Appendix 2

Treasury Management Strategy Statement 2024/25 (Updated)

Minimum Revenue Provision Policy Statement,

Capital Strategy and Annual Investment Strategy

2024/25 to 2027/28

Including commercial activities and non-treasury investment

Slough Borough Council

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Introduction

Treasury management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as “The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.” (CIPFA Treasury Management Code of Practice 2021).

This Treasury Management Strategy sets out how the Council undertakes these essential functions and helps deliver the Medium-Term Financial Strategy.

Treasury risk management at the Council is conducted within the framework of the CIPFA’s Prudential Code and the Treasury Management in the Public Services: Code of Practice 2021 Edition (the Code). The Council has adopted and fully complies with the Code’s recommendations.

The 2024/25 Treasury Strategy was presented to Full Council on 7th March 2024. This Treasury Management Strategy has been updated to reflect changes to original assumptions contained therein and the latest Medium Term Financial Strategy forecasts. The 2025/26 Treasury Management Strategy will include the latest financial position and shall be presented to Full Council in February 2025.

The Strategy contains the recommendation to delegate to the S151 authority for the Council to join the London Treasury Liquidity Fund Partnership, subject to the conclusion of satisfactory due diligence.

This report fulfils the Council’s legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. The Council uses the treasury advisory service of Arlingclose ltd.

Economic Update

Between now and March 2025, the market outlook for UK interest rates suggests a gradual decrease from the current high levels. The Bank of England's base rate, which is currently at 5%, is expected to drop to around 4.75% by the end of 2024, and possibly further to 3% by late 2025. This forecast aligns with the Bank's ongoing efforts to manage inflation, which has returned to near the target of 2%. Several factors are influencing these projections, including lower inflation expectations and the easing of previous economic pressures such as high energy prices. For the Council the recent drop in the base rate will mean lower returns on the small investment balances and lower debt costs at the point of financing.

The Council’s Treasury Advisors have provided an economic outlook which can be found at Appendix A.

Treasury Management Summary

Table 1A below provides details of the Council's debt and investment portfolios along with forecasts for the current and next three years.

Table 1A: Treasury Management Summary

	31.3.24 £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
Existing Long-term borrowing					
- PWLB	446.4	385.5	295.1	274.4	239.6
- LOBOs	9.0	9.0	5.0	5.0	5.0
- Bank	4.0	4.0	4.0	4.0	4.0
Existing Short-term borrowing	0.0	0.0	0.0	0.0	0.0
New Expected Borrowing		47.2	143.3	166.0	194.9
Total borrowing	**459.4**	**445.7**	**447.3**	**449.4**	**443.5**
Long-term investments					
Short-term investments	(21.3)	(10.0)	(10.0)	(10.0)	(10.0)
Cash and cash equivalents					
Total investments	**(21.3)**	**(10.0)**	**(10.0)**	**(10.0)**	**(10.0)**
Net borrowing	**438.1**	**435.7**	**437.3**	**439.4**	**433.5**

The table reflects the need for additional borrowing to be taken due to lower than anticipated levels of capital receipts from asset disposals.

Balance Sheet Summary and Forecast

Table 1B below provides details of the Council's Balance Sheet Summary for the General Fund and HRA as at 31 March 2024, and forecasts the current and next three years positions. The top half of the table shows the composition of the changes in net indebtedness, and the bottom half shows how that is projected to be reflected in the respective treasury portfolios.

Table 1B: Balance Sheet Summary and Forecast.

Balance sheet summary and forecast	31.3.24 £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
General Fund CFR	510.5	506.1	497.1	491.9	480.0
Housing Revenue Account CFR	166.7	166.7	166.7	166.7	166.7
TOTAL CFR	**677.2**	**672.7**	**663.8**	**658.5**	**646.6**
Other Balance Sheet Items - GF	(198.3)	(192.7)	(184.8)	(180.7)	(175.2)
Other Balance Sheet Items - HRA	(40.7)	(44.4)	(41.6)	(38.5)	(38.0)
TOTAL OTHER BALANCE SHEET ITEMS	**-239.0**	**-237.1**	**-226.5**	**-219.1**	**-213.2**
TOTAL NET INDEBTEDNESS	**438.1**	**435.7**	**437.3**	**439.4**	**433.5**
General Fund Net Indebtedness	312.2	313.4	312.3	311.2	304.8
HRA Net Indebtedness	126.0	122.3	125.0	128.2	128.7
Reflected by:					
General Fund Borrowing	327.4	315.2	318.5	320.6	319.8
General Fund External Investments	(21.3)	(10.0)	(10.0)	(10.0)	(10.0)
General Fund Borrowing from / (Lending to) HRA	6.1	8.2	3.8	0.6	(5.0)
General Fund Net Treasury Position	**312.2**	**313.4**	**312.3**	**311.2**	**304.8**
HRA Borrowing	132.0	130.4	128.8	128.8	123.7
HRA Borrowing from / (Lending to) GF	(6.1)	(8.2)	(3.8)	(0.6)	5.0
HRA Net Treasury Position	**126.0**	**122.3**	**125.0**	**128.2**	**128.7**
Total Borrowing	459.4	445.7	447.3	449.4	443.5
Total Investments	(21.3)	(10.0)	(10.0)	(10.0)	(10.0)
TOTAL NET INDEBTEDNESS	**438.1**	**435.7**	**437.3**	**439.4**	**433.5**

Note 31/3/24 subject to Audit.

Capital Financing Requirement

The underlying need to borrow for capital purposes is measured by adding items on the balance sheet that relate to capital expenditure and is called the Capital Financing Requirement (CFR). Other balance sheet resources are the underlying sums available for investment, such as reserves and working capital.

CIPFA's Prudential Code for Capital Finance in Local Councils recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 2 below shows that the Council expects to comply with this recommendation. `

Liability Benchmark

CIPFA's revised 2021 Codes of Practice introduced the concept of the Liability Benchmark and requires calculation of such as a Prudential Indicator. As the Council operates a two-pool approach to debt management between the HRA and General Fund, two liability benchmarks have been calculated showing the benchmark level of borrowing for each account. This assumes the same forecasts as Table 1 above, such that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity and minimise credit risk.

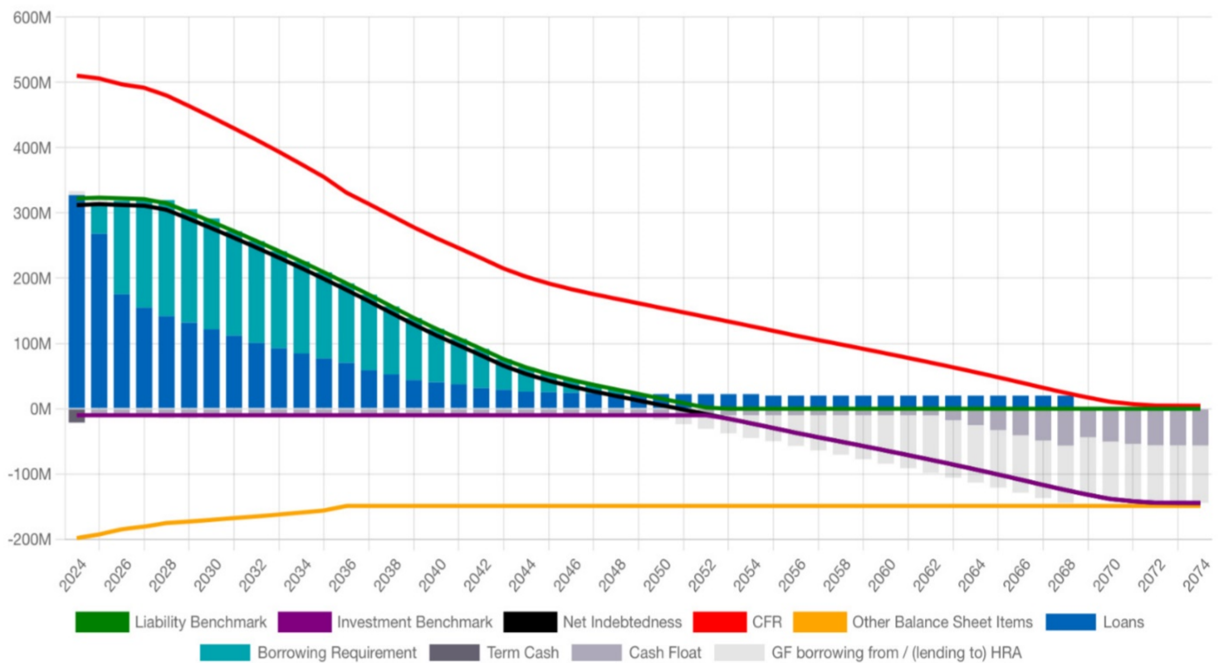
The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external 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.

CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark (i.e., all balance sheet resources should be used to maximise internal borrowing). If the outputs show future periods where external loans are less than the Liability Benchmark, then this indicates a borrowing requirement thus identifying where the Council is exposed to interest rate, liquidity and refinancing risks. Conversely where external loans exceed the Liability Benchmark then this will highlight an overborrowed position which will result in excess cash in the Council requiring investment thus exposing the authority to credit and reinvestment risks and a potential cost of carry.

The treasury strategy further explains how the treasury risks identified by the Liability Benchmark will be managed over the coming years.

Table 2.1: Prudential Indicator: Liability Benchmark - General Fund

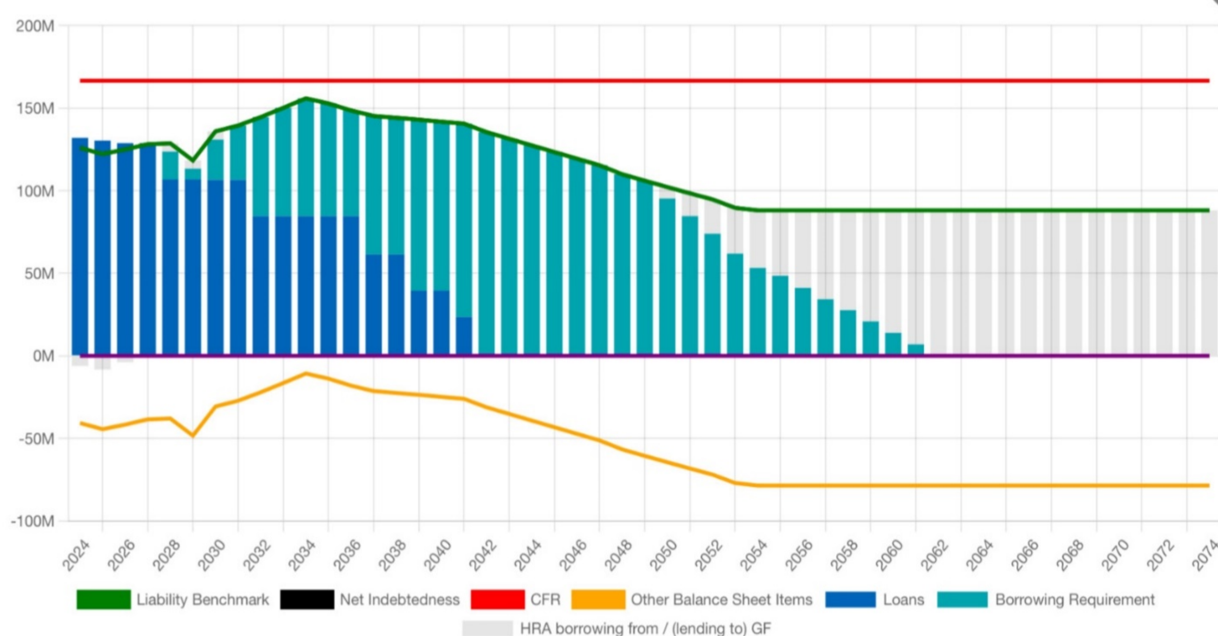
Prudential Indicator: Liability benchmark	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m
General Fund CFR	**510.5**	**506.1**	**497.1**	**491.9**	**480.0**
Less: Other Balance Sheet Items	-198.3	-192.7	-184.8	-180.7	-175.2
Net loans requirement	**312.2**	**313.4**	**312.3**	**311.2**	**304.8**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
General Fund Liability Benchmark	**322.2**	**323.4**	**322.3**	**321.2**	**314.8**
Current Loan Commitments	327.4	268.0	175.2	154.6	141.8
Borrowing from HRA	21.1	23.2	18.8	15.6	0.0
Committed Lending to HRA	-15.0	-15.0	-15.0	-15.0	-5.0
Borrowings + Net HRA	**333.4**	**276.2**	**179.1**	**155.2**	**136.8**
(Under) / Over benchmark: Borrowing Requirement	**11.3**	**-47.2**	**-143.3**	**-166.0**	**-178.0**



The above chart shows the General Fund net loans requirement reducing in line with the Council's projected spending and financing plans. Existing loans are maturing at a faster pace (Blue bars) and therefore additional borrowing will be required to meet financing plans (turquoise bars). Investment balances are projected to remain low to reduce the level of external borrowing required. Over the longer term, not withstanding any future plans that have yet to be approved, the General Fund is expected to be in a net surplus by 2050, and therefore would have additional cash to invest

Table 2.2: Prudential Indicator: Liability Benchmark - Housing Revenue Account

Prudential Indicator: Liability benchmark	**31.3.24 Estimate £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**	**31.3.28 Forecast £m**
HRA CFR	166.7	166.7	166.7	166.7	166.7
Less: HRA Other Balance Sheet Items	-40.7	-44.4	-41.6	-38.5	-38.0
HRA Liability Benchmark	**126.0**	**122.3**	**125.0**	**128.2**	**128.7**
Current Loan Commitments	132.0	130.4	128.8	128.8	106.8
Borrowing from General Fund	15.0	15.0	15.0	15.0	5.0
Borrowings	**147.0**	**145.4**	**143.8**	**143.8**	**111.8**
(Under) / Over benchmark: Borrowing Requirement	**21.1**	**23.2**	**18.8**	**15.6**	**-16.9**

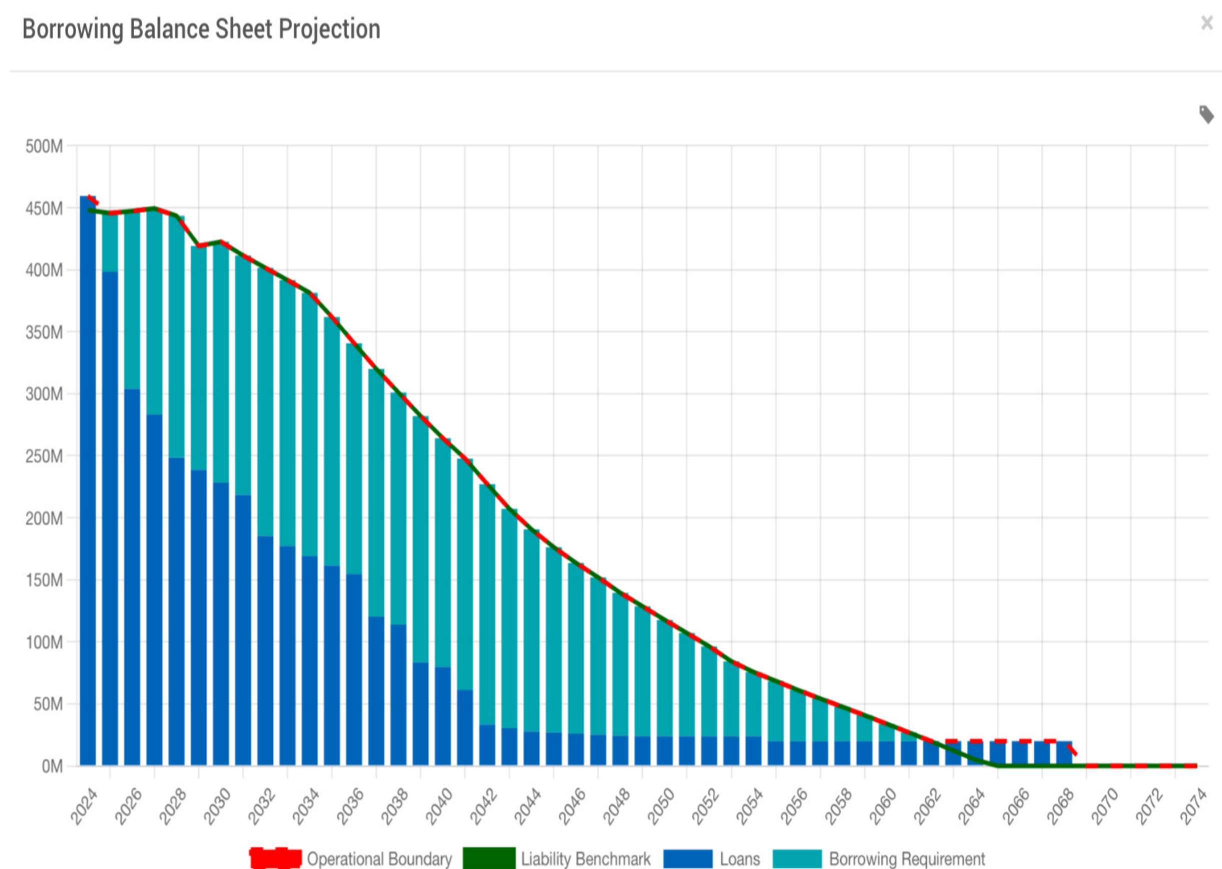


The net indebtedness in the chart above reflects the HRA Business plan approved by March 2024. The chart shows that, the HRA's current net indebtedness is met mostly from external loans but also some borrowing from the General Fund (grey bars). Some external borrowing will be required as HRA loans mature (turquoise bars). Once the General Fund's net position is in a surplus, it would have cash available to lend to the HRA in lieu of external borrowing.

Borrowing Strategy

The capital programme is not being funded by new prudential borrowing. Future capital receipts are to be used to pay off the Capitalisation Direction. The asset disposal programme has slowed which requires rephasing of financing arrangements. Slippage within the capital programme continues.

The chart below shows the cumulative total borrowing required for both the General Fund and the HRA.



Future borrowing decisions shall be made with regard to the benchmark determined levels of borrowing and the profile that is required and reduce the Council's exposure to unknown future adverse movements in interest rates.

By maintaining a borrowing strategy in line with the Liability Benchmarks, the Council can reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

The Council has previously raised all its long-term borrowing from the Public Works Loan Board (PWLB) and Banks. Future borrowing is expected to be from the PWLB, due to the restrictions in the Capitalisation Direction, as well as preferential rates available for the HRA's element of new borrowing.

After this period the Council may consider long-term loans from other sources, and these are listed below.

In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

Sources of Borrowing:

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

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Local Authorities
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except SBC's Local Government Pension Scheme)

These are the usual lenders to local authorities; however, it is possible that the council may encounter some difficulty in obtaining finance due to perceived credit concerns. Consequently, the primary source of borrowing will remain the PWLB.

Other sources of debt finance:

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

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback
- Similar asset-based finance

Bank Loans

Lender's Option Borrower's Option (LOBOs):

The Council holds £9m of LOBO loans whereby the lender has the option to propose an increase in the interest rate at set dates. The Council then has the option to either accept the new rate or to repay the loan at no additional cost. Opportunities to repay any LOBO obligations will be considered when it can be demonstrated to be cost effective and affordable. The next potential call date (likely) is for a £4m LOBO 28th April 2025. The LOBO full term maturity dates are between 2054 and 2066. The Council also has one fixed term bank loan of £4m that matures in July 2054.

Short-term loans:

These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. They would be used for liquidity purposes.

Debt Rescheduling:

The PWLB allows Councils to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council is not expecting to repay any loans prematurely, because of not being over benchmark and therefore already having a need to borrow.

Capital Strategy

Introduction

Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this also includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

The Council's capital expenditure plans are key driver of treasury management activity. All capital expenditure must be financed, either from external sources (government grants and other contributions) or the Authority's own resources (revenue, reserves and capital receipts). Slippage in the Capital programme delays the completion of schemes and can also result in the need to set aside more MRP in the short-term pending receipts being released.

Capital Expenditure and Financing

The capital programme carry forwards for 2023/24 were unusually high (£22.9m) because of delays on various large projects. This carry forward has been approved by Cabinet, but due to the large value it has been necessary to rephase the capital programme to a more realistic plan for spend up to 2027/28.

As at 30th September 2024, the Council is forecasting capital expenditure of £71.1m in 2024/25, as summarised below in Table 3:

Table 3: Prudential Indicator: Estimates of Capital Expenditure

Estimates of Capital Expenditure	**2023/24 actual £m**	**2024/25 forecast £m**	**2025/26 budget £m**	**2026/27 budget £m**	**2027/28 budget £m**
General Fund	39.6	48.4	48.4	18.5	7.6
Council Housing (HRA)	10.8	19.6	20.0	19.8	20.0
TOTAL	**50.4**	**68.1**	**68.4**	**38.3**	**27.6**
Previous total	**54.1**	**71.1**	**43.3**	**35.3**	**27.4**
Movement from previous plan	**-3.7**	**-3.0**	**25.2**	**3.1**	**0.1**

The main General Fund capital projects include.

- Special School Expansion-Primary, Secondary & Post 16; £5.818m, additional funding has been received from DfE for a large project at Arbour Vale School to create more special needs places for children in the borough.

- A4 Cycle Lane £5.285m, this project has experienced delays but has now started in June 2024 and is due to complete in 2025/26.

- Destination Farnham Road £2.360m, a scheme to revitalise the Farnham Road area by prioritising walking and cycling and improving bus priority through signal upgrades and the enforcement of parking restrictions.

- Highways grant funded schemes, £2.489m, various projects to improve roads in the borough.

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes capital works to existing stock and development of new affordable homes.

As the Council continues to increase its capital investment programme and consider the wider strategic use of capital receipts from disposal of surplus assets , it is timely for the Council to set out its approach to monitoring the financial capacity, capability of the HRA to deliver on its objectives towards refurbishment, investment, regeneration, and new supply and ensure the HRA remains sustainable over the 30-year period of the Plan. In doing so the following is proposed:

- The HRA minimum general balance needs to be sufficient to provide a contingency for the account. Currently at a level of £4m, equating to circa. 10% of annual gross rent
- A Major Repairs Reserve £5m for any unplanned or urgent application that may be required to new capital investment in HRA assets or the financing of historical capital expenditure by the HRA
- Interest cover ratio - This is the ratio of operating surplus divided by interest costs and represents the cover that the HRA has against its interest cost liabilities in any year. Housing Association lending covenants are generally based on an ICR of between 1.10 and 1.50 with 1.25 being a typical golden rule. This strategy sets out that the ICR for the HRA should remain at 1.25 or above for the duration of the 30-year plan.

The above will need to be monitored on an annual basis by the Section 151 Officer and revised upwards if they consider that the risks and pressures facing the HRA warrants an increase and reassessed at each gate way review for the plan.

The planned financing of the above expenditure is as follows:

Table 4: Capital Financing

There may be a requirement to redirect capital receipts assumed within the original programme to finance agreed schemes, to finance the Capitalisation Directions in the context of reduced asset disposals.

Capital Financing	**2023/24 actual £m**	**2024/25 forecast £m**	**2025/26 budget £m**	**2026/27 budget £m**	**2027/28 budget £m**
General Fund:					
Grants & Contributions	5.8	24.0	27.9	8.2	4.3
Capital Receipts	0.6	1.0	6.2	1.2	
Revenue Resources	1.7	0.3	0.4	0.0	0.0
Prudential Borrowing - Capitalisation Directive	31.6	23.1	13.9	9.2	3.3
Total General Fund	**39.6**	**48.4**	**48.4**	**18.5**	**7.6**

HRA:					
S106				0.5	0.5
Capital Receipts	0.9	4.1	3.8	1.5	3.8
Major Repairs Reserve	9.9	15.6	16.2	17.8	14.7
Revenue Contributions		-	-	-	1.0
Total HRA	**10.8**	**19.6**	**20.0**	**19.8**	**20.0**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP) Alternatively, proceeds from selling capital assets (capital receipts) may be used to replace debt finance. Planned MRP / repayments and use of capital receipts are presented in table 5 below.

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Capitalisation Direction allows the Council to treat certain revenue expenditure as capital expenditure. The Council needs to fund the revenue expenditure from its own capital, including from receipts arising out of disposal of assets where these are General Fund assets. The Council plans to receive £21.5m of net capital receipts in the coming financial year (General Fund: £8.4m, HRA £13.1m).

Planned MRP and level of capital receipts used in place of debt finance are as follows:

Table 5: Replacement of Prior Years' Debt Finance

Reduction of the Capital Financing Requirement through application of MRP and capital receipts	2023/24 Actual *£m*	2024/25 budget *£m*	2025/26 budget *£m*	2026/27 budget *£m*	2027/28 budget *£m*
Minimum revenue provision (MRP) – General	13.9	13.3	12.3	10.8	11.1
Minimum revenue provision (MRP) – Capitalisation Direction	2.8	2.9	3.3	3.6	4.1
Capital receipts applied to previous years' Capitalisation Directions	23.0	11.3	7.3	0.0	0.0
TOTAL	**39.7**	**27.5**	**22.8**	**14.4**	**15.1**

Prudential Indicators 2024/25

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Councils (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local Councils are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

Table 6- Estimates of Capital Financing Requirement

Estimates of Capital Financing Requirement	31.3 .2024 *£m*	31.3.2025 budget * *£m*	31.3.2026 budget *£m*	31.3.2027 budget *£m*	31.3.2028 budget *£m*
General Fund services	417.9	404.6	392.3	381.5	370.4
Capitalisation Direction	92.6	101.5	104.8	110.4	109.6
Council housing (HRA)	166.7	166.7	166.7	166.7	166.7
Capital investments	0.0	0.0	0.0	0.0	0.0
TOTAL CFR	**677.2**	**672.7**	**663.8**	**658.5**	**646.6**

The projected reduction in the CFR has slowed because of the need to borrow to cover the shortfall in expected capital receipts.

Gross Debt and the Capital Financing Requirement:

Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. The Council has complied and expects to continue to comply with this requirement in the medium term as is shown below.

In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Table 7 - Gross Debt and the Capital Financing Requirement

Gross Debt and the Capital Financing Requirement	**31.3.2024 £m**	**31.3.2025 budget £m**	**31.3.2026 budget £m**	**31.3.2027 budget £m**	**31.3.2028 Budget £m**
Debt (incl. PFI & leases)	492.9	481.7	481.3	482.2	474.3
Capital Financing Requirement	677.2	672.7	663.8	658.5	646.6

Total debt is expected to remain below the CFR during the forecast period.

Debt and the Authorised Limit and Operational Boundary:

There are two limits on external debt:

- the ‘Operational Boundary’ and
- the ‘Authorised Limit’

The Council is legally obliged to set an affordable borrowing limit (also termed the Authorised Limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit. The Executive Director of Resources (s151 officer) reports that the Council has complied with this prudential indicator in the current year and does not envisage non-compliance for future years as part of the medium-term financial plan.

Both are consistent with the current commitments, existing plans and the proposals for capital expenditure and financing, and with approved treasury management policy statement and practices. They are both based on estimates of most likely, but not worst case, scenario.

The key difference is that the Authorised Limit cannot be breached without prior approval of the Council. It therefore includes more headroom to take account of uncertain events. The Operational Boundary is a more realistic indicator of the likely position.

Operational Boundary for External Debt

The operational boundary is based on the Council's estimate of most likely, (i.e. prudent, but not worst case) scenario for external debt. This has been updated to reflect the liability benchmark, the most likely level of external borrowing as these points.

Table 8 - Operational Boundary for External Debt

Operational Boundary	**2023/24 Limit £m**	**2024/25 Limit £m**	**2025/26 Limit £m**	**2026/27 Limit £m**	**2027/28 Limit £m**
Operational boundary - borrowing	609.0	445.7	447.3	449.4	443.5
Operational boundary - PFI and leases		**31.5**	**29.4**	**27.9**	**26.2**
Operational boundary - total external debt	**609.0**	**477.1**	**476.7**	**477.3**	**469.7**

Since the operational boundary is a management tool for in-year monitoring it is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Authorised Limit for External Debt

The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003 it is the maximum amount of debt that the Council can legally owe. The Authorised Limit provides headroom over and above the operational boundary for unusual cash movements.

Table 9 - Authorised Limit for External Debt

Authorised Limit	**2023/24 Authorised Limit £m**	**2024/25 Authorised Limit £m**	**2025/26 Authorised Limit £m**	**2026/27 Authorised Limit £m**	**2027/28 Authorised Limit £m**
Authorised limit - borrowing	**638.0**	**468.0**	**469.7**	**471.9**	**465.7**
Authorised limit - PFI and leases		**31.5**	**29.4**	**27.9**	**26.2**
Authorised limit - total external debt	**638.0**	**499.4**	**499.1**	**499.8**	**491.9**

Investment Strategy

Introduction

The 2021 Code revision categorised three types of local authority investments:

- **treasury management investments being** surplus cash from its day-to-day activities, for example when income is received in advance of expenditure (known as),
- service investments to support local public services by lending to or buying shares in other organisations, and
- Commercial investments where the earning of investment income is the main purpose.

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the first and second of these categories.

The Council typically receives its income (e.g. from taxes and grants) before it pays for its expenditure (e.g. through payroll and invoices). It also holds grants received in advance of future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from CIPFA and central government. The balance of treasury investments is expected to fluctuate between £10m and £75m during the financial year and this cash flow is closely linked to the Council's Asset Disposal programme.

As at 31 March 2024, the Council held £22.1m invested funds, representing income received in advance of expenditure plus balances and reserves held. The reduction in short term investments corresponds with paying off short-term debt.

Objectives:

The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Owing to the low levels of balances and cash flow priorities it is unlikely that the council will entire into any investment over one year.

Strategy:

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. Given the risk of short-term unsecured bank investments, the Council has so far invested mainly with low volatility Money Market Funds. Going forward it is proposed that Council become Partners in the London Treasury Liquidity Fund. A due diligence exercise with Legal and Investment Advisors has been initiated to determine the suitability of this option. The Fund is designed for Local Authorities, operates a diversified liquid, risk managed portfolio that has the potential to deliver administrative and financial savings. It is recommended that subject to successful due diligence authorisation to invest in the Fund and join the partnership is delegated to the S151 officer.

Investment Limits:

Table 10 below reflects the advice from Arlingclose regarding approved investments and limits. As stated above the Council's balances are low and predominantly invested to facilitate cash flow management, as such it is unlikely that the council will venture into any investments over 365 days. When considering investment limits in the chart below the council will also refer to the credit ratings of the individual organisations to make the final assessment.

Treasury Investment Approved Counterparty List & Limits:

The Council may invest its surplus funds with any of the counterparty types in table 10 below, subject to the limits shown.

Table 10 - Treasury investment Approved Counterparty List and Limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£50m	Unlimited
Banks (unsecured) *	13 months	£2m	£10m
Building societies (unsecured) *	13 months	£2m	£10m
Money market funds *	n/a	£10m	Unlimited

This table must be read in conjunction with the notes below

*** 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 considered.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

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.

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.

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 Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Operational bank accounts: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £500k per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") 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 Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority'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 considered when making investment decisions.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority 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.

Investment limits: The Authority's revenue reserves (unallocated) available to cover investment losses are forecast to be £21million on 31st March 2024 and £22 million on 31st March 2025. In order that no more than 10% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £2 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £1m in operational bank accounts count against the relevant investment limits.

Limits are also placed foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 11 – Additional Investment Limits

	Cash limit
Foreign countries	£10m per country

Liquidity Management:
The Council uses purpose-built cash flow forecasting software PS Live to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.
The Council will spread its liquid cash over multiple providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

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. When investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Revised Budget Assumptions for 2024/25

- Investments to return an average rate of 5.0%
- New 20y PWLB certainty rate loans costed 5.60% on 1 November 2024
- New short-term refinancing loans will cost an average **rate of 5.45%**

Treasury Management Prudential Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators.

Security:

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit	A

Liquidity:

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	**Target**
Total cash available within three months	£10m

Interest Rate Exposures:

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

Interest rate risk indicator	**Limit**
Upper limit on one-year revenue impact of a 1% rise in interest rates	100%
Upper limit on one-year revenue impact of a 1% fall in interest rates	60%

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.

Maturity Structure of Borrowing:

This indicator is set to control the Council's exposure to refinancing risk in any given period. The upper and lower limits on the maturity structure of borrowing will be:

Table 12 - Maturity Structure of Borrowing as at 30th Sep 2024

Refinancing Rate Risk Indicator	Upper limit	Lower limit	Current Position
Under 12 months	50%	0%	18.3%
12 months and within 24 months	70%	0%	17.4%
24 months and within 5 years	70%	0%	12.1%
5 years and within 10 years	70%	0%	15.0%
10 years and above	70%	0%	37.2%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Long Term Treasury Management Investments

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investment. The prudential limit for long term investments will be:

Price risk indicator	2024/25	2025/26	2026/27	2027/28	No Fixed Date
Limit on principal invested beyond year end	0	0	0	0	0

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP / loans fund repayments are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. In line with the debt reduction plan there should be a long-term strategy to reduce the financing costs to net revenue to a figure not exceeding 10% in the future.

Table 13: Prudential Indicator: Proportion of financing costs to net revenue stream

	2024/25 forecast	**2025/26 budget**	**2026/27 budget**
General Fund Financing Costs	**25.4**	**26.5**	**26.5**
Ratio of Financing Costs to Net Revenue Stream	17.1%	16.5%	15.5%
HRA Financing Costs	**3.9**	**4.3**	**4.5**
Ratio of Financing Costs to Net Revenue Stream	16.0%	21.8%	22.3%

A minimum level of HRA general reserve is deemed to be £4m, Major Repairs Reserve £5m and minimum interest cover is 1.25 times, represents the affordability framework within the HRA Business Plan.

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50years into the future. The Executive Director of Finance & Commercial (s151 0fficer) is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Non-Treasury Management Investments

Introduction

The non-treasury management investment strategy was a new report introduced in 2019/20, following the requirements of statutory guidance issued by the government (MHCLG) in January 2018, and focuses on the first and second of the following investment categories.

1. **Non-Treasury Management Investments** – to invest surplus cash from reserves and other funds that are not required for the day-to-day cash flow activities.

2. **Service Investments** - to support local public services by lending to or buying shares in other organisations; and

3. **Commercial Investments** - to regenerate the Borough or immediate economic area to encourage private investment and to create or retain local jobs (known as commercial investments where these are the main purpose).

Non-Treasury Management Investments

If the Council holds reserves that are not required for the day-to-day treasury management cash flow activities, they could be invested in non-treasury management investments. No new such investments are forecast.

Contribution: The contribution that these investments make helps support the Council’s budget to enable it to delivery its essential services.

Service Investments

Table 14: Non-Treasury Investments*

Interest receivable 2022/23	Debtor	Balance at 31/03/2024	Interest receivable 2023/24	Rate
£000s		£000s	£000s	%
1,551	James Elliman Homes	51,700	1,552	3%
144	SUR LLP - loan notes	735	144	5%
598	GRE 5 Ltd	2,192	355	6%
0	Slough Children First Ltd	5,000	71	1.4%
2,295		**59,627**	**2,121**	**3.85%**

*Subject to final audit

Loans

The Council may lend money to its subsidiaries, its suppliers, local businesses, local charities or housing associations etc. to support local public services and stimulate local economic growth.

The council will ensure that a full due diligence exercise is undertaken, and adequate security is in place. The business case will balance the benefits and risks. All loans are agreed by the Section 151 Officer. All loans will be subject to close, regular monitoring.

Loans are treated as capital expenditure for accounting treatment. These service investments and loans will need to be considered in the context of the Councils wider target affordability thresholds outlined in the section on Revenue Budget Implications above.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. Therefore, the Council should aim to take security against assets to mitigate the risk of default.

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts will be shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk Assessment: The Council assesses the risk of loss before entering into and whilst holding service loans by:

1. reviewing the financial statements of the organisation and reviewing the organisation's business plans and future projections and future cash flows.

2. assessing what security is available to secure the loan and if necessary, carry out a professional valuation of any property.

3. using external advisors to provide professional information such as due diligence requirements.

4. the loan agreements are reviewed by our legal team to ensure that they are legally compliant and includes any safeguards for the Council.

5. if an organisation has a credit rating, we will carry out a credit check to assist.

6. the rate of interest charged on any loan will reflect the risk of the project and potential for default.

7. subsidy controls rules are considered before a loan can be considered.

Shares

The Council may invest in the shares of its subsidiaries, its suppliers, and local businesses to support local public services and stimulate local economic growth.

Security:

One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered.

Risk Assessment:

The Council assesses the risk of loss before entering into and whilst holding shares by reviewing the history of the organisation, its financial statements and its share values. The Council will also look at business plans, future cash flows and any other market information that may affect the organisation.

Liquidity: The Council covers its liquidity for working capital and cash flow by holding cash in Money Market Funds and being able to borrow short term loans from other local Councils.

Risk Assessment: The Council assesses the risk of loss before entering into and whilst holding property investments by carrying out an evaluation process.

The risk of not achieving the desired profit or borrowing costs increasing or the having vacant premises is partially covered by a void reserve. Annual payments are deducted from the rental income each year to add to the void reserve.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed; the Council makes an internal charge (service borrowing) to cover the capital repayments from the rental income.

The Council also makes alternative arrangement to cover their short-term cash requirements.

Proportionality

The Council uses the profit generated by the commercial investments to help achieve a balanced revenue budget.

Borrowing in Advance of Need

Government guidance is that local Councils must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Council has chosen not to follow this guidance and has previously borrowed for this purpose because it wants to generate income to support its local economy and its statutory duties. This is a common practice by local Councils since the Localism Act of 2011.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council.

Minimum Revenue Provision Statement 2024/25

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). MHCLG Guidance requires the Council to approve an Annual MRP Statement each year. There are no changes to the MRP Policy agreed in March 2024.

Minimum Revenue Provision Policy

The MRP payment is a revenue charge. MRP will commence in the financial year following the asset coming into use or after purchase.

For capital expenditure incurred before 1st April 2008, for supported capital expenditure incurred on or before that date, MRP will be charged on an annuity basis over 50 years, incorporating an "Adjustment A" in accordance to the guidance.

For capital expenditure incurred after 31st March 2008, 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 annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years.

For capital expenditure loans to third parties, the Council will make nil MRP unless (a) the loan is an investment for commercial purposes and no repayment was received in year or (b) an expected credit loss was recognised or increased in-year but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment on loans that are investments for commercial purposes, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. Sufficient MRP will be charged to ensure that the outstanding capital financing requirement (CFR) on the loan is no higher than the principal amount outstanding less the expected credit loss. This option was proposed by the government in its recent MRP consultation and in the Council's, view is consistent with the current regulations.

Capital receipts received from the sale of investment properties will allocated to the Capitalisation Direction.

Capitalisation Directions - For capitalisation directions on expenditure incurred after 1 April 2008 MRP will be made using the annuity method over the lifespan provided in the capitalisation direction.

PFI/Leases - For assets acquired by leases or the Private Finance Initiative, the Council changed its policy with effect from 01/04/2021 such that MRP can be charged over the life of the assets on an annuity basis. This is in line with the Council's MRP policy for all other assets as described above.

Related Matters

The CIPFA Code requires the Council to include the following in its treasury management strategy.

Policy on use of financial derivatives:

Local Councils have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local Councils' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council does not expect to enter into any standalone derivative instruments. As per Code requirements this strategy states that the council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Housing Revenue Account:

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. 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 pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured regularly, and interest transferred between the General Fund and HRA at the Council's average interest rate on treasury investments excluding strategic pooled funds, adjusted for credit risk if a net investment balance and at the Council's average rate of borrowing if a net borrowing balance.

External Funds:

The interest income net of related costs of investment is shared based by applying an average interest rate return on the balances.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its 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. Given the size and range of the Authority's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status

Investment Training:

The needs of the Council’s treasury management staff for training in investment management are assessed every twelve months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. A Knowledge and Skills Policy in line with recommendations in CIPFA’s revised Code is being implemented in 2024/25.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, the Association of Corporate Treasurers and other appropriate organisations.

Financial Implications

The estimate for investment income in 2024/25 is £1.3 million, based on an average investment portfolio of £24.9 million at an interest rate of 5.12%. The estimate for debt interest paid in 2024/25 is £11.1 million for the General Fund and £4.6 million for the HRA, based on average debt portfolios of £310.8 million and £131.9million respectively. The average interest rate for the General Fund is projected to be 3.55% and 3.48% for the HRA. If actual levels of investments and borrowing, or actual interest rates, differ from those forecasts, performance against budget will be correspondingly different.

The Treasury Management Practices, Principles and Schedules

The Treasury Management Practices, Principles and Schedules set out the responsibilities and duties of members and officers, allowing a framework for reporting and decision making on all aspects of treasury management. The Audit and Corporate Governance Committee is required to approve the Treasury Management Practices, Principles and Schedules each year under delegated decision.

Investment of Money Borrowed in Advance of Need

If the council were to borrow in advance of need, where this is expected to provide the best long-term value for money then associated risks will be managed as part of the Council’s overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be less than one year, although the Council is not required to link loans with items of expenditure.

Other Options Considered

The DLUHC Guidance and the CIPFA Code does not prescribe a particular treasury management strategy for local Councils to adopt. The Executive Director of Finance and Commercial (S151), having consulted the Cabinet Member for Finance and Commercial, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness with regards to the specific financial circumstances of the Council.

Appendix A

Arlingclose Economic & Interest Rate Forecast – 23rd September 2024

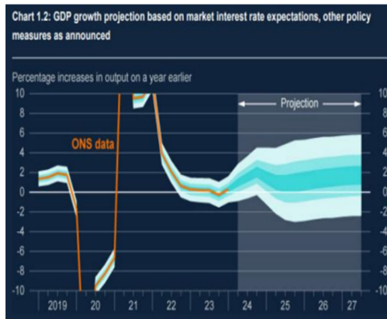
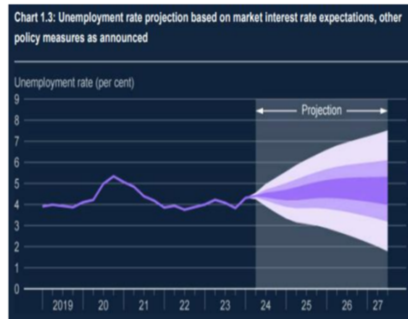
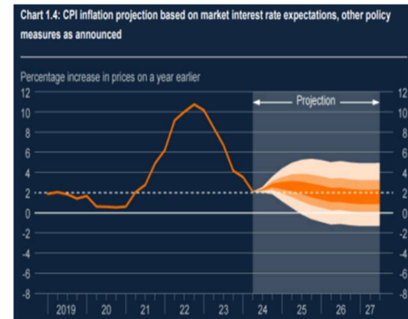
- **As expected, the MPC held Bank Rate at 5.0% in September. While the "no change" majority of eight to one was unexpectedly strong, the minutes suggested some policymakers believed a gradual approach to loosening policy was warranted given the persistence of services inflation, rather than no loosening at all.**
- This is in line with our long-held view that Bank Rate will initially reduce gradually before a more rapid decline in 2025 as services inflation eases.
- CPI inflation remained just above the 2% target in August, the Bank expects this to rise to 2.5% by the end of the year as prior falls in energy prices drop out of the annual comparison and reveal the prevailing persistence of domestic inflationary pressures. Private sector wage growth has eased back but remains elevated and services inflation remains high at 5.6%. However, both will continue to decline over time.
- UK GDP growth has been relatively strong in H1 2024, although this partly reflects a rebound from the H2 2023 technical recession. Underlying growth is weaker, but risks around domestic demand lie to the upside due to recovering consumer demand (although the announcement of higher taxes in the upcoming Budget could damage confidence). Stronger economic activity amid a continued tight, albeit easing, labour market could leave wage growth and inflation persistently higher.
- Official ONS Labour market data continues to be unreliable but wider indicators suggest the market is loosening as labour demand cools. Anecdotal evidence has suggested lower private sector pay growth for some time, and we expect a weaker labour market situation to hasten that outcome.
- We expect that the continuation of restrictive monetary policy and the appreciation in sterling will bear down on activity and will require more substantial loosening in 2025 to boost activity and inflation.
- Global bond yields have reduced in anticipation of US monetary loosening, duly delivered by the Federal Reserve. However, US interest rate expectations seem relatively aggressive compared to policymakers' own expectations, which raises the risk of continued US-policy induced volatility in gilt yields. Moreover, there remains a heightened risk of fiscal policy, credit events and/or geo-political events causing additional volatility in yields.

	Current	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.00	5.00	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.95	4.95	4.80	4.30	3.80	3.30	3.05	3.10	3.10	3.15	3.15	3.15	3.15
Downside risk	0.00	0.00	-0.25	-0.50	-0.50	-0.50	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00
5yr gilt yield													
Upside risk	0.00	0.65	1.00	1.10	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.73	3.70	3.60	3.50	3.45	3.40	3.40	3.40	3.40	3.45	3.50	3.55	3.55
Downside risk	0.00	-0.65	-0.90	-0.90	-0.95	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.70	0.90	0.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.97	3.95	3.90	3.80	3.75	3.70	3.70	3.70	3.70	3.75	3.80	3.80	3.80
Downside risk	0.00	-0.65	-0.90	-0.90	-0.90	-0.95	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.65	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.45	4.40	4.35	4.20	4.20	4.20	4.20	4.20	4.20	4.25	4.30	4.35	4.35
Downside risk	0.00	-0.65	-0.85	-0.90	-0.95	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.55	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.09	4.05	4.00	3.80	3.80	3.80	3.80	3.80	3.80	3.85	3.90	3.95	3.95
Downside risk	0.00	-0.55	-0.85	-0.90	-0.95	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%; PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.40%; UKIB Rate (Maturity Loans) = Gilt yield + 0.40%

- In line with our forecast, the MPC cut Bank Rate by 0.25% to 5.0% in August.
- The MPC will continue to cut rates to stimulate the UK economy but will initially be cautious given lingering domestic inflationary pressure. We see another rate cut in 2024 (Q4), but more significant monetary easing in 2025, with Bank Rate falling to a low of around 3%.
- Upside risks to inflation remain which could limit the extent of monetary easing.
- Long-term gilt yields have fallen following fears of a US recession. Arlingclose's central case is for yields to be volatile around a relatively narrow range, reflecting the likelihood for monetary policy loosening in the Eurozone, UK and US.

BoE Monetary Policy Report - August 2024

Outlook for UK GDP growth	Outlook for UK Unemployment	Outlook for UK CPI inflation
		

- Although GDP has picked up quite sharply this year, the underlying momentum appears weaker. Growth is expected to fall back a little next year but then increase over the forecast period, in part reflecting the fading negative impact on growth from past increases in Bank Rate.
- Aggregate demand and supply are judged to be broadly in balance currently, but a margin of economic slack is projected to emerge during 2024 and 2025 and to remain thereafter, in part reflecting the continued restrictive stance of monetary policy. Unemployment is expected to rise somewhat.
- CPI inflation is expected to increase to around 2¾% in the second half of this year as declines in energy prices last year fall out of the annual comparison and revealing more clearly the prevailing persistence of domestic inflationary pressures. The Committee expects second-round effects in domestic prices and wages to take longer to unwind than they did to emerge. There is a range of views on the MPC about the extent to which persistent pressures prove more enduring or continue to unwind as external cost pressures and inflation expectations normalise.

APPENDIX B

THE TREASURY MANAGEMENT POLICY STATEMENT

CIPFA' Code guidance recommends that each Local Authority has a Treasury Management Policy Statement that is approved by the Full Council and that the following form of words is used to define the policies and objectives of its treasury management activities.

This Council defines its Treasury Management activities as:

- The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- This Council acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance.

APPENDIX C

TREASURY MANAGEMENT REPORTING CYCLE

The Council has adopted the following reporting arrangements in accordance with the requirements of the Treasury Management Code:

Area of Responsibility	Council/Committee/Officer	Frequency
Treasury Management Policy Statement	Full Council	Annually before start of financial year
Treasury Management Strategy/Annual Investment Strategy	Full Council	Annually before start of financial year
Quarterly Treasury Management and Prudential Indicator updates	Audit & Corporate Governance Committee	Quarterly
Updates or revisions to Treasury Management Strategy/Annual Investment Strategy during year	Cabinet (following consideration by Corporate Governance Committee, wherever practical)	Ad hoc
Annual Treasury Outturn Report	Cabinet	Annually by end of September following year end
Treasury Management Practices	Executive Director of Resources	As needed
Review of Treasury Management Strategy/Annual Investment Strategy	Audit & Corporate Governance Committee	Annually before start of financial year and before consideration by full Council, wherever practical
Review of Treasury Management Performance	Audit & Corporate Governance Committee	Annually by end of September following year end

The CIPFA Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and demonstrating compliance with the CIPFA FM Code is a collective responsibility of elected members, the s151 Officer and all members of the leadership team.

In the context of this strategy the Council will ensure, maintain, or improve compliance with the code in the following areas:

- There are appropriate arrangements in place for the project management and cost control of capital projects.
- The Council has in place suitable mechanisms for monitoring its performance against the prudential indicators that it has set.
- The Council has identified the elements of the balance sheet that are most critical to its financial sustainability and has put in place mechanisms to monitor the risk associated with these.
- The Council has taken action to mitigate any risks identified.
- The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
- The Council will report planned and unplanned use of reserves in a timely manner[quarterly] to the management team and to Cabinet.
- The monitoring of balance sheet risks will be integrated into the quarterly budget monitoring reporting processes.

Capacity, Skills and Culture

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions.

The Council employs staff with professional qualifications including CIPFA, ACCA, CIMA, MRICS, CIPS etc. and supports permanent staff to study towards relevant qualifications.

The S151 Officer should regularly review the skillsets of elected members and all officers with governance and financial management responsibility to ensure as a collective there is the appropriate skills, training and support to fulfil these responsibilities. This will be set out formally in a new Knowledge and Skills Policy to be presented later in 2024/25.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field, can provide capacity, manage risks and support knowledge transfer. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

The Property Director receives regular updates on market activity, trends, forecasts and occupier activity from RICS firms and in-house surveyors to support the decision process.