

Audit Committee

Date: 19 March 2025

Subject: Treasury Management Strategy Statement, Minimum Revenue Provision
Policy Statement and Annual Investment Strategy 2025/26

Report of: Steve Wilson, Group Chief Financial Officer

Purpose of Report

To set out the proposed Treasury Management Strategy Statement, Borrowing Limits and Prudential Indicators for 2025/26 to 2027/28 for the Authority. The strategy reflects the 2024-2028 capital programme for Transport, Economic Development, Fire and Rescue, Waste and Police.

Recommendations:

The Audit Committee is asked to note and comment on the contents of the report and recommend its approval by the GMCA.

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Report authors must identify which paragraph relating to the following issues:

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 2025/26 covers two main areas:

Capital issues

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

Treasury management issues

- the current treasury position
- treasury indicators which limit the treasury risk and activities of the 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), now The Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, DLUHC (Now MHCLG) 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 Mitsubishi UFJ Financial Group (MUFG), formally known as Link Group 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 2025/26 – 2027/28

- 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	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Transport	344.970	350.258	262.620	563.198	45.085
Economic Development & Regeneration	182.790	251.636	270.355	175.617	123.935
Fire & Rescue Service	9.937	20.334	39.695	27.586	4.783
Waste & Resources Service	3.367	9.379	25.617	30.728	0.00
Police Service	25.254	33.346	38.030	30.172	17.761
Total	566.318	664.953	636.317	827.301	191.564

- 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	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Capital Receipts	91.772	107.380	128.770	112.906	61.951
Capital Grants	269.525	421.047	373.545	566.030	79.987
Revenue Contributions	5.094	0.155	0.090	0.090	0.090
External Income	35.985	8.997	7.266	2.750	2.500
Net financing need for the year	163.942	127.374	126.646	145.525	47.036

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 £28.6m of such schemes within the CFR.

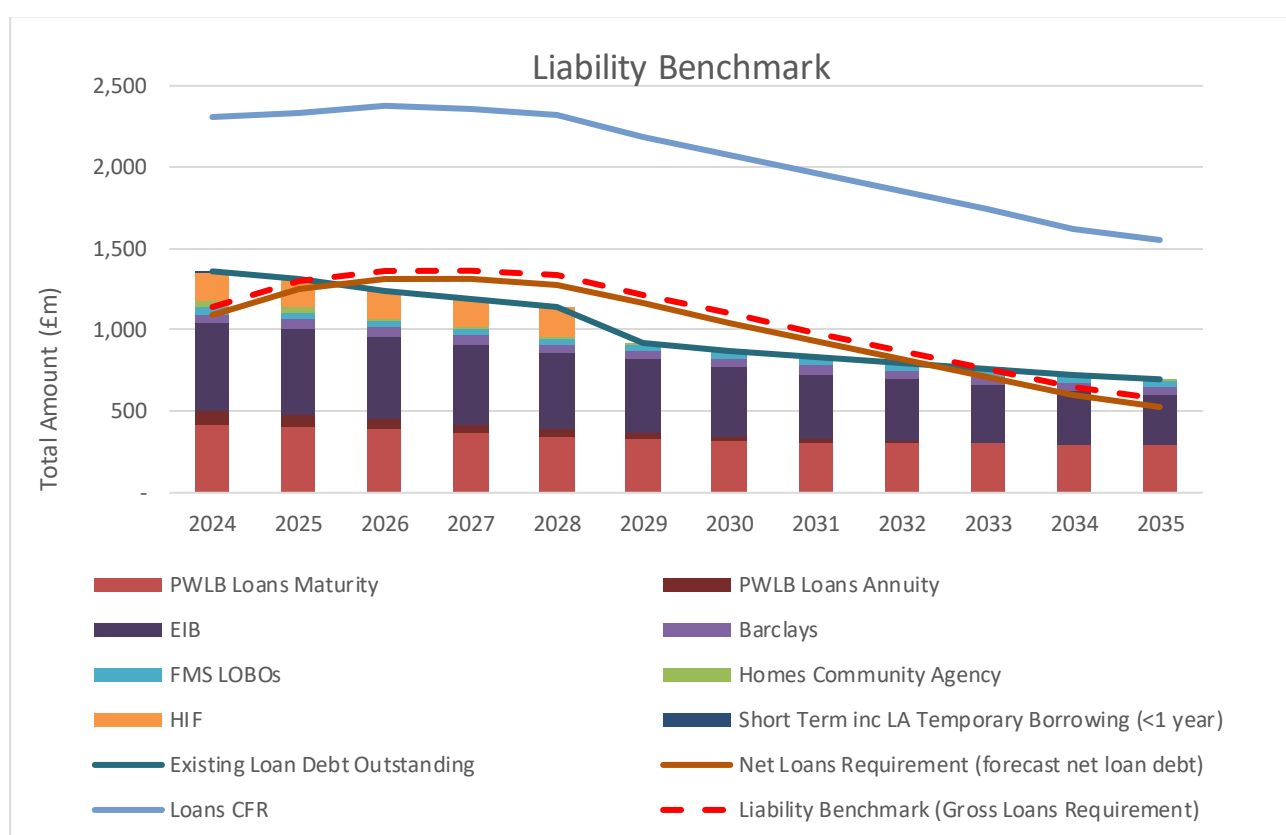
2.3.4 The Authority is asked to approve the CFR projections below:

	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Capital Financing Requirement	2,345.975	2,447.203	2,471.748	2,506.203	2,434.907

Movement in CFR	69.081	32.149	24.545	34.455	(71.297)
Net financing need for the year (above)	163.942	127.374	126.646	145.525	47.036
Less MRP and other financing movements	(94.861)	(95.225)	(102.101)	(111.070)	(118.333)
Movement in CFR	69.081	32.149	24.545	34.455	(71.297)

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:

- Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
- 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.
- 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 2024/25 will not be subject to an MRP charge until 2025/26, 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 2024 and for the position as at 31 January 2025 are shown below for both borrowing and investments.

	Actual 31 March 2024	Actual 31 March 2024	Current 31 January 2025	Current 31 January 2025
	£m	%	£m	%
Treasury Investments				
Banks	16.605	6%	29.930	8%
Local authorities	140.000	53%	80.000	20%
DMADF (HM Treasury	102.760	39%	87.630	22%
Money Market Funds	0	0%	100.080	25%
Certificates of Deposit	5.00	2%	0.	0%
TfGM	0	0%	101.434	25%
Total Treasury Investments	264.365	100%	399.074	100%
Treasury External Borrowing				
PWLB	508.814	37%	484.514	37%
EIB	534.413	39%	515.160	40%
Market Loans	314.820	23%	304.820	23%
TfGM	5.137	1%	0	0%
Total External Borrowing	1,363.184	100%	1,304.494	100%
Net treasury investments/ (borrowing)	1,098.819		905.420	

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.

	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
External Debt at 1 April	1,415.396	1,363.184	1,398.908	1,385.439	1,478.379
Expected Change in Debt	(54.363)	35.724	(13.469)	92.940	1.070
Other long-term liabilities (OLTL)	36.677	36.676	32.998	28.858	24.160
Expected Change in OLTL	(3.678)	(3.678)	(4.140)	(4.698)	(5.261)
Actual gross debt at 31 March	1,394.032	1,431.906	1,414.297	1,502.539	1,498.348
The Capital Financing Requirement	2,415.054	2,447.203	2,471.748	2,506.203	2,434.907
Under/ (Over) borrowing	1,021.022	1,015.297	1,057.452	1,003.665	936.559

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

3.2.4 The Group Chief Financial Officer 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	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Debt	2,574.458	2,600.279	2,636.526	2,561.522
Other long-term liabilities	32.784	28.644	23.946	18.685
Total	2,607.242	2,628.923	2,660.472	2,580.207

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	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Debt	2,691.923	2,718.923	2,756.824	2,678.397
Other long-term liabilities	32.784	28.644	23.946	18.685
Total	2,724.707	2,747.567	2,780.770	2,697.082

3.4 Prospects for Interest Rates

3.4.1 The Authority has appointed Mitsubishi UFJ Financial Group (MUFG), formally known as Link Group as its treasury advisor and part of their service is to assist

the Authority to formulate a view on interest rates. MUFG provided the following forecasts on 11 November 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Bank Rate	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 year PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 year PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 year PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 year PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

- a) Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, MUFG have significantly revised our central forecasts for the first time since May. In summary, MUFG's Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst the PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.
- b) If we reflect on the 30 October Budget, MUFG's central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be

2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

- c) The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.
- d) There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.
- e) MUFG's central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. They forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).
- f) Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.
- g) Regarding MUFG's PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will

only agree to digest if the interest rates paid provide sufficient reward for that scenario.

- h) So far, we have made little mention of the US President election. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.
- i) MUFG's revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012.

Gilt Yields and PWLB Rates

- 3.4.2 The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are to the upsides. MUFG's target borrowing rates are set two years forward (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

PWLB Debt	Current borrowing rate as at 11 November 2024	Target borrowing rate now (end of Q3 2026)	Target borrowing rate previous (end of Q3 2026)
5 years	5.02%	4.30%	3.90%
10 years	5.23%	4.50%	4.10%
25 years	5.66%	4.90%	4.40%
50 years	5.42%	4.70%	4.20%

Borrowing advice

- 3.4.3 MUFG's long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

3.4.4 MUFG'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
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 to 10	3.50%	3.25%
Years 10+	3.50%	3.50%

3.4.5 MUFG will continue to monitor economic and market developments as they unfold. Typically, they formally review the forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider the position on an ad hoc basis as required.

3.4.6 MUFG'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. MUFG continue to monitor events and will update our forecasts as and when appropriate.

3.5 Borrowing Strategy

3.5.1 The Authority 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, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.

3.5.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Group Chief Financial Officer

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.

3.7 Approved Sources of Long and Short-Term Borrowing

3.7.1 On Balance Sheet	Fixed	Variable
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●

Pension Funds	●	●
Insurance Companies	●	●
UK National Wealth Fund	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock Issues	●	●
Local Temporary	●	●
Local Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance Leases	●	●

4. Annual Investment Strategy

4.1. Investment Policy – Management Risk

4.1.1 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) MHCLG’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 MHCLG 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 override 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 MUFG 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 MUFG 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 MUFG 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 MUFG. 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	£30m/100%	£30m	5 yrs
Banks	Purple	£30m/100%	£30m	2 yrs
Banks	Orange	£30m/100%	£30m	1 yr
Banks – part nationalised	Blue	£30m/100%	£30m	1 yr
Banks	Red	£30m/100%	£30m	6 months
Banks	Green	£30m/100%	£30m	100 days
Banks	No Colour	Not to be used		
Limit 3 category – Authority's banker	Any or no colour	£50m/100%	£50m	1 day
Other institutions limit		£50m/100%	£50m	Liquid
DMADF	UK sovereign rating	unlimited	Unlimited	6 months
Local authorities	n/a	£30m/100%	£30m	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. MUFG monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its MUFG -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 the risks are relatively balanced between Bank Rate staying higher for longer, if inflation picks up markedly through 2025 post the 30 October 2024 Budget, or it may be cut quicker than expected if the economy stagnates. The economy only grew 0.1% in Q3 2024, but the CPI measure of inflation is now markedly above the 2% target rate set by the Bank of England's Monetary Policy Committee two to three years forward.

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

Investment returns expectations.

4.3.3 The current forecast shown in paragraph 3.4, includes a forecast for Bank Rate to fall to a low of 3.5%.

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: -

Average earnings in each year	Now	Previously
2024/25 (residual)	4.60%	4.25%
2025/26	4.10%	3.35%
2026/27	3.70%	3.10%
2027/28	3.50%	3.25%
2028/29	3.50%	3.25%
Years 6 – 10	3.50%	3.25%
Years 10+	3.50%	3.50%

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 Group Chief Financial Officer 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 Group Chief Financial Officer for such an increase and approval may be granted at the Group Chief Financial Officer'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. IFRS 16

5.1.1 As Members are aware the Authority will be implementing International Financial Reporting Standard (IFRS) 16 with an effective date of 1 April 2024. This standard changes how leases are treated by removing the distinction between operating and finance leases, instead creates assets where there is a right to use and liabilities for the outstanding lease payments. This introduction of right of use assets and associated liabilities will increase the Authority's Capital Financing Requirement and the authorised debt limits. At the time of writing, the valuation of those leases is not yet complete, and a further report will be brought to Members with revised figures once this work has been finished.

Appendix 1 The Capital Prudential and Treasury Indicators 2025/26 – 2027/28

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

	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Transport	344.970	350.258	262.620	563.198	45.085
Economic Development & Regeneration	182.790	251.636	270.355	175.617	123.935
Fire & Rescue Service	9.937	20.334	39.695	27.586	4.783
Waste & Resources Service	3.367	9.379	25.617	30.728	0.00
Police Service	25.254	33.346	38.030	30.172	17.761
Total	566.318	664.953	636.317	827.301	191.564

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.

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Ratio of Financing Costs to Net Revenue Stream	8.3%	7.8%	8.9%	8.3%	12.1%

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 2024 – 2027

MUFG Group Interest Rate View 11 November 2024

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Bank Rate	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 year PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 year PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 year PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 year PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

PWLB forecasts are based on PWLB certainty rates

Appendix 3 Economic Background

1. The third quarter of 2024 (July to September) saw:
 - a) GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
 - b) A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
 - c) CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
 - d) Core CPI inflation increasing from 3.3% in July to 3.6% in August;
 - e) The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
 - f) 10-year gilt yields falling to 4.0% in September.
 - g) Over the aforementioned period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession. However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.
 - h) If we reflect on the 30 October Budget, our central case is that those policy announcements will prove to be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be elevated at 2.7% y/y (Q4 2025) before dropping back to sub-2% in 2027. Nonetheless, since the Budget, the October inflation print has shown the CPI measure of inflation bouncing up to 2.3% y/y with the prospect that it will be close to 3% by the end of the year before falling back slowly through 2025. The RPI measure has also increased significantly to 3.4% y/y.
 - i) How high inflation goes will primarily be determined by several key factors. First amongst those is that the major investment in the public sector, according to the Bank of England, will lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled

labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

- j) There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises in the June 2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.
- k) Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.
- l) Currently, it also seems likely that net inward migration is set to fall, so there is likely to be a smaller pool of migrant workers available who, in the past, have filled the requirement for construction worker demand. The Government plans to heavily promote training schemes, particularly to the one million 16- to 24-year-olds who are neither in education nor work. But it is arguable as to whether the employee shortfall can be made up from this source in the requisite time, even if more do enter the workforce.
- m) Against, this backdrop, there may be a near-term boost to inflation caused by a wave of public sector cash chasing the same construction providers over the course of the next year or so, whilst wages remain higher than the Bank currently forecasts because of general labour shortages, including in social care where Government accepts there is a 150,000 shortfall at present.
- n) Core Unemployment stands at a low 4.3% (September), whilst wages are rising at 4.3% y/y (including bonuses) and 4.8% (excluding bonuses). The Bank would ideally like to see further wage moderation to underpin any further gradual relaxing of monetary policy. Indeed, over the next six months, the market is currently only pricing in Bank Rate reductions in February and

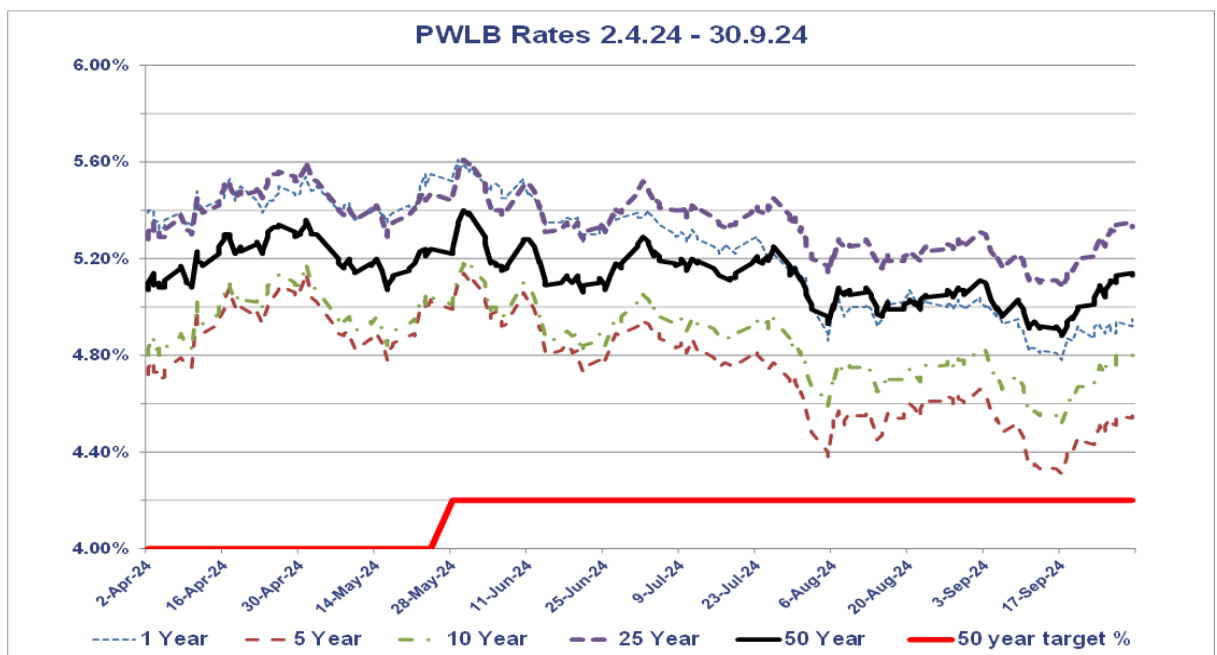
May – which would see Bank Rate fall to 4.25% - but further cuts, thereafter, are highly likely to be even more data-dependent.

- o) If we focus on borrowing, a term we are likely to hear throughout 2025 is “bond vigilante”. Essentially, this represents a generic term for when the market is ill at ease with the level of government borrowing and demands a higher return for holding debt issuance. In the UK, we do not need to go back too far to recall the negative market reaction to the Truss/Kwarteng budget of 2022. But long-term borrowing rates have already gradually moved back to those levels since their recent low point in the middle of September 2024. Of course, the UK is not alone in this respect. Concerns prevail as to what the size of the budget deficit will be in the US, following the election of Donald Trump as President, and in France there are on-going struggles to form a government to address a large budget deficit problem too. Throw into the mix the uncertain outcome to German elections, and there is plenty of bond investor concern to be seen.
- p) Staying with the US, Donald Trump’s victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks continue to abound in Europe, the Middle East and Asia.
- q) In the past month, the US Core CPI measure of inflation has indicated that inflation is still a concern (3.3% y/y, 0.3% m/m), as has the November Producer Prices Data (up 3.0 y/y v a market estimate of 2.6% y/y, 0.4% m/m v an estimate of 0.2% m/m) albeit probably insufficient to deter the FOMC from cutting US rates a further 0.25% at its December meeting. However, with Trump’s inauguration as President being held on 20 January, further rate reductions and their timing will very much be determined by his policy announcements and their implications for both inflation and Treasury issuance.
- r) Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank’s August rate cut signalled the start of its loosening cycle. More recently, however, 10 year gilt yields have spiked back up to 4.35%.

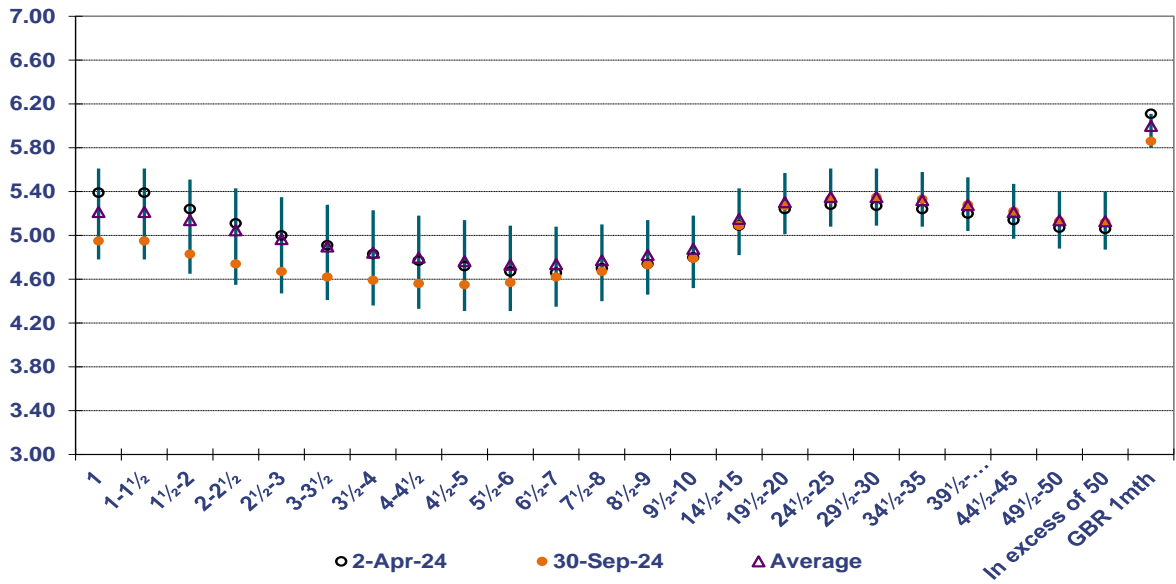
s) The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8.304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any further rally (or not) is likely to be the breadth of AI's impact on business growth and performance.

2 In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.

PWLB RATES 2 April 2024 – 30 September 2024



PWLB Certainty Rate Variations 2.4.24 to 30.9.24



HIGH/LOW/AVERAGE PWLB RATES FOR 2 April 2024 – 30 September 2024

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

MPC Meetings 9 May, 20 June, 1 August, 19 September, 7 November 2024

- 3 On 9 May, the Bank of England’s Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- 4 However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey’s tone with its emphasis on gradual ‘reductions’ over time.
- 5 Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- 6 On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut but the language used by the MPC emphasised “gradual” reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

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	364 days (max. is set by the DMO)
Bonds issued by multilateral development banks	yellow	Not used	5 years
Money Market Funds	AAA	100%/ £50m	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%/ £30m	1 year
Term deposits with housing associations	Blue	Not used	12 months
	Orange		12 months
	Red		6 months
	Green		100 days
	No Colour		Not for use
Term deposits with banks and building societies	Blue	100%/ £30m	12 months
	Orange		12 months
	Red		6 months
	Green		100 days
	No Colour		Not for use
CDs or corporate bonds with banks and building societies	Blue	100%/ £30m	12 months
	Orange		12 months
	Red		6 months
	Green		100 days
	No Colour		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 MUFG creditworthiness service.

Based on lowest available rating (as at 25.11.24)

AAA

Australia

Denmark

Germany

Netherlands

Norway

Singapore

Sweden

Switzerland

AA+

Canada

Finland

U.S.A.

AA

Abu Dhabi (UAE)

Qatar

AA-

Belgium

France

U.K.

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;

Group Chief Financial Officer

- 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.