.652	16.535	29.821	16.140	17.205
Waste & Resources Service	9.007	3.793	9.270	36.820	3.188
Police Service	27.223	28.994	37.593	26.553	18.909
Total	**433.390**	**607.900**	**722.758**	**675.539**	**684.689**

2.2.2 Other long-term liabilities - the above financing need excludes other long-term liabilities, such as Private Finance Initiative (PFI) and leasing arrangements that already include borrowing instruments.

2.2.3 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 funding borrowing need.

Financing of capital expenditure	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital Receipts	45.479	129.268	232.345	142.221	146.630
Capital Grants	308.659	251.729	332.008	357.481	418.468
Revenue Contributions	1.343	0.890	0.155	0.090	0.090
External Income	3.319	2.500	2.500	2.500	2.500
Net financing need for the year	**74.590**	**223.513**	**155.750**	**173.247**	**117.001**

2.3 The Authority's Borrowing Need (the Capital Financing Requirement)

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

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

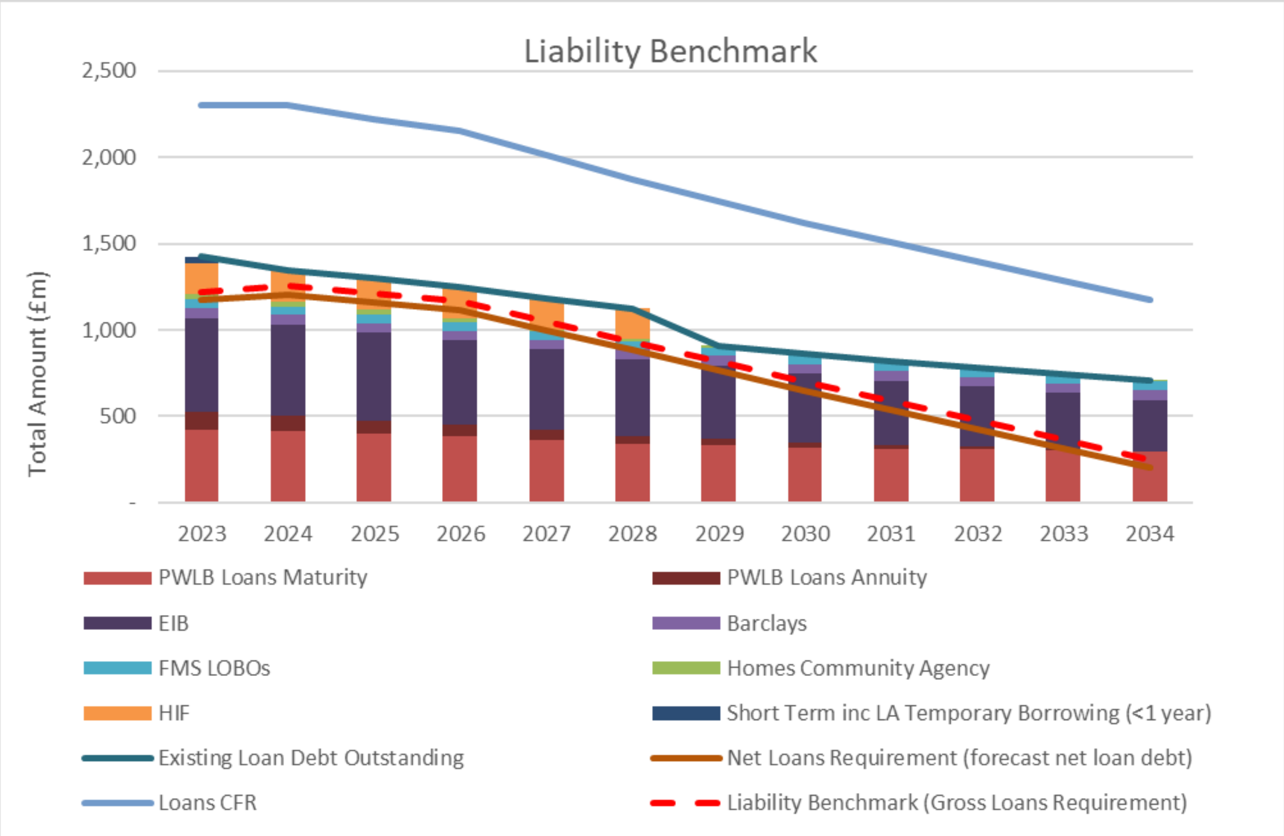
2.3.3 The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility by the PFI, Public-Private Partnership (PPP) lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £36.7m of such schemes within the CFR.

2.3.4 The Authority is asked to approve the CFR projections below:

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital Financing Requirement	2,345.974	2,474.652	2,527.977	2,592.301	2,592.489
Movement in CFR	**(14.265)**	**128.678**	**53.325**	**64.324**	**0.188**
Net financing need for the year (above)	74.590	223.513	155.750	173.247	117.001
Less MRP and other financing movements	(88.855)	(94.835)	(102.425)	(108.923)	(116.813)
Movement in CFR	**(14.265)**	**128.678**	**53.325**	**64.324**	**0.188**

2.4 Liability Benchmark

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



2.4.2 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) **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.

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.

2.5 Minimum Revenue Provision (MRP) Policy Statement

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

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

2.5.3 The MRP policy statement requires full Authority approval in advance of each financial year.

2.5.4 The Authority is recommended to approve the following MRP Statement:

For expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be:

- MRP will be calculated using an Asset Life annuity basis over 50 years

From 1 April 2008 for all unsupported borrowing (including PFI) the MRP policy will be:

- MRP will be calculated on an Asset Life annuity basis. The interest rate applied will be linked to Public Works Loan Board (PWLB) interest rates and the useful life on the asset.

2.5.5 Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25, or in the year after the asset becomes operational.

2.5.6 MRP in respect of assets acquired under Finance Leases will be charged at an amount equal to the principal element of the annual repayment.

2.5.7 For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

2.5.8 Where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of the assets funded by the loan.

3. Borrowing

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

3.2 Current Portfolio Position

3.2.1 The overall treasury management portfolio as at 31 March 2023 and for the position as at 29 February 2024 are shown below for both borrowing and investments.

	Actual 31 March 2023	**Actual 31 March 2023**	**Current 29 February 2024**	**Current 29 February 2024**
	£m	**%**	**£m**	**%**
Treasury Investments				
Banks	9.639	4%	31.980	8%
Local authorities	85.099	34%	229.000	57%
DMADF (HM Treasury	157.758	62%	0	0%
Money Market Funds	0.082	0%	85.200	21%
Certificates of Deposit	0	0%	10.000	2%
TfGM	0	0%	47.110	12%
Total Treasury Investments	**252.578**	**100%**	**403.290**	**100%**
Treasury External Borrowing				

PWLB	522.804	37%	509.294	37%
EIB	546.869	38%	534.413	39%
Market Loans	314.364	22%	314.820	23%
TfGM	40.269	3%	0	0%
Total External Borrowing	**1,424.306**	**100%**	**1,358.527**	**100%**
Net treasury investments/ (borrowing)	**1,171.728**		**955.237**	

3.2.2 The Authority'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.

	2022/23 Actual £m	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
External Debt at 1 April	1,434.818	1,424.306	1,341.638	1,344.134	1,350.625
Expected Change in Debt	(10.512)	(78.990)	6.850	11.190	(63.640)
Other long-term liabilities (OLTL)	36.677	32.999	28.645	23.946	18.685
Expected Change in OLTL	(4.083)	(3.678)	(4.354)	(4.699)	(5.261)
Actual gross debt at 31 March	1,420.223	1,341.638	1,344.134	1,350.625	1,281.724
The Capital Financing Requirement	2,345.974	2,474.652	2,527.977	2,592.301	2,592.489
Under/ (Over) borrowing	925.751	1,133.014	1,183.843	1,241.676	1,310.765

3.2.3 Within the range of prudential indicators there are several key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority 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.

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

3.3 Treasury Indicators: Limits to Borrowing Activity

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

Operational Boundary	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
Debt	2,474.652	2,527.977	2,592.301	2,592.489
Other long-term liabilities	32.999	28.645	23.946	18.685
Total	2,507.651	2,556.622	2,616.247	2,611.174

3.3.2 **The Authorised Limit for external debt**. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Authority. 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.

a) 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 local authority plans, or those of a specific authority, although this power has not yet been exercised.

b) The Authority is asked to approve the following Authorised Limit:

Authorised Limit	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
Debt	2,598.385	2,654.376	2,721.916	2,722.113

Other long-term liabilities	32.999	28.645	23.946	18.685
Total	2,631.384	2,683.021	2,745.862	2,740.798

3.4 Prospects for Interest Rates

3.4.1 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 8 January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

	Mar-24	**Jun-24**	**Sep-24**	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**	**Mar-26**	**Jun-26**	**Sep-26**	**Dec-26**	**Mar-27**
Bank Rate	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.20	3.10	3.10	3.10	3.10	3.20	3.20
5 year PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 year PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 year PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 year PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

a) Link’s central forecast for interest rates was previously updated on 7 November 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 when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).

b) 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.

c) In the upcoming months, Link's 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.

PWLB Rates

3.4.2 The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is c70 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the United Kingdom (UK) economy:

3.4.3 The overall balance of risks to economic growth in the UK is even.

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

a) 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).

b) 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.

c) Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows

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

a) Despite the tightening in Bank Rate to 5.25%, the Bank of England allows inflationary pressures to remain elevated for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

b) The pound weakens because of a lack of confidence in the UK Government’s pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.

c) 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 Forecasts

3.4.4 Link expect the MPC will keep Bank Rate at 5.25% until the second half of 2024, to combat on-going inflationary and wage pressures, even if they have dampened somewhat of late. We do not think that the MPC will increase Bank Rate above 5.25%.

Gilt yields and PWLB rates

3.4.5 The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation continues to fall through 2024.

3.4.6 target borrowing rates are set two years forward (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below:

PWLB Debt	Current borrowing rate as at 8 January 2024	Target borrowing rate now (end of Q4 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	4.53%	3.70%	3.80%
10 years	4.67%	3.90%	3.80%
25 years	5.19%	4.20%	4.20%
50 years	4.97%	4.00%	4.00%

Borrowing advice

3.4.7 Link’s long-term (beyond 10 years) forecast for Bank Rate remains at 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 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 factor in Bank Rate reductions for 2024 and later.

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

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.55%	4.70%
2025/26	3.10%	3.20%
2026/27	3.00%	3.00%
2027/28	3.25%	3.25%
2028/29	3.25%	3.25%
Years 6 to 10	3.25%	3.25%
Years 10+	3.25%	3.25%

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

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

3.5 Borrowing Strategy

3.5.1 The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024.

3.5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

a) if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.

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

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

3.6 Policy on Borrowing in Advance of Need

3.6.1 The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. 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 Authority can ensure the security of such funds.

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

3.7 Rescheduling

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

3.6.2 If rescheduling is to be undertaken, it will be reported to the Audit Committee at the earliest meeting following its action.

3.8 Approved Sources of Long and Short-Term Borrowing

3.8.1

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	●	●

4. Annual Investment Strategy

4.1. Investment Policy – Management Risk

4.1.1 The 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 and service investments, are covered in the Capital Strategy, (a separate report).

4.1.2 The Authority's investment policy has regard to the following:

a) DLUHC's Guidance on Local Government Investments ("the Guidance")
b) CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
c) CIPFA Treasury Management Guidance Notes 2021

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

4.1.4 In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

4.1.5 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:

a) 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.

b) **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 Authority will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

c) **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.

d) This Authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix 4 under the categories of 'specified' and 'non-specified' investments.

   i. **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.

   ii. **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.

e) **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.6.

f) **Transaction limits** are set for each type of investment in 4.2.6.

g) This Authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.3.7).

h) Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.2.9).

i) This Authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

j) All investments will be denominated in **sterling**.

k) As a result of the change in accounting standards for 2023/24 under International Financial Reporting Standard (IFRS) 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the 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 March 2023. More recently, a further extension to the over-ride to 31 March 2025 has been agreed by Government.

4.1.6 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, (see paragraph 4.4). Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness Policy

4.2.1 This Authority applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard & Poor’s. The credit ratings of counterparties are supplemented with the following overlays:

a) “watches” and “outlooks” from credit rating agencies;

b) CDS spreads that may give early warning of changes in credit ratings;

c) sovereign ratings to select counterparties from only the most creditworthy countries.

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

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

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

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

4.2.5 All credit ratings will be monitored weekly. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

a) if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.

b) in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx

European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

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

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

	Colour (and long-term rating where applicable)	Money and/or %limit	Transaction limit	Time limit
Banks	Yellow	£25m / 100 %	£25m	5yrs
Banks	Purple	£25m / 100%	£25m	2 yrs
Banks	Orange	£25m / 100%	£25m	1 yr
Banks – part nationalised	Blue	£25m / 100%	£25m	1 yr
Banks	Red	£25m / 100%	£25m	6 mths
Banks	Green	£25m / 100%	£25m	100 days
Banks	No Colour	Not to be used		
Limit 3 category – Authority's banker	Any or no colour	£50m / 100%	£25m	1 day
Other institutions limit		£25m / 100%	£25m	Liquid
DMADF	UK sovereign rating	unlimited	Unlimited	6 months
Local authorities	n/a	£25m / 100%	£25m	1 yr

Creditworthiness

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

CDS prices

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

Limits

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

a) **Non-specified treasury management investment limit.** The Authority has determined that it will not invest for periods longer than 12 months.

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

4.3 Investment Strategy

4.3.1 **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. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

4.3.2 Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow (amend as appropriate), where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations.

4.3.3 The current forecast shown in paragraph 3.4, includes a forecast for Bank Rate to have peaked at 5.25%.

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

2023/24 (residual)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%
2027/28	3.25%
Years 6 – 10	3.25%
Years 10+	3.25%

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

4.3.6 For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits, (overnight to 100 days) in order to benefit from the compounding of interest.

Total principal funds invested for greater than 365 days

4.3.7 The Authority does not place treasury investments for longer than 365 days.

4.4 Investment Performance / Risk Benchmarking

4.4.1 This Authority will use an investment benchmark to assess the investment performance.

4.5 End of Year Investment Report

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

4.6 Delegation to the Treasurer to Safeguard the Authority’s Position

4.6.1 It may be prudent, depending on circumstances, to temporarily increase the limits shown in paragraph 4.2.6 if it becomes increasingly difficult for officers to place funds. If this is the case officers will seek approval from the Treasurer for such an increase and approval may be granted at the Treasurer’s discretion. Any increase in the limits will be reported to Members of the Audit Committee as part of the normal treasury management reporting process.

5.0 Recommendations

5.1 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy Contact Officers

Appendix 1 The Capital Prudential and Treasury Indicators 2024/25 – 2026/24

The Authority'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.

Capital Expenditure

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Transport	215.849	329.408	303.113	396.305	498.757
Economic Development & Regeneration	171.659	229.170	342.961	199.721	146.630
Fire & Rescue Service	9.652	16.535	29.821	16.140	17.205
Waste & Resources Service	9.007	3.793	9.270	36.820	3.188
Police Service	27.223	28.994	37.593	26.553	18.909
Total	**433.390**	**607.900**	**722.758**	**675.539**	**684.689**

Affordability Prudential Indicators

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

Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

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

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Ratio of Financing Costs to Net Revenue Stream	15.6%	16.8%	15.4%	15.5%	15.2%

Maturity Structure of Borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Authority's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

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

	Lower	**Upper**
Under 12 months	0%	20%
12 months to 2 years	0%	10%
2 years to 5 years	0%	30%
5 years to 10 years	0%	60%
10 years to 20 years	0%	80%
20 years to 30 years	0%	10%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%

Appendix 2 Interest Rate Forecasts 2023 – 2026

Link Group Interest Rate View 8 January 2024

	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
Bank Rate	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 year PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 year PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 year PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 year PWLB	53.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Appendix 3 Economic Background

1. The third quarter of 2023/24 saw:

   a) A 0.3% m/m decline in real GDP in October 2023, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30 September 2023, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;

   b) A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September 2023 to 7.2% in October 2023 , although the Office for National Statistics (ONS) “experimental” rate of unemployment has remained low at 4.2%;

   c) CPI inflation continuing on its downward trajectory, from 8.7% in April 2023 to 4.6% in October 2023, then again to 3.9% in November 2023;

   d) Core CPI inflation decreasing from April 2023 and May 2023’s 31 years’ high of 7.1% to 5.1% in November 2023, the lowest rate since January 2022;

   e) The Bank of England holding Bank Rate at 5.25% in November 2023 and December 2023;

   f) A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

   g) The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October 2023 fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October 2023 may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.

   h) However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November 2023 to 51.7 in December 2023, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the Growth from Knowledge (GfK) measure of consumer confidence in December 2023, from

-24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.

i) The 0.3% m/m fall in retail sales volumes in October 2023 means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.

j) Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with the Halifax house price index recently pointing to a 1.7% year on year increase whilst Nationwide's December 2023 data pointed to a -1.8% year on year decrease. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.

k) Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.

l) The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October 2023 will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October 2023 much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September 2023 to 7.2% in October 2023. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December 2023, as predicted by the Bank in November 2023.

m) The fall in wage growth occurred despite labour demand being stronger in October 2023 than expected. The three-month change in employment eased only a touch from +52,000 in September 2023 to +50,000 in October 2023.

But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October 2023. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October 2023. In the three months to November 2023, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October 2023 to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.

n) CPI inflation fell from 6.7% in September 2023 to 4.6% in October 2023, and then again to 3.9% in November 2023. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November 2023 was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November 2023 Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.

o) The Bank of England sprung no surprises with its December 2023 monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.

p) Looking ahead, Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February 2024. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.

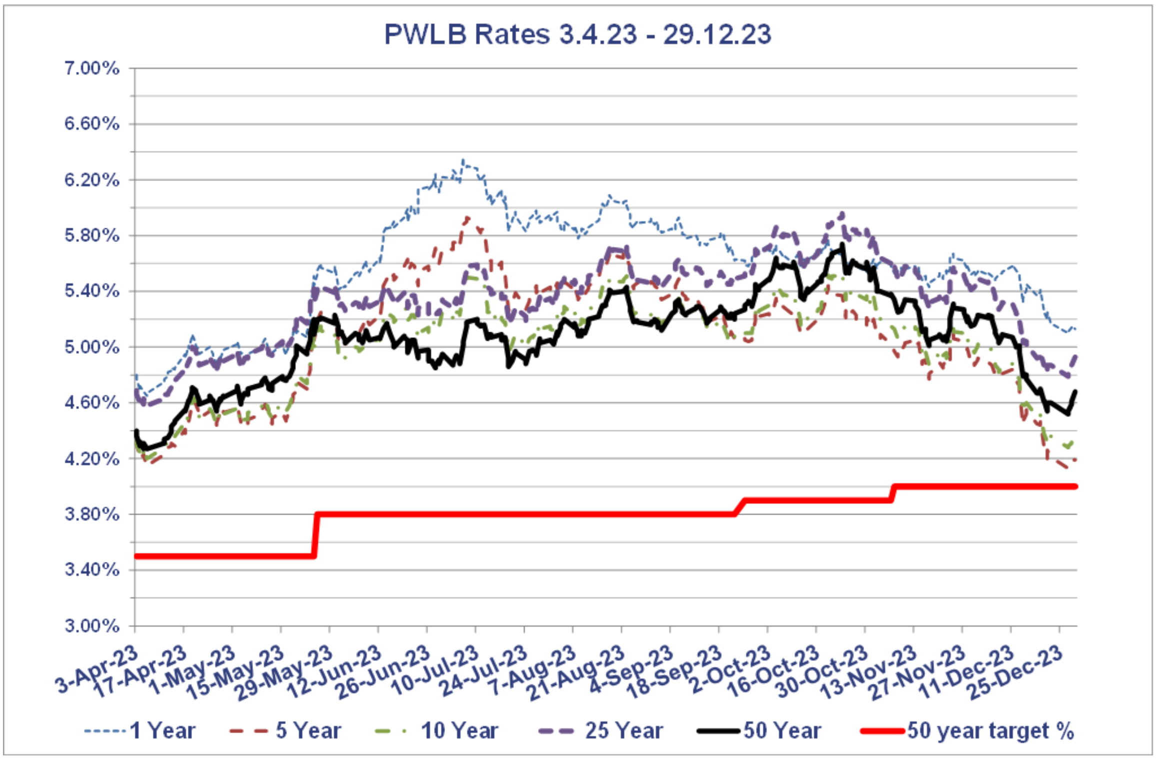
q) The fall in UK market interest rate expectations in December 2023 has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January 2024, with further declines likely if the falling inflation story is maintained.

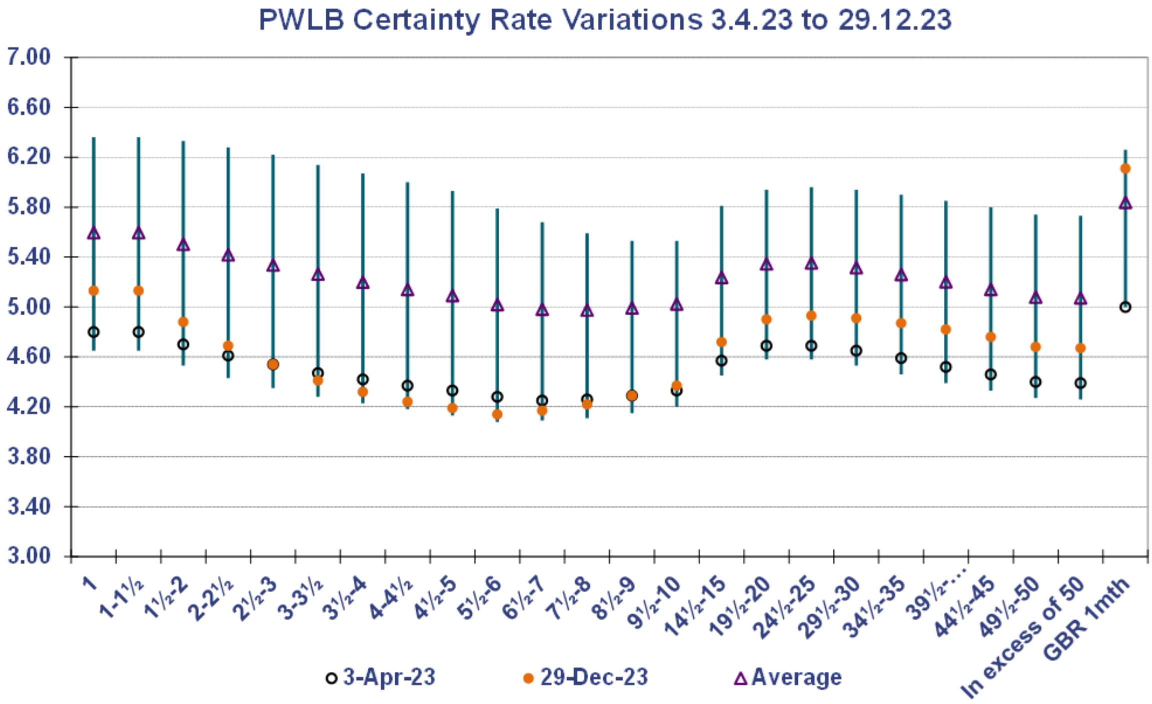
r) Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November 2023 to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.

s) The further fall in 10-year real gilt yields in December 2023 has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December 2023, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

2 In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.

PWLB RATES 1 April 2023 – 29 December 2023





HIGH/LOW/AVERAGE PWLB RATES FOR 1 April 2023 – 29 December 2023

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%

Date	6 April 2023	27 December 2023	6 April 2023	6 April 2023	5 April 2023
High	6.36%	5.93%	5.53%	5.396%	5.74%
Date	6 July 2023	7 July 2023	23 October 2023	23 October 2023	23 October 2023
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

MPC Meetings 2 November 2023 and 14 December 2023

3 On 2 November 2023, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14 December 2023 reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.

4 Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.

5 In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

Appendix 4 Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

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

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the specified investment criteria.

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

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

	Minimum credit criteria / colour band	Max % of total investments / £ limit per institution	Max. maturity period
Debt Management Account Deposit Facility (DMADF) – UK Government	yellow	100%/ unlimited	6 months (max. is set by the Debt Management Office (DMO)
UK Government gilts	yellow	Not used	5 years
UK Government Treasury bills	yellow	Not used	6 months
Bonds issued by multilateral development banks	yellow	Not used	5 years
Money Market Funds	AAA	100%/ £25m	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	Not used	Liquid

Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	Not used	Liquid
Local authorities	yellow	100%/ £25m	5 years
Term deposits with housing associations	Blue Orange Red Green No Colour	Not used	12 months 12 months 6 months 100 days Not for use
Term deposits with banks and building societies	Blue Orange Red Green No Colour	100%/ £25m	12 months 12 months 6 months 100 days Not for use
CDs or corporate bonds with banks and building societies	Blue Orange Red Green No Colour	100%/ £25m	12 months 12 months 6 months 100 days Not for use
Gilt funds	UK sovereign rating	Not used	

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

Environmental, social and governance (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 Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.

Appendix 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 and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

Australia

Denmark

Germany

Netherlands

Norway

Singapore

Sweden

Switzerland

AA+

Canada

Finland

U.S.A.

AA

Abu Dhabi (UAE)

AA-

Belgium

France

Qatar

U.K.

Appendix 6 Treasury Management Scheme of Delegation

Full Authority

a) receiving and reviewing reports on treasury management policies, practices and activities;

b) approval of annual strategy.

Audit Committee

a) approval of/amendments to the organisation’s adopted clauses, treasury management policy statement and treasury management practices;

b) approval of the division of responsibilities;

c) receiving and reviewing regular monitoring reports and acting on recommendations;

Treasurer

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

Appendix 7 The Treasury Management Role of the S151 Officer

The S151 (responsible) officer

a) recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;

b) submitting regular treasury management policy reports;

c) receiving and reviewing management information reports;

d) reviewing the performance of the treasury management function;

e) ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function; and

f) ensuring the adequacy of internal audit, and liaising with external audit.