Report to:	POLICY AND ORGANISATION BOARD
Meeting date:	13th March 2024
Title:	TREASURY MANAGEMENT STRATEGY & MRP POLICY 2024/25
Originator:	BOROUGH TREASURER
Status	FOR DECISION

Purpose

This report outlines the Council's policy for charging unfinanced capital expenditure to revenue (MRP) together with the expected treasury operations for this period. It fulfils a key legislative requirement.

Recommendations

Council is recommended to approve:

- Minimum Revenue Provision Policy, as identified in 2.1
- The Treasury Management Strategy, as identified in 2.2

1.0 BACKGROUND

1.1 Overview

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

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

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

1.2 Reporting requirements

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

1.2.2 **Minimum Revenue Provision and Treasury Management Strategy** (this report) - which covers:

- a Minimum Revenue Provision Policy (how residual capital expenditure i.e. capital expenditure financed by debt - is charged to revenue over time);
- the Treasury Management Strategy (how the treasury management investments and borrowings are to be organised) including treasury indicators;

1.2.3 **A Mid Year Treasury Management Report** – this will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy and investment strategies are meeting their objectives or whether any policies require revision

1.2.4 **An Annual Treasury Report** – this provides details of a selection of actual prudential, investment and treasury indicators and actual treasury and investment operations compared to the estimates within the strategy.

The latter two reports are combined and jointly and normally reported in September.

1.3 Annual Minimum Revenue Provision (MRP) Statement

1.3.1 The Council's policy for calculating the annual amount charged to the revenue budget to repay capital expenditure financed by debt is set out in para 2.1.

1.4 Treasury Management Strategy for 2024/25

1.4.1 The strategy for 2024/25 (set out in section 2.2) includes the following areas:

- Economic Outlook and prospects for interest rates (para 2.2.1)
- Borrowing strategy (para 2.2.2)
- Policy on borrowing in advance of need (para 2.2.3)
- Debt rescheduling (para 2.2.4)
- Investment strategy (Treasury Management Investments) (para 2.2.5)
- Treasury indicators which limit the treasury risk and activities of the Council (para 2.2.6)
- Other Items (para 2.2.7)

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

2.0 REPORT

2.1 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

2.1.1 Background

Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP).

The Local Government Act 2003 requires the Council to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year.

There is no requirement on the HRA to make a minimum revenue provision.

2.1.2 Policy Statement

- For unsupported capital expenditure MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an interest rate by reference to the relevant PWLB rate at 31st March, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years.

- For assets acquired by leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

- Where former operating leases have been brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

- No MRP will be charged in respect of assets held within the Housing Revenue Account but depreciation on those assets will be charged instead in line with regulations.

- Capital expenditure incurred during 2024/25 will not be subject to a MRP charge until 2025/26 or later

- The 2024/25 budget inclues an estimated MRP provision of £706,000

2.2 TREASURY MANAGEMENT STRATEGY

2.2.1 Economic Outlook and prospects for interest rates

Economic background: *(commentary provided by Arlingclose Ltd)*

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

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023. In December 2023, members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

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

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

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

The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth has remained strong, but has showed some signs of easing; regular pay (excluding bonuses) was up 7.3% over the period and total pay (including bonuses) up 7.2%. Adjusted for inflation, regular pay was 1.4% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve appears now to have concluded the hiking cycle. It is likely this level represents the peak in US rates following a more dovish meeting outcome in December 2023. US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1%

reading for Q2. But the impact from higher rates has started to feed into economic activity and growth will weaken in 2024. Annual CPI inflation was 3.1% in November.

Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.4% in November 2023. Economic growth has been weak and GDP contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has increased rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

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

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

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

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

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

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

Interest rate forecast (February 2024): *Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by late 2025.*

Long-term gilt yields have moved higher since the start of the year, largely due to strong US data. Arlingclose expects long-term gilt yields to volatile around a

relatively narrow range, reflecting the likelihoodfor monetary loosening in the Eurozone, UK and US.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 4.81%, and that new long-term loans will be borrowed at an average rate of 4.86%.

Interest rate forecasts (February 2024) :

	Bank Rate %	**PWLB Borrowing Rates % (including certainty rate adjustment)**			
		5 year	**10 year**	**20 year**	**50 year**
Mar-24	5.25	4.55	4.60	5.20	4.70
Jun-24	5.25	4.50	4.60	5.10	4.70
Sep-24	5.00	4.45	4.60	5.05	4.70
Dec-24	4.75	4.40	4.55	5.05	4.70
Mar-25	4.25	4.30	4.50	5.00	4.70
Jun-25	3.75	4.20	4.45	5.00	4.70
Sep-25	3.25	4.10	4.45	5.00	4.70
Dec-25	3.00	4.10	4.45	5.00	4.70
Mar-26	3.00	4.10	4.45	5.00	4.75
Jun-26	3.00	4.10	4.45	5.00	4.75
Sep-26	3.00	4.15	4.50	5.05	4.75
Dec-26	3.00	4.20	4.55	5.05	4.75
Average rate	3.88	4.26	4.51	5.04	4.71

2.2.2 Borrowing Strategy

The Council expects to hold £60 million of loans at 31st March 2024, an increase of £2 million from the previous year, as part of its strategy for funding previous years' capital programmes. The value of loans are expected to increase to £74 million by 31st March 2027 as a result of new borrowing and reduction in available existing resources which internally fund the planned capital programme.

Objectives: The Council's primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium term to either use internal resources or to borrow short-term loans instead.

By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully financed with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The table below shows that the Council expects to comply with this recommendation during 2024/25 as well as the estimated balance of internal resources available to the Council to reduce it's laons borrowing requireement.

Portfolio Position	2022/23 Actual £'000	2023/24 Revised £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
External Debt	57,650	59,650	73,650	73,650	74,650
Other Long Term Liabilities	0	0	500	500	500
Gross Debt at 31 March	**57,650**	**59,650**	**74,150**	**74,150**	**75,150**
CFR	**81,769**	**81,502**	**85,497**	**84,836**	**84,146**
Under / (over) borrowing	**24,119**	**21,852**	**11,347**	**10,686**	**8,996**

The benefits of internal and short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

At 31st March 2024 the Council expects to be underborrowed by £21.9 million, this will reduce to around £9.0 million by 31st March 2027.

The Council will undertake a 'cost of carry' and breakeven analysis to determine whether to borrow additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans. The Council will consider borrowing any long-term loans from other robust sources including banks, pensions and other local authorities.

In addition, the Council may borrow short-term loans (normally for up to one year) to cover unexpected cash flow shortages.

The approved sources of long term and short term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Banks or building societies authorised to operate in the UK
- Money Market Loans
- Any other UK public body e.g. other Local Authorities
- UK public and private sector pension funds

- Internal funds – the cash held in internal funds can be used short term to fund capital expenditure or the repayment of debt, thus delaying the need to borrow externally
- UK Municipal Bonds Agency

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

- leasing
- hire purchase
- sale and leaseback

Liability benchmark : To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing.

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

The Council is following this borrowing strategy.

Liability Benchmark	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
Capital Financing Requirement	85,497.0	84,836.0	84,146.0
Less: Balance Sheet Resources	(16,398.0)	(14,038.0)	(14,168.0)
Net Loans Requirement	69,099.0	70,798.0	69,978.0
Plus Liquidity Allowance	4,000.0	4,000.0	4,000.0
Liability Benchmark	73,099.0	74,798.0	73,978.0

2.2.3 Policy on borrowing in advance of need

The Council may from time to time borrow in advance of need, providing this does not exceed the authorised limit for borrowing which is £89.3 million for 2024/25 and where this is expected to provide the best long term value for money and the Council can ensure the security of such funds. The Borough Treasurer may do this under delegated powers where, for instance, a sharp rise or fall in interest rates is expected meaning borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Borough Treasurer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.
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 is expected to be within forward approved Capital Financing Requirement estimates. Exceptionally, should a new Capital Invesment opportunity arise in the year where it would be appropriate to finance through borrowing and where it could be demonstrated that borrowing in advance of need would provide value for money the Council may borrow beyond its forward approved Capital Financing Requirement estimates.

2.2.4 Debt rescheduling

The PWLB allows authorities to repay loans before they mature and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates mean that more favourable debt rescheduling opportunities should arise than in previous years.

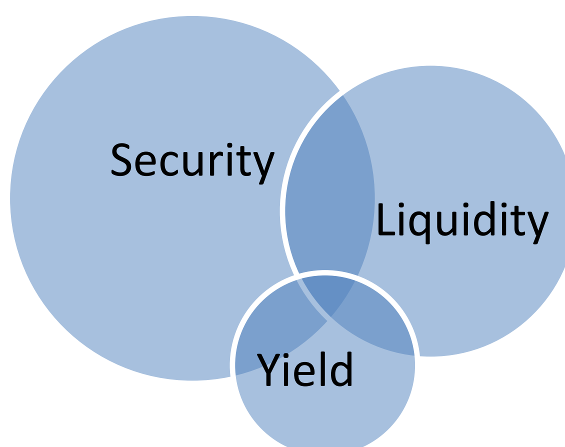
Any rescheduling undertaken will be reported to Policy and Organisation Board.

2.2.5 Treasury Investment Strategy

The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held.

As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. During 2023/24, the Council's treasury investment balances have averaged £7 million, this is expected to broadly remain at a similar level during 2024/25.

Objectives: The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of retrun or yield.



The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the

risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the 3 month LIBID rate.

Approved Counterparties: The Council may invest surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty), the time limits subject to the sector limits shown.

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	5 years	£3m	Unlimited
Secured investments *	5 years	£3m	Unlimited
Banks (unsecured) *	13 months	£2m	Unlimited
Building societies (unsecured) *	13 months	£2m	£6m
Registered providers (unsecured) *	5 years	£2m	£6m
Money market funds *	n/a	£3m	Unlimited
Strategic pooled funds	Strategic pooled investment fund £2m per fund Local Authority Property Fund mamimum £4m. Subject to an overall maximum Investment of £6m		
Other investments *	5 years	£2m	£6m

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

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £3 million per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

The Council has determined that it will only use approved counterparties from the UK or a foreign country with a sovereign rating of AA or higher for direct investment.
No country limit will apply to investments in UK banks or building society. It is recommended that an aggregate limit for Investments outside the UK be applied of £8million and that in order to minimise the sytemic credit risk of investments in any region it is recommended that a £4million limit be applied to the following geographical areas where investments can be made in foreign countries.

- Asia & Australia

- Americas
- Eurozone
- Continental Europe outside the Eurozone

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

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

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

Registered Providers (unsecured): Loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing and registered social landlords, formerly known as Housing Associations. These bodies are regulated by the Regulator of Social Housing (in England) and, as providers of public services, they retain the likelihood of receiving government support if needed.

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

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

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

Operational bank accounts: The Council will incur operational exposures, through operation of it's current account with National Westminster Bank (credit rating above A-). These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £250,000 which may for operational reasons be occassionally exceeded.

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

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade so that it may fall below the approved rating criteria, then only investments that can be withdrawn (on the next working day) will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

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

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

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the

surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

2.2.6 Treasury Management Indicators

2.2.6.1 Interest Rate Exposures

This indicator measures the Council's exposure to interest rate risk. The limits on one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate exposures	**2024/25**
	£'000
Limits on one-year revenue impact of a 1% rise in interest rates	(9)
Limits on one-year revenue impact of a 1% fall in interest rates	9

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

2.2.6.2 Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk i.e the risk of replacement loans being unavailable. The upper and lower limits on the maturity structure of borrowing will be:

	2024/25	**2024/25**
	Lower	**Upper**
Refinancing risk indicator		
Under 12 months	0%	25%
12 months to 2 years	0%	25%
2 years to 5 years	0%	25%
5 years to 10 years	0%	20%
10 years to 30 years	0%	20%
30 years to 50 years	30%	50%

(NB Time periods start on the first day of each financial year)

2.2.6.3 Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the year end will be:

Maximum principal sums invested >365 days	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
Principal sums invested > 364 days	5.0	5.0	5.0

2.2.7 Other Items

2.2.7.1 Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

2.2.7.2 Investment Training

The training needs of the officers involved on treasury management are identified through the annual personal review process, and additionally when the responsibilities of individual members of staff change. Staff attend relevant training courses, seminars and conferences.

2.2.7.3 Treasury management consultants

The Council have appointed Arlingclose Limited as its external treasury management advisors and they provide a range of services to the Council including:

- Investments advice
- Borrowing advice
- Technical support on treasury matters and capital finance issues

- Economic and interest rate analysis
- Training and briefing sessions

The contract with Arlinclose commenced July 2016 for an initial period of 3 years with an option to extend for a further year. The option to extend has been taken. A further series of contract extensions have subsequently been agreed. A joint procurement with Portsmouth City and the Isle of Wight Council has fallen through and the Council intends to tender for a new 3 year (with the option to extend the term by a further 2 years) Treasury Management Consultancy contract commencing in 2024.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

2.2.7.4 Policy on Apportioning Interest to the HRA

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools the later included £57million borrowed on the 28th March 2012 to make a payment to the Government under the HRA Self Financing scheme. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/credited to the respective revenue account. Differences between the value of the HRA loans and the HRA's underlying need to borrow will be charged an interest from the General Fund equivalent to the General Funds average interest on its borrowing. HRA balance sheet resources available for investment will result in a notional cash balance which will receive the Council's average interest rate on investments.

2.2.7.5 Markets in Financial Instruments Directive:

The Council initially opted up to professional client status with it's providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. With the recent increase in borrowing costs together with the requirement to maintain at least £10 million investment balances to maintain MIFID status, the Council has decided not maintained investment balances at a artificially high level for the purposes of maintaining it's MIFID status during 2023/24. The S151 Officer will keep this decision under review.

2.2.7.6 Financial Implications

The budget for investment income in 2024/25 is £389,300, based on an average investment portfolio of £8.1 million at an interest rate of 4.81%. The budget for debt interest paid in 2024/25 is £2,168,030, based on an average debt portfolio of £60,255,500 at an average interest rate of 3.60%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

3.0 CONCLUSION

The effect of the proposals set out in this report is to allow the Council to effectively and efficiently manage cash balances in line with the relevant CIPFA and MHCLG guidance. The low risk nature of the Council's current policy is consistent with the current economic climate.

Financial Services comments	As set out in the report
Legal Services comments	This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Treasury Management Code of Practice.
Equality and Diversity	N/A
Climate Change implications	No direct impact
Crime and Disorder	N/A
Service Improvement Plan Implications	N/A
Corporate Plan:	N/A
Risk Assessment:	As contained in the report
Background papers:	
Appendics	N/A
Report Author/Lead OfficerLead Officer	Keith Price