TRAFFORD COUNCIL

Report to:	**Accounts and Audit Committee 5 February 2025** **Executive and Council 19 February 2025**
Report for:	**Decision**
Report of:	**The Executive Member for Finance, Change and Governance and the Director of Finance and Systems**

Report Title

TREASURY MANAGEMENT STRATEGY 2025/26 – 2027/28

Summary

This report outlines the:

- strategy to be implemented during this period for investments and borrowing,
- outlook for interest rates,
- management of associated risks,
- policy to be adopted on Minimum Revenue Provision (MRP) and
- Prudential Indicators.

Recommendations

That Accounts & Audit Committee be requested to note and recommend the report to Executive.

That Executive notes the report and recommends that Council approves;

- the Treasury Management Strategy 2025/26 – 2027/28 including the:
- policy on debt strategy as set out in section 4;
- the updated policy on Minimum Revenue Provision in section 5;
- Investment Strategy as set out in section 6;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 2.

Contact person for access to background papers and further information:

Name: Frank Fallon

Background papers: None

CORPORATE PRIORITIES AND GOVERNANCE CONSIDERATIONS	
The Best Start for our Children and Young People Healthy and Independent Lives for Everyone A Thriving Economy and Homes for All Address the Climate Crisis Culture, Sport and Heritage for Everyone	The Treasury Management function ensures that the Council has sufficient financing available to fund the activities which support the Council's Corporate Priorities. Further any additional net interest income derived from Treasury activities can be used to support the revenue budget and front line services.
Relationship to GM Policy or Strategy Framework	Not applicable
Financial Considerations	Treasury Management impacts on the Council's budget in terms of borrowing costs and investment returns. The Council's debt position will be administered effectively and any new loans taken will be in-line with that provided for within the Medium-Term Financial Plan and Prudential Indicators as approved by Council.
Legal Implications:	Treasury Management activities are subject to requirements detailed in legislation, Ministry of Housing, Communities and Local Government (MHCLG) guidance, Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and Treasury Management Code of Practice. The report sets out details of compliance in respect of these requirements.
Equality/Diversity Implications	All treasury management transactions undertaken by the Council are carried out with institutions with no known direct links to any illegal regimes or which promote the use of forced labour
Sustainability Implications	The Investment Strategy was updated in February 2024 to confirm that the Council will only place funds with institutions which are signatories to the UN Principles for Responsible Banking or are UK Government or Local Government bodies. The UN Principles for Responsible Banking are a unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement.
Resource Implications e.g. Staffing/ICT/Assets	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities, and these factors have been incorporated into the systems and procedures for this function which are independently tested on a regular basis. Failure to properly manage and monitor the Council's loans and investments could lead to service failure and a loss of reputation. No Treasury Management activity is without risk and the Council's in-house team continually monitor risks to ensure that security of capital sums is maintained at all times and adverse fluctuations in interest rates are avoided.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable
Socioeconomic duty Implications	Not applicable

Executive Summary

This report has been prepared in accordance with the Council's Financial Procedure Rules number 8 and outlines the forecasted treasury management activities for the forthcoming three years. Additional reports are produced during the course of the year informing Members of the preceding financial year actual activities together with a current mid-year update.

Economic position (Section 3)

Major influences on the Authority's treasury management strategy for 2025/26:

- Impact of future interest rates
- Impact of economic growth
- Uncertain geopolitical climate due to President Trump's second term
- Ongoing war in Ukraine

Debt (Section 4)

- New external borrowing will be taken to assist in financing the capital borrowing requirement as outlined in the 2025/28 Capital Programme report.
- All associated costs of new borrowing to be contained within the Medium Term Financial Plan, although interest rate risk remains should rates increase.
- Interest rate risk could be a key factor in refinancing of £26.6m of low interest loans maturing in 2026/27.
- The Council's under borrowed position against its forecast Capital Financing Requirement (CFR) is expected to reduce from £86.6m at 31st March 2024, to £36.4m by the end of 2024/25. This will reduce further to £24.1m by the end of 2027/28 should all future CFR commitments be financed by external debt.

MRP (Section 5 and Appendix 3)

- Following three rounds of consultation, the Ministry of Housing, Communities and Local Government (MHCLG) published its final consultation response, amendment regulations and revised statutory guidance on Minimum Revenue Provision (MRP).
- **The most significant change relates to Expected Credit Loss (ECL):** Should an ECL or impairment be recognised for a capital loan issued or agreed, after the 7th May 2024, then the Council will make an MRP charge equivalent to the ECL in the year in which the impairment is recognised.
- This is a significant amendment to the Prudential Code designed to provide focus on investment risk and the implications of which has been considered as part of the Capital Strategy

Further detail can be found in Section 5 of this report.

Investments (Section 6 and Appendix 4)

- The Council's investment criteria remains unchanged from that previously adopted of SLY, **S**ecurity of capital first, then **L**iquidity of its cash flows and finally **Y**ields.
- Council is required to agree the Investment criteria and this is set out for Member approval at Appendix 3.

Prudential Indicators and limits (Section 8 and Appendix 2)

- Council is required to approve a set of Prudential Indicators and limits ensuring its capital expenditure plans and borrowing remain robust, prudent, affordable and sustainable. These are detailed at Appendix 2 for Member approval.

1. Background

1.1. The Council's in-house treasury management team ensures that:

- All treasury management transactions undertaken comply with the statutory requirements as stipulated within the relevant professional codes and legislation (a brief outline of the legislation and frameworks is provided at Appendix 1),
- Sufficient cash is available to meet both service activity and the Council's capital strategy,
- Any surplus cash balances are invested in line with the approved Investment Strategy,
- Periodic cash flows are prepared and maintained accurately using all information available,
- Where capital plans require, appropriate borrowing facilities are undertaken,
- When financially prudent any debt previously obtained is restructured,
- Any borrowing undertaken will be in line with the approved debt strategy.

1.2. Members are required to receive and approve, as a minimum, three main treasury reports each year which incorporate a variety of policies, forecasts and actuals as follows:

- **Annual Treasury Strategy (This Report)**

  ➢ A MRP (Minimum Revenue Provision) policy; this reflects capital expenditure previously financed by borrowing and how the principal element is charged to revenue over time

  ➢ The Treasury Management Strategy; how the investments and borrowings are to be organised, including treasury prudential indicators and borrowing limits

  ➢ An Investment Strategy; the parameters on how investments are to be managed

- **Mid-year update**

  ➢ update for Members with the progress of the treasury management activities undertaken for the period April to September

  ➢ opportunity for amending prudential indicators and policies if necessary.

- **Annual outturn**

  ➢ this provides details of actual treasury operations undertaken in the previous financial year.

1.3. Each of the above three reports are scrutinised by the Council's Accounts & Audit Committee before being brought to either Executive or Council, as appropriate, for final approval.

1.4. This report which has been prepared in accordance with the required statutory regulations and guidance, includes;

- The current treasury position (section 2);
- Economic & Interest Rate forecast (section 3)
- Debt Strategy (section 4)
- Minimum Revenue Provision (section 5)
- Investment Strategy (section 6)
- Investment Risk Benchmarking (section 7)
- Prudential Indicators (section 8)
- Related Treasury Issues (section 9)
- Recommendations (section 10)
- Appendices.

1.5. The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions as covered by this report), and more strategic investments, such as investments supporting regeneration, which are reported and managed through the capital programme. To assist with this activity, the Council uses a specialist external advisor.

1.6. Whilst any strategic initiatives or loans to third parties will impact on the treasury function, these activities are classed as non-treasury activities, (arising from capital expenditure) and are separate from the day-to-day treasury management activities. Details of these transactions are shown in Appendix 5 for reference.

1.7. The Council uses Arlingclose as its external treasury management advisors who provide a range of services on treasury matters from the supply of credit ratings to technical support. The Council recognises that there is value in using external providers for this service which is subject to regular reviews.

1.8. Whilst the external advisors provide support to the in-house team, the Council will consider all available information when forming an opinion on matters concerning treasury management and acknowledges that the final decision always remains with the Council.

2. Treasury Position

2.1. The Council's investment and debt positions at the beginning of the current financial year and as at 31st December 2024 are listed in the table below;

	31 March 2024		31 December 2024	
	Principal £m	**Average Interest Rate %**	**Principal £m**	**Average Interest Rate %**
DEBT				
Short term (payable before 31.03.25)				
PWLB	0.1	2.80	0.0	0.00
Market	0.0	0.00	0.0	0.00
Sub-total	**0.1**	**2.80**	**0.0**	**0.00**
Long term (payable after 31.03.25)				
PWLB	311.7	2.53	341.7	2.75
Market	21.0	4.79	21.0	4.79
Sub-total	**332.7**	**2.67**	**362.7**	**2.87**
Total debt	**332.8**	**2.67**	**362.7**	**2.87**
INVESTMENTS				
Short term (less than 1 year duration)				
- Instant access	31.2	5.26	41.1	4.76
- Call accounts	0.0	0.00	1.2	4.62
- Term deposit	0.0	0.00	0.0	0.00
Sub-total	**31.2**	**5.26**	**42.3**	**4.76**
Long term (greater than 1 year duration)				
- CCLA	4.6	5.34	4.6	5.55
- Asset Investment Strategy (AIS)	12.0	3.75	0.0	0.00
Sub-total	**16.6**	**4.19**	**4.6**	**5.55**
Total Investments	**47.8**	**4.89**	**46.9**	**4.84**

3. Economic & Interest Rate forecast

3.1. The impact on the UK from the government's Autumn Budget, slower expected interest rate cuts, a short-term boost, but modestly weaker economic growth over the medium term. In addition the impact from President Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Authority's treasury management strategy for 2025/26.

UK Economic Growth

3.2. The November quarterly Monetary Policy Report expected Gross Domestic Product to grow by 1.7% by end of 2025, it is then expected to drop to 1.1% by the end of 2026.

UK Inflation

3.3. Annual Consumer Price Index (CPI) inflation rate was 2.6% in November 2024, up from 2.3% in the previous month. The outlook for CPI inflation is forecast to rise above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of 2025. Over the medium-term, inflation is expected to stabilise around the 2% target.

Interest Rate Forecasts

3.4. The Bank of England's (BoE) Monetary Policy Committee (MPC) held the Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 0.25% cut from the 5.25% peak at the August MPC meeting.

3.5. Arlingclose produce interest rate projections periodically throughout the year and the latest forecasts (December 2024) are shown below:

Average rates	2024-25 Average Forecast %	2025-26 Forecast %	2026-27 Forecast %	2027-28 Forecast %
Bank Rate	4.95	4.13	3.75	3.75
Investment Rates 3 month	5.03	4.24	3.85	3.85
PWLB Loan Rates 5 Year 10 Year 20 Year 50 Year	 4.77 4.95 5.36 4.97	 4.95 5.18 5.65 5.35	 4.74 5.01 5.45 5.15	 4.85 5.05 5.45 5.15

3.6. The Council will continue to adopt a cautious approach to its treasury management activities whilst utilising the information available from both Arlingclose and other external sources which may become available during this time.

4. Debt Strategy

4.1. The Council's capital expenditure plans for the next three years are set out in the Capital Programme report. The Capital Programme is financed from various sources including grants, capital receipts and borrowing. All decisions on borrowing are taken by the Council.

4.2. The treasury management function ensures, in accordance with the relevant professional codes, that sufficient cash is available to meet day to day service activity and where capital plans require, appropriate borrowing facilities.

4.3. The total of the Council's loans outstanding as at 31 December 2024 was £362.7m and a breakdown of this debt is provided for reference in Section 2 above. Since last reporting, new debt has been drawn from the PWLB of £30m in two loans: £20m with a 3-year term expiring 15th November 2027, and £10m with a 5-year term expiring 18th December 2029.

<u>The Capital Financing Requirement</u>

4.4. The underlying need to borrow for the Capital Programme is called the Capital Financing Requirement (CFR) which represents the total level of outstanding capital expenditure both historic and planned, not yet paid for from either revenue or capital resources (eg capital grants). It is essentially a measure of the Council's indebtedness or its underlying borrowing need.

4.5. CFR increases with new debt-financed capital expenditure and reduces with contributions made under Minimum Revenue Provision (MRP) and capital receipts if they are used to reduce debt. The CFR is not allowed to rise indefinitely, and statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset with an annual revenue charge, the MRP (see section 5 for policy), being applied to reduce the CFR each year.

4.6. The Council needs to ensure that its debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates going out to 2027/28. Whilst this allows some flexibility for limited early borrowing for future years, it also ensures that borrowing is not undertaken for revenue or speculative purposes. The Director of Finance and Systems can confirm that to date the Council has not exceeded the CFR with its debt.

4.7. The Council continues to be in an under-borrowed position, (ie the level of external debt is less than the CFR). This under-borrowed position has arisen from previous and current year's borrowing need, not being fully funded with new loans, alternatively the Council has utilised its internal cash balances accumulated overtime from such items as the reserve balances.

4.8. This policy has proved an effective use of internal cash balances, rather than taking on potentially higher cost external debt facilities. However, as the Council's forecast under-borrowing was expected to grow to a level which was not considered sustainable, the policy was recently adapted to reduce the level of under borrowing over 2024/25 The Council will revert to using external debt to finance in-year borrowing requirements and the situation will continue to be monitored, with considerations given to movements in cash reserve balances, interest rates and future capital plans. The decision to borrow will be taken by the Director of Finance and Systems per delegated powers, and in accordance with the approved Treasury Management and Debt Strategies.

4.9. As a result of this approach the under borrowed position is therefore forecast to be reduced from £86.6m at 31st March 2024, to £36.25m by the end of 2024/25. This will allow the Council's cash reserves to be replenished. A projection of the CFR and External Borrowing is shown in the table below.

Estimates of Capital Financing Requirement	2024/25 Forecast	2025/26 budget	2026/27 budget	2027/28 budget
	£m	£m	£m	£m
Opening Capital Financing Requirement	**422.81**	**435.68**	**494.35**	**539.16**
Capital Expenditure - General Capital Programme	70.26	55.81	53.96	32.47
Capital Expenditure - Asset Investment Fund (AIF)	61.52	88.12	56.86	21.40
Less: Non-borrowing capital resources (eg grants/cap receipts)	(58.44)	(49.76)	(53.37)	(11.67)
Less: Minimum Revenue Provision	(5.25)	(5.84)	(6.15)	(6.30)
Less: AIF Investment Repayments	(54.78)	(28.02)	(6.00)	(39.95)
Less: PFI Adjustment	(0.38)	(0.40)	(0.43)	(0.46)
Less: Probation Service Adjustment	(0.07)	(0.07)	(0.07)	(0.06)
Capital Financing Requirement at the end of the year	**435.68**	**495.53**	**540.28**	**535.67**
Opening Debt Position	**332.69**	**399.43**	**465.58**	**517.03**
New loans drawn in year	30.00			
Forecast new loans drawn (*)	36.74	66.15	79.01	0.00
Natural maturity of loans	0.00	0.00	(27.55)	(5.50)
Closing Debt Position	**399.43**	**465.58**	**517.03**	**511.53**
(Under)/Over Borrowing	**(36.25)**	**(29.94)**	**(23.25)**	**(24.13)**
Borrowing within CFR?	**YES**	**YES**	**YES**	**YES**

(*) – actual amount borrowed in the year will reflect level of expenditure incurred and will only be taken out when required.

Borrowing Strategy

4.10. When any form of borrowing is required to finance the Council’s capital expenditure, be this long or short term, consideration will continue to be given to obtaining funds at the most advantegous rates possible at that time, from the following souces:

- Other local authorities,
- The Government via the Public Works Loans Board (PWLB),
- Dedicated publicly funded companies e.g. Salix,
- Financial institutions within the money market (insurance companies, pension funds and banks).

4.11. The uptake of new long-term debt will be processed in accordance with the Council’s approved scheme of delegation and reported to members at the earliest opportunity. Action of this sort will be undertaken in accordance with a number of factors such as affordability, proposed life of the asset, current interest rate projections and advice obtained from the Council’s external advisors.

4.12. Rescheduling any of the Council’s current loans will only be undertaken when it is cost effective to do so taking into account the high early repayment penalty (premium) which will be incurred. This situation will be monitored during the course of the year and in the event any debt rescheduling is done, it will be reported to the Members at the earliest opportunity following its action.

4.13. Whilst the Council retains the flexibility to borrow funds in advance of requirement because of potential changes to market conditions i.e. if a sharp rise in interest rates is anticipated, it 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 ensure that funds are taken within the forward approved CFR estimates and that value for money can be demonstrated.

4.14. Any borrowing taken by the Director of Finance and Systems in advance of need will be done in accordance with delegated powers and within the constraints stated below;

- no more than 50% of the expected increase in borrowing need (CFR) over the three year planning period and
- the Council would not look to borrow more than 12 months in advance of need.

Debt Maturity & Interest Rate Risk

4.15. The below table shows the maturity structure of the Council’s debt compared to the proposed prudential indicator. This assesses the need for future debt restructuring as loans mature, which can give an indication of any potential interest rate risk. This risk is that maturing loans may need to be refinanced at a higher interest rate, creating an additional revenue cost. To manage this risk, the maturity of new loans will be profiled to spread the restructuring requirements over differing periods.

Maturity structure of all external loan debt – As at 31/12/2024	**Prudential Indicator % of maturing debt should not exceed an Upper limit of**	**Actual % of debt maturing based on Current Debt**	**Actual Level of Maturing debt based on Current Debt** £m
Under 12 months	40.0	0.0	0.0
12 months to 3 years	40.0	9.0	33.1
3 years to 5 years	40.0	20.0	72.7
5 years to 10 years	40.0	0.0	0.9
10 years to 20 years	40.0	5.0	18.3
20 years to 30 years	40.0	1.0	3.1
30 years to 40 years	60.0	41.0	149.2
40 years and above	90.0	23.0	85.4

4.16. In the period from 1st April 2025 to 31st March 2028, £33.1m of external loans are expected to mature, of which £27.6m will mature in 2026/27. The weighted average interest rate of these loans is 2.46%, which is lower than the prevailing 5-year PWLB rate of 5.10%. This position will be monitored and any refinancing decisions will be taken in the context of the requirements of the Council's CFR and impact on the Asset Investment Programme for any associated loans.

Council Recommendations

4.17. The Council is recommended to approve:

- the above debt strategy and
- as part of the Prudential Indicators and Limits requirement, the limits for external debt in accordance with the Local Government Act 2003, having regard to CIPFA's prudential code before the commencement of each financial year. These limits are detailed at Appendix 2.

5. Minimum Revenue Provision Strategy

5.1. The Council is required by statute to make a charge to their revenue account to provide for the repayment of debt resulting from capital expenditure, known as Minimum Revenue Provision (MRP) it is also allowed to undertake additional voluntary payments if required (voluntary overpayment of MRP

5.2. The Council is required to determine a level of MRP it considers to be prudent, whilst having regard to the MRP Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG).

5.3. The Guidance provides suggested methods for the calculation of MRP that the MHCLG consider to be prudent, however the guidance and legislation do not define what is prudent. It is for each Authority to determine a prudent repayment based on its own individual circumstances, considering the medium and long-term financial plans, current budgetary pressures, future capital expenditure plans and funding needs.

Updated MRP Guidance

5.4. Following three rounds of consultation, in April 2024, the Ministry of Housing, Communities and Local Government (MHCLG) published its final consultation response, amendment regulations and revised statutory guidance on Minimum Revenue Provision (MRP). There were three main changes:

- Local authorities cannot exclude any amount of their Capital Financing Requirement (CFR) from their MRP calculation, unless by an exception set out in law.
- Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP, with specific exceptions for capital loans and leased assets.
- For capital loans given on or after 7th May 2024, sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding minus any expected credit loss.

  This change will result in any adverse movements in valuations (Expected Credit Losses) relating to capital loans made for investment purposes being charged to the General Fund in the financial year the credit loss is recognised removing the ability to spread any losses over the life of the asset as previously.

  This is a significant change in the Prudential Code designed to provide focus on investment risk and the implications of which has been considered as part of the Capital Strategy.

5.5. Changes will take effect from the 2025/26 financial year, except in respect of expected credit losses which take effect from the 2024/25 year.

Considerations for the Council's MRP Policy

5.6. In setting the Authority's MRP Policy, the Council needs to consider:

- ➢ Its appropriateness and compliance with the MRP guidance.
- ➢ Affordability, prudence and sustainability with regard to current revenue budgets of the Authority, balanced against deferring costs of future Council Taxpayers.

- ➢ The Authority's future capital programme in terms of complexity, variability and deliverability.
- ➢ Capital Financing Requirement (CFR) forecasts and the level of borrowing proposed by the Authority in future years.
- ➢ S151 officer consideration of what constitutes a prudent provision

5.7. The main consideration for the MRP policy and referred to in the Guidance is to align the period over which the MRP is made to one that is commensurate with the period over which their capital expenditure provides benefits.

5.8. An authority may also consider that 'prudent' in this context does not necessarily mean the quickest possible repayment period and will also have regard to the prudent financial planning of the authority overall, the flow of benefits from the capital expenditure, and other relevant factors. For example, the MRP Policy may also take account of the financial forecast in the authority's medium / long term financial plan in determining what is prudent MRP in the circumstances.

5.9. The majority of the MRP which the Council sets aside is done so currently under an Annuity Method. Under the Annuity Method, rather than setting aside MRP on an equal instalment basis it operates similar to a repayment mortgage where the principal element of the repayment increases over the life of the loan. Therefore, under this method MRP would start low then increase over the time.

Council Recommendations

5.10. The Council is recommended to approve the MRP Statement as detailed at Appendix 3.

6. Investment Strategy

6.1. In accordance with both MHCLG and CIPFA guidelines, the term 'investments' now reflects both financial and non-financial investments. This report deals solely with financial investments, (as managed by the in-house treasury management team). Non-financial investments, essentially the Council's Strategic Investment programme, are covered in the Capital Strategy, (a separate report).

6.2. When the Council's in-house treasury management team places an investment, it does so with regard to current legislation and guidance as highlighted below but also with regards to the outlook for short-term interest rates.

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Guidance Notes 2021 ("the Code")

6.3. Funds making up the Council's investments derive from monies received in advance of spend requirement and from the balances and reserves which it holds. Cash not required for immediate day to day use is invested for periods of time, using detailed cashflow projections.

Investment Prioritisation & ESG

6.4. On each occasion when the Council's in-house treasury management team places an investment it continues to ensure that the primary principle will be as that followed in previous years of **SLY**: **S**ecurity of funds first, **L**iquidity second followed by **Y**ield.

6.5. Environmental, social and governance (ESG) issues are increasingly significant for the Council and its residents. The CIPFA Treasury Management Code recommends that councils consider their credit and counterparty policies in light of ESG information. The Code also recognises that there is not a developed approach to ESG for public sector organisations, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real time ESG criteria at individual investment level.

6.6. To address this ESG obligation, the Council will only place funds with institutions which are signatories to the UN Principles for Responsible Banking or are UK Government or Local Government bodies. The UN Principles for Responsible Banking are a unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement. The Council's treasury advisors, Arlingclose, provide an updated list of signatories for review every month.

6.7. This is a developing area for Treasury Management and the Council will continue to monitor progress and develop its policies in line with guidance from both CIPFA and the Council's Treasury Management Advisors.

6.8. The Council will also remove from its approved lending list any financial institutions whose practices or behaviours are not deemed to be commensurable with the values or ethical standards of the Council.

Investment Risk

6.9. Guidance issued by both the MHCLG and CIPFA as identified at paragraph 6.2 places a high priority on the management of risk and whilst this will never completely be eliminated, it can be minimised. The Director of Finance and Systems will maintain a counterparty list with the assistance of Arlingclose specifying which institutions it can place funds with. By only placing funds with those institutions which appear on this list it reduces the risk from an institution defaulting. The key credit ratings used to monitor institutions are the short term and long-term ratings.

6.10. The Council will use UK institutions, including banks, building societies and local authorities together with banks located in a country which has a minimum Sovereign Long term credit rating of AA3. As well as detailing the credit rating institutions must meet to enable them to be included onto the Council's approved lending list, within their respective category, Appendix 4 also specifies both the maximum value and duration funds can be placed at any one time.

6.11. Credit rating information is supplied by Arlingclose, the Council's treasury advisors, on all active counterparties that comply with the criteria above. Any rating changes are provided to officers immediately after they occur, so a counterparty can be immediately included on to or removed off the approved list.

6.12. A full explanation of the credit ratings determining the institutions which the Council will use can be found at Appendix 4.

Investment Policy

6.13. Investments will continue to be placed as follows;

- Short-term – cash required to meet known cash flow outgoings in the next month, plus a contingency to cover any unexpected transaction over the same period with bank notice accounts and money market funds being the main methods used for this purpose.
- Medium-term – cash required to manage the annual seasonal cash flow cycle covering the next 12 months and will generally be in the form of fixed term deposits and ultra-short dated bond funds.
- Long-term – cash not required to meet any immediate cash flow requirements and can be used primarily to generate investment income by using fixed or structured term deposits, certificates of deposits, government bonds or the Local Authority Property Investment fund.

6.14. Investment instruments identified for use in the financial year together with institution limits are detailed for members reference in Appendix 4. The use of longer term instruments (greater than one year from inception to repayment) falls in the Non-specified investment category and these will only be used where the Council's liquidity requirements are safeguarded and be limited to the Prudential Indicator which is also detailed at Appendix 2.

6.15. The level of the Council's investments together with the average interest rate, as at 31 December 2024, is provided for reference at paragraph 2.1

Council Recommendations

6.16. Members are asked to approve this investment strategy, however, the Director of Finance and Systems may temporarily restrict further investment activity to those institutions considered of higher credit quality than the minimum criteria set out for approval should any exceptional market conditions be encountered.

6.17. The Council is recommended to approve:

- The adoption of the above Investment strategy and
- The minimum criteria for providing a list of high-quality investment institutions, instruments and limits to be applied as set out at Appendix 4.

7. Investment Risk Benchmarking

7.1. The CIPFA Code of Practice and MHCLG Investment Guidance require that appropriate security and liquidity benchmarks are considered and reported to members annually and details of these are provided in Appendix 4.

7.2. Benchmarks are simple guides and are used to assist in monitoring trends and manage risk. They may be breached from time to time, depending on movements in interest rates and institution criteria.

8. Prudential Indicators

8.1. A number of indicators have been devised for the treasury management process and these have been prepared to assist managing risk and reduce the impact of an adverse movement in interest rates. These indicators have been set at levels which do not restrict day to day activities whilst at the same time ensure the Council's capital expenditure plans are prudent, affordable and sustainable.

Council Recommendations

8.2. Members are recommended to approve the full set of Prudential Indicators for the Council's treasury management activities as detailed at Appendix 2.

9. Related Treasury Issues

Legislative Changes

9.1. Whilst investments under the Asset Investment Strategy are made to support policy related activities and are therefore considered outside the treasury management function, their implementation will have an impact on the Council's cash flow. All such investments are considered on each occasion with respect to the implications to the Council's approved Debt and Investment Strategies.

9.2. International Financial Reporting Standards 9 (IFRS9). This was introduced to enable a reader of the Council's accounts to fully assess the worth and risk of its financial instruments with any potential losses or profits being taken to the accounts in full in the year they occur. Whilst IFRS 9 is primarily a re-classification not a re-valuation exercise, its introduction has not had any major impact for the Council to date. Currently there is one investment which is affected by this re-classification which is placed with the pooled Church Commissioners Local Authority in its Property fund. To mitigate against revaluation losses or gains impacting on the Council's General Fund, MHCLG issued an override which has been extended to 31 March 2025 enabling local authorities' time to either arrange for a planned exit or for potential surpluses to be placed into an unusable reserve and applied in those years when a downward revaluation occurs.

The Council's in-house team will:

- continue to monitor both the monthly valuations received for this investment and the quarterly market forecasts produced to ensure that any potential losses in valuation are kept to a minimum and
- set aside a provision within the interest rate smoothing reserve to mitigate any potential losses.

Training

9.3. The Council also acknowledges the importance of ensuring that all members and staff involved in the treasury management function receive adequate and relevant training in order to undertake the duties and responsibilities allocated to them. This is further highlighted in the CIPFA Code which requires the responsible officer, the Director of Finance and Systems, ensures that members with responsibility for this task, receive adequate training in treasury management.

9.4. The CIPFA Treasury Management Code was updated in September 2021 and from 2023 required that all staff involved in the Treasury Management function have the necessary expertise, knowledge and skills to perform their role.

9.5. Regular training is provided to Members of the Accounts and Audit Committee and for reference a member training event was provided on 20th January 2025 as part of the consideration of this annual strategy by the Council's in-house team and its external advisors Arlingclose. Additional training is also provided as a precursor to the regular updates at year-end and mid-year.

9.6. Continuing attendance at relevant courses/seminars/webinars by staff and members as presented by CIPFA, Arlingclose and other suitable professional organisations will be encouraged.

10. Recommendations

10.1. That Accounts & Audit Committee be requested to note and recommend the report to Executive.

10.2. That Executive notes the report and recommends that Council approves:

- the Treasury Management Strategy 2025/26 – 2027/28 including the:
- policy on debt strategy as set out in section 4;
- the Minimum Revenue Provision policy as set out in section 5;
- Investment Strategy as set out in section 6;
- Prudential Indicators and limits including the Authorised Limit (as required by section 3(1) of the Local Government Act 2003), Operational Boundary, Minimum Revenue Provision Statement and Investment criteria as detailed in Appendix 2.

Other Options

This report is a mandatory report which has been produced in order to comply with Financial Procedure Rules and relevant legislation. The MHCLG Guidance and CIPFA Code do not prescribe any particular treasury management strategy for Councils to adopt and there are an unlimited number of other options that the Council could consider as part of its treasury management activities. This report however outlines an approach with an appropriate balance between risk management and cost effectiveness and is recommended by the Director of Finance and Systems.

Consultation

There are no applicable consultation requirements in respect of this report. Advice has been obtained from Arlingclose, the Council's external advisors.

Reasons for Recommendation

The Financial Procedure Rules, incorporating the requirements of the CIPFA Treasury Management Code of Practice requires that the annual strategy report is provided to the Council as an essential control over treasury management activities. In it the Council approves the parameters under which officers will operate. In addition, The Local Government Act 2003 requires that the Council approves an annual borrowing limit (the Authorised Limit) and MHCLG Guidance an annual investment strategy (setting out the limits to investment activities) prior to the commencement of each financial year.

Key Decision

This will be a key decision likely to be taken in: February 2025

This is a key decision currently on the Forward Plan: Yes

Finance Officer Clearance DM

Legal Officer Clearance EM

Corporate Director's Signature GB

APPENDIX 1

STATUTORY FRAMEWORK

Local Government Act 2003

In accordance with the Local Government Act 2003 (and supporting regulations and guidance) each Council must before the commencement of each financial year, produce a report fulfilling three key requirements as stipulated below;

- The debt strategy in accordance with the CIPFA Code of Practice on Treasury Management (section 4);
- The investment strategy in accordance with the MHCLG investment guidance (section 6);
- The reporting of the prudential indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix 3).

CIPFA Code of Practice

The Council's treasury activities are strictly regulated by statutory requirements in conjunction with a professional code of practice (the CIPFA Treasury Management Code of Practice). These Codes are revised from time to time and the Council complies with any revisions.

TREASURY PRUDENTIAL INDICATORS AND LIMITS

In accordance with the current CIPFA Prudential code, the Council is required to produce prudential indicators and limits reflecting the projected capital activity regarding its capital investment programme. These have an impact on the Council's treasury management activities and are monitored on a regular basis with any breaches being reported to Council at the earliest opportunity.

Authorised Limit for External debt	**2024/25 estimate £m**	**2025/26 estimate £m**	**2026/27 estimate £m**	**2027/28 estimate £m**
General Capital Programme	280.0	200.0	200.0	200.0
Strategic Investment programme	370.0	425.0	475.0	500.0
Other Long Term Liabilities (PFI)	3.4	3.0	2.6	2.1
Total	**653.4**	**628.0**	**677.6**	**702.1**

Authorised Limit for External debt. This is a key prudential indicator and represents a control on the maximum level of external debt that the Council will require for all known potential requirements. It includes headroom to cover the risk of short-term cash flow variations that could lead to temporary borrowing and any potential effects arising from bringing "off balance sheet" leased assets onto the balance sheet in compliance with IFRS 16. This statutory limit as determined under section 3(1) of the Local Government Act 2003 needs to be approved by Council prior to the commencement of each financial year.

Operational Boundary for External debt	**2024/25 estimate £m**	**2025/26 estimate £m**	**2026/27 estimate £m**	**2027/28 estimate £m**
General Capital Programme	260.0	167.6	170.2	195.1
Strategic Investment programme	370.0	425.0	475.0	500.0
Other long term Liabilities (PFI)	3.4	3.0	2.6	2.1
Total	**633.4**	**595.6**	**647.8**	**697.2**

Operational boundary for External Debt, calculated on a similar basis as the authorised limit but represents the likely level of external debt that may be reached during the course of the year and is not a limit.

Upper limit for Principal sums invested over 1 Year	**2024/25 estimate £m**	**2025/26 estimate £m**	**2026/27 estimate £m**	**2027/28 estimate £m**
Maximum limit	**20.0**	**20.0**	**20.0**	**20.0**
Current investments: Church Commissioners Local Authorities Property Investment Fund	5.0	5.0	5.0	5.0
Total Current Investments	5.0	5.0	5.0	5.0

Upper Limit for sums invested for over 1 year – these limits are set with regard to the Council's liquidity requirements.

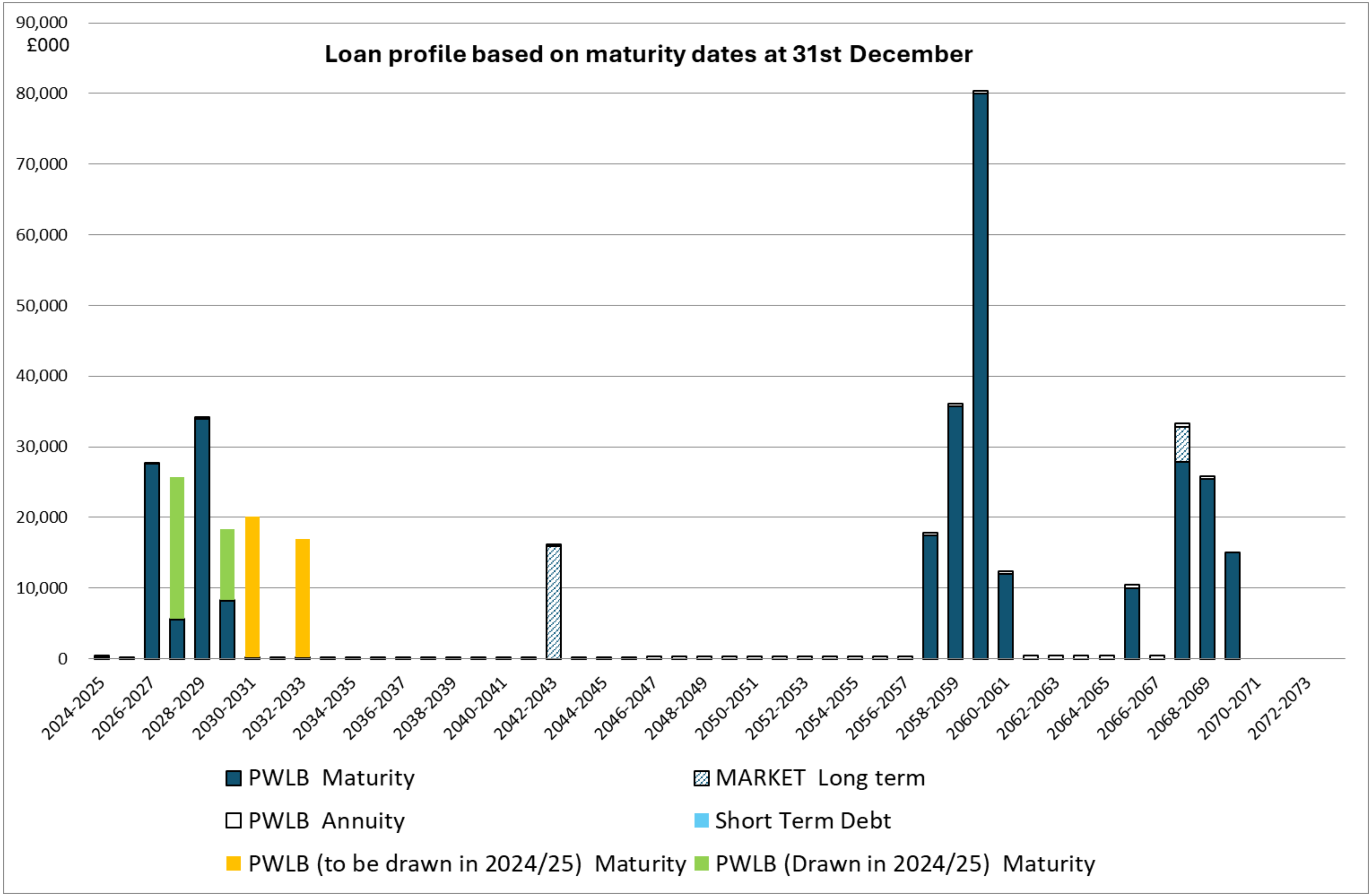
Upper Interest limits	2024/25 estimate £m	2025/26 estimate £m	2026/27 estimate £m	2027/28 estimate £m
Fixed interest rate exposure based on net debt	9.5	9.5	9.5	9.5
Variable interest rate exposure based on net debt	1.0	1.0	1.0	1.0

Upper Interest Limits – identifies the maximum limit of interest payable after deducting all investment interest for each category of interest rate fixing

Maturity structure of all external loan debt – 2025/26 to 2026/27	Prudential Indicator % of maturing debt should not exceed an Upper limit of	Actual % of debt maturing based on Current Debt	Actual Level of Maturing debt based on Current Debt £m
Under 12 months	40.0	0.0	0.0
12 months to 2 years	40.0	8.0	27.7
2 years to 5 years	40.0	22.0	78.2
5 years to 10 years	40.0	0.0	0.9
10 years to 20 years	40.0	5.0	18.3
20 years to 30 years	40.0	1.0	3.1
30 years to 40 years	70.0	41.0	149.2
40 years and above	90.0	23.0	85.1

Maturity Structure of Borrowing

Gross limits are set to reduce the Council's exposure to large sums falling due for payment or refinancing and reflect the next date on which the lending bank can amend the interest rate for any Lender Option Borrower Option loans (the Council currently has no LOBO loans).


Loan profile based on maturity dates at 31st December
£000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
2024-2025
2026-2027
2028-2029
2030-2031
2032-2033
2034-2035
2036-2037
2038-2039
2040-2041
2042-2043
2044-2045
2046-2047
2048-2049
2050-2051
2052-2053
2054-2055
2056-2057
2058-2059
2060-2061
2062-2063
2064-2065
2066-2067
2068-2069
2070-2071
2072-2073
PWLB Maturity
MARKET Long term
PWLB Annuity
Short Term Debt
PWLB (to be drawn in 2024/25) Maturity
PWLB (Drawn in 2024/25) Maturity

Gross Debt and the Capital Financing Requirement

The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 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.

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

Liability Benchmark

In the update to the Treasury Management Code made in December 2021, a requirement has been made for the Council to estimate and measure its liability benchmark. The liability benchmark is not a single measure but is presented as a chart of four balances as described below. A warning would be indicated if the Liability Benchmark (which is the Net Loans Requirement plus a notional buffer of £30m) exceeds the Loans CFR.

■ Existing loan debt outstanding: the Council's existing loans which are still outstanding in future years.

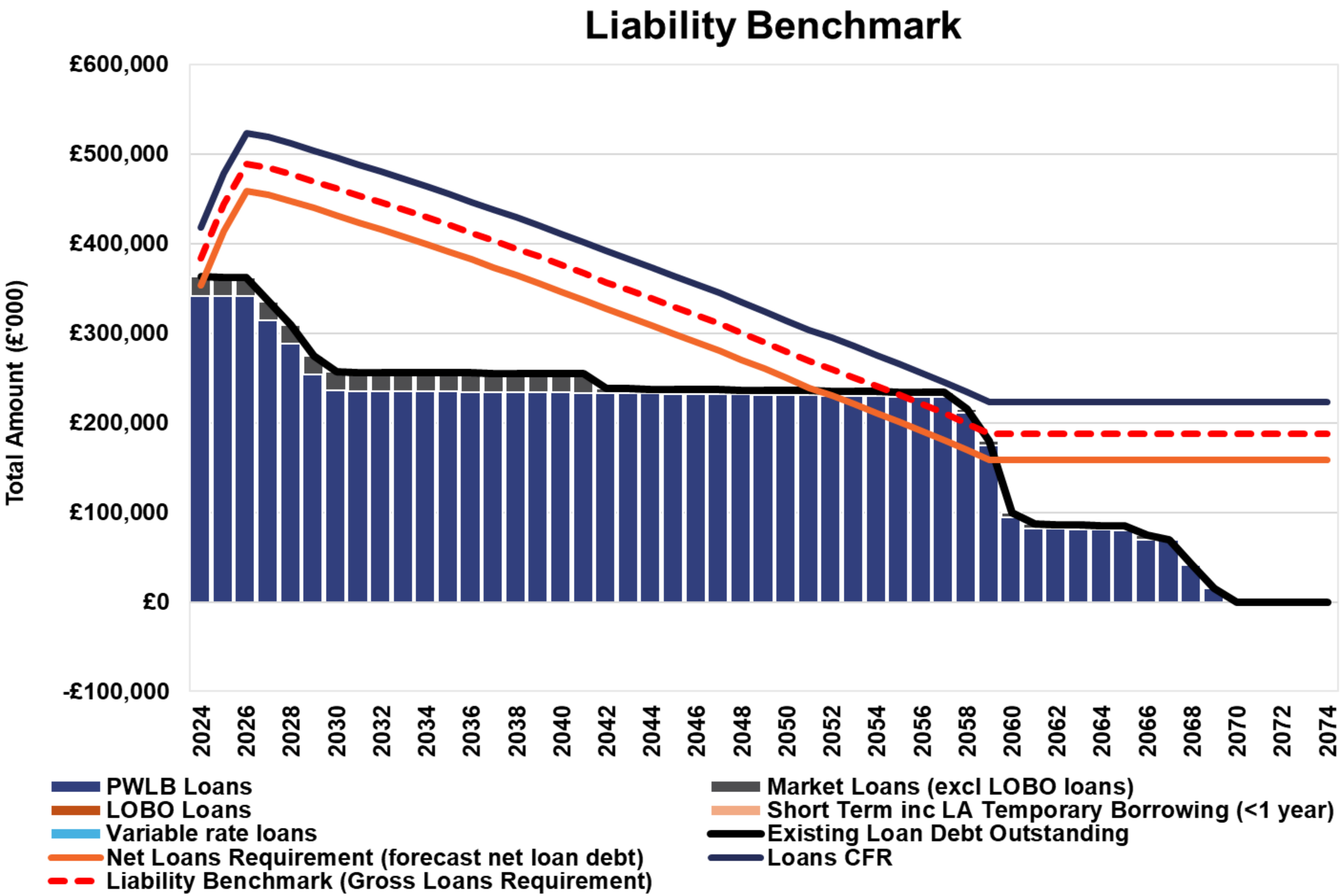
■ Loans CFR: calculated in accordance with the loans CFR definition in the Prudential Code, and projected into the future based on approved prudential borrowing and planned MRP taking account of approved prudential borrowing

■ Net Loans Requirement: the Council's gross loan debt, less treasury management investments, at the last financial year end, projected into the future based on its approved prudential borrowing, planned MRP and any other forecast major cash flows

■ Liability Benchmark (or Gross Loans Requirement) = Net loans requirement + short term liquidity allowance (a notional buffer of £30m)

The chart, below, shows that actual loans are less than the benchmark, which indicates a future borrowing requirement driven by spending with the capital strategy.

The chart below shows that the Liability Benchmark (forecast total external debt less investment) is less than the Loans Capital Financing Requirement.


Liability Benchmark
£600,000
£500,000
£400,000
£300,000
£200,000
£100,000
£0
-£100,000
Total Amount (£'000)
2024
2026
2028
2030
2032
2034
2036
2038
2040
2042
2044
2046
2048
2050
2052
2054
2056
2058
2060
2062
2064
2066
2068
2070
2072
2074
PWLB Loans
Market Loans (excl LOBO loans)
LOBO Loans
Short Term inc LA Temporary Borrowing (<1 year)
Variable rate loans
Existing Loan Debt Outstanding
Net Loans Requirement (forecast net loan debt)
Loans CFR
Liability Benchmark (Gross Loans Requirement)

MINIMUM REVENUE PROVISION

In accordance with the current MHCLG Guidance, The Local Authorities (Capital Finance and Accounting) Regulations 2008, and Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, the Council shall determine an amount of minimum revenue provision that it considers to be prudent and submit to Council for approval an annual MRP Statement which sets out its policy.

The following MRP Statement has been reviewed and prepared in accordance with the Council's accounting procedures and is recommended for approval to be effective from 1st April 2024:

- **Capital expenditure financed by Supported Borrowing:** MRP will be calculated on the Asset Life Method (up to 50 years), using an annuity calculation in accordance with MHCLG guidance;
- **Capital expenditure financed by Prudential Borrowing:** MRP will be based on either the estimated life of the assets once operational and charged on a straight line or annuity basis in accordance with MHCLG guidance;
- **PFI schemes and leases shown on the balance sheet:** MRP will be based on the amount of the principal element within the annual unitary service payment and financed from the provision set-up to cover the final bullet payment. Capital receipts are to be used to replenish this provision to ensure any final bullet payment can still be made in 2028/29;
- **Expenditure that does not create an asset:** this is where the Council through the Strategic Asset Investment Strategy has made equity investment with Joint Venture companies with MRP being provided and calculated on a straight line basis for periods up to 50 years or annuity basis in accordance with MHCLG guidance.
- **Use of a Capitalisation Direction:** Expenditure incurred in response to the issuance of a Capitalisation Direction by Central Government, MRP will be made over a period not exceeding 20 years, in accordance with the 2018 Guidance;
- **Equity** – MRP for the acquisition of share capital will be calculated on a straight line basis for a period up to 20 years or annuity basis in accordance with MHCLG guidance. The Council will consider on a case by case basis the appropriateness of the application of this period against any equity investments it undertakes.
- **Lending to a third party**: In instances where the Council lends funds to a third party for non-commercial purposes, such as regeneration, the Council will treat the advance as "Serviced debt" and therefore no MRP will be set-aside providing there is an agreed repayment date. MRP would be set aside should the Council issue a commercial capital loan, i.e. a loan for a primarily financial return.
- **Voluntary Overpayment of MRP:** The Council has the option of making a Voluntary overpayment of MRP in addition to MRP. The Council may treat VRP as 'up-front' provision (having a similar impact to the early repayment of debt) and thus recalculate future MRP charges accordingly. The Council may in some circumstances apply the voluntary overpayment to relatively short-life

assets/expenditure in order to facilitate a reduction in the future base revenue budget needed to fund capital financing costs

- **Expected Credit Loss (ECL):** Should an ECL or impairment be recognised for a capital loan issued or agreed, after the 7th May 2024, then the Council will make an MRP charge equivalent to the ECL in the year in which the impairment is recognised.

Per the updated 2003 regulations, no element of the Council's CFR is excluded from consideration in the calculation of the Council's annual MRP charge save for those which are exempt per regulations. This exemption is inclusive of the provision of non-commercial capital loans.

Appendix 4

Investment Strategy

Counterparty Selection

- The Council will only use institutions which are located in the UK or from a country with a minimum Sovereign Long term credit rating of AA3.
- The individual credit criteria for each type of financial institution is highlighted below and where credit ratings have been issued, both the Long and Short term rating from 2 of the 3 main agencies will need to meet the minimum required. The requirements shown below for categories 1 to 5 and 7 will be applied to both Specified and Non-specified investments. Category 6 applies only to The Church Commissioners Local Authorities Property Investment fund.
- The CIPFA Treasury Management Code requires local authorities to consider their counterparty policies in regard to environmental, social and governance (ESG) information. With this in mind, the Council will only place funds with institutions which are signatories to the UN Principles for Responsible Banking, or are UK Government or Local Government bodies.
- The Council will remove from its approved lending list any financial institutions whose practices or behaviours are not deemed to be commensurable with the values or ethical standards of the Council.

The limits shown in the table below are set at a contingency level and operationally monies will be placed with a number of institutions with a maximum 20% of the portfolio being placed with any one institution at the time each investment is made. This situation will be monitored during the course of the year with any corrective action being undertaken at the first opportunity without any financial penalty being incurred.

	Moody (or equivalent) – Long Term	Maximum Group Limit	Maximum Time Limit
Category 1 • UK & Non UK Banks (bank subsidiaries must have a parent guarantee in place), • UK Building Societies Institutions must also have an individual minimum Short Term credit rating of – Moody P1 (Top) or equivalent.	AA2 to AAA AA1 to AA3 A3 to A2	£75m £25m £10m	3yrs 1yr 1yr
Category 2 UK Building Societies which are unrated or do not meet the minimum ratings as per Category 1 with assets in excess of; • £5bln+, • £2.5bln - £4.99bln	- -	£5m £3m	1yr 1yr
Category 3 UK Banks part nationalised - Royal Bank of Scotland. This bank or its subsidiaries can be included provided it continues to be part nationalised or meets the ratings in category 1 above.	-	£20m	1yr
Category 4 The Council's own banker for transactional	-	n/a	1day

purposes if the bank falls below the above criteria.			
Cont…	**Moody (or equivalent) – Long Term**	**Maximum Group Limit**	**Maximum Time Limit**
Category 5 • Pooled Investment Vehicles: ➢ Money Market Funds (per fund) ➢ Ultra-Short Dated Bond Funds(per fund) • Social & Ethical funds (per fund) • UK Government (including treasury bills, gilts and the DMO) • Local Authorities (per authority) • Supranational Institutions	AAA AA2 - - - -	£20m £15m £5m £20m £10m £20m	3yrs 3yrs 10yrs 3yrs 3yrs 1yrs
Category 6 • Local Authority Property Investment fund	-	£10m	15yrs
Category 7 • Support for the Strategic Asset Investment Programme (per investment)	-	£80m	5yrs

Credit rating guide

GLOBAL LONG-TERM RATING SCALE

Long-term ratings are opinions of the relative credit risk of financial obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings use Moody's Ratings Global Scale and reflect both the likelihood of default and any financial loss suffered in the event of default.

Aaa	Obligations rated Aaa are judged to be of the highest quality, with minimal risk
Aa	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk
A	Obligations rated A are considered upper medium-grade and are subject to low credit risk
Baa	Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess speculative characteristics.
Ba	Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk
B	Obligations rated B are considered speculative and are subject to high credit risk
Caa	Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk
Ca	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery in principal and interest
C	Obligations rated C are the lowest-rated class of bonds and are typically in default, with little prospect for recovery of principal and interest

GLOBAL SHORT-TERM RATING SCALE

Short-term ratings, unlike our long-term ratings, apply to an individual issuer's capacity to repay all short-term obligations rather than to specific short-term borrowing programs.

P-1	Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations
P-2	Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations
P-3	Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations
NP	Issuers (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories

	Description	Fitch	Moody's	S&P
		Long	Long	Long
INVESTMENT GRADE	Extremely strong	AAA	Aaa	AAA
	Very strong	AA+	Aa1	AA+
		AA	Aa2	AA
		AA-	Aa3	AA-
	Strong	A+	A1	A+
		A	A2	A
		A-	A3	A-
	Adequate	BBB+	Baa1	BBB+
		BBB	Baa2	BBB
		BBB-	Baa3	BBB-
SPECULATIVE GRADE	Speculative	BB+	Ba1	BB+
		BB	Ba2	BB
		BB-	Ba3	BB-
	Very speculative	B+	B1	B+
		B	B2	B
		B-	B3	B-
	Vulnerable	CCC+	Caa1	CCC+
		CCC	Caa2	CCC
		CCC-	Caa3	CCC-
		CC	Ca	CC
		C		C
	Defaulting	D	C	D

Specified and Non Specified Investments

In accordance with the current Code of Practice, the Council is required to set criteria which identify its investments between Specified and Non Specified investments and these are classified as follows;

- **Specified investments** - high security and liquid investments with a maturity of no more than a year or those which could be for a longer period but where the Council has the right to be repaid within one year if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small.

- **Non specified investments** - any other type of investment not defined as specified above. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity. A maximum of £100m is permitted to be held in this classification as detailed in Appendix 2, Prudential Indicator, Upper limit for sums invested over one year.

Instruments & Maximum period

All Investments undertaken will be in Sterling and placed in any of the following instruments: Term Deposits, Money Market Funds, Ultra Short Dated Bond Funds, Treasury Bills, Bonds, Gilts or Certificates of Deposits unless otherwise stated below;

Specified Investments	Maximum Maturity
The UK Government including Local Authorities and Debt Management Office.	1 Year
Supranational bonds of less than one year duration (e.g. International Monetary Fund)	1 Year
Pooled investment vehicles such as money market funds (including the revised categories of Low Volatility Net Asset value and variable Net Asset Value funds) Social & Ethical funds and low volatility bond funds.	1 Year
An institution that has been awarded a high short term credit rating (minimum F1 or equivalent) by a credit rating agency, such as a bank or building society.	1 Year
Non-Specified Investments	**Maximum Maturity**
Multilateral development bank bonds. These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. World Bank). The security of principal and interest on maturity is on a par with the Government and these bonds usually provide returns above equivalent gilt edged securities. The value of the bond may rise or fall and losses may accrue if the bond is sold prematurely.	3 Years
Gilt edged securities. These are Government bonds and provide the highest security of interest and principal. The value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	3 Years
The Council's own bank if it fails to meet the basic credit criteria with balances being kept to a minimum.	1 Day
UK Banks which have significant Government holdings	1 Year
Any bank or building society which meets the minimum long term credit criteria for Category 1 institutions detailed on page 23 with a maturity of greater than one year (including forward	3 Years

deals in excess of 1 year from inception to repayment).	
Building societies. The operation of some building societies does not require a credit rating, although in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of £2.5bln but will restrict these type of investments as shown for Category 2 institutions on page 24.	1 Year
The UK Government including Local Authorities and Debt Management Office.	3 Years
Pooled investment vehicles such as money market funds (including the revised categories of Low Volatility Net Asset value and variable Net Asset Value funds) Social & Ethical funds and low volatility bond funds.	10 Years
Share capital or loan capital in a body corporate. The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources.	Unspecified
Manchester Airport Group – This is in response to the restructuring of the airports existing debt and is included for clarity and transparency purposes only.	Term of loans
Church Commissioners Local Authorities Property Investment Fund - This fund is aimed solely for use by public sector organisations wishing to invest in the property market whilst at the same time generating a favourable rate of return.	10 Years
Support the Strategic Asset Investment programme - where external borrowing to support the investment would not be in accordance with the CIPFA Prudential Code.	5 Years

INVESTMENT CREDIT AND INSTITUTION RISK MANAGEMENT

Monitoring of investment counterparties

The Council receives credit rating advice from Arlingclose and when ratings change this information is checked promptly to ensure institutions affected comply with the Council's criteria. On the occasion a rating may be downgraded when an investment has already been made, the criteria used are such that this should not affect the full receipt of the principal and interest. Any institution failing to meet the criteria, or those on the minimum criteria placed on negative credit watch, will be removed from the list immediately and if required new institutions which meet the criteria will be added.

		Credit Rating Agency		
Classification	**Description**	**Fitch** **(Minimum)**	**Moody's** **(Minimum)**	**Standard & Poors (Minimum)**
Short Term	Ensures that an institution is able to meet its financial obligations within 1 Year	F1 (Range **F1+, F2 A** to **C**)	P1 (Range **P1** to **P3**)	A1 (Range **A-1+,** to **C**)
Long Term	Ensures that an institution is able to meet its financial obligations greater than 1 Year	A- (Range **AAA** to **D**)	A3 (Range **AAA** to **C**)	A- (Range **AAA** to D)

The Council's list of Investment institutions is prepared primarily using credit rating information with full regard also being given to other sources of available information concerning credit quality. The information below will continue to be considered when undertaking investments;

- Credit default swaps - CDS were first created in 1997 and are a financial instrument for swapping the risk of debt default. Essentially the owner of the debt would enter into an agreement with a third party who would receive a payment in return for protection against a particular credit event – such as default. Whilst absolute prices can be unreliable, trends in CDS spreads do give an indicator of relative confidence about credit risk.
- Equity prices – like CDS prices, equities are sensitive to a wide array of factors and a decline in share price may not necessarily signal that the institution in question is in difficulty.
- Interest rates being paid - If an institution is offering an interest rate which is considerably out of line with the rest of the market this could indicate that the investment is likely to carry a high risk.
- Information provided by treasury management advisors – this may include some information detailed above together with weekly investment market updates.
- Market & Financial Press information – information obtained from the money market brokers used by the Council in respect of interest rates & institutions will also be considered.

No investment will be made with an institution if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

In order to further safeguard the Council's investments and in addition to the information shown at Appendix 3, due care will be taken to consider country, group and sector exposure as follows;

- **Country** – this will be chosen by the credit rating of the Sovereign state as shown at Appendix 3 and no more than 40% of the Council's total investments will be directly placed with non-UK counterparties at any time;
- **Group** – this will apply where a number of financial institutions are under one ownership (e.g. Royal Bank of Scotland / Nat West) and the Group limit will be the same as the individual limit for any one institution within that group;
- **Sector** limits will be monitored regularly for appropriateness.

Investment Risk benchmarking

Security benchmarks are central to the approved treasury strategy through the institution selection criteria and proposed benchmarks for these are set out below.

A method to benchmark security risk is to assess the historic level of default against the minimum criteria used in the Council's investment strategy. The table below shows the latest average historic defaults for 1 year investments of investment grade products for Moody's rating category over the period 1981 to 2023.

Historic Default Rate	AAA	AA1	AA2	AA3	A1	A2	A3
Moody's	0.00%	0.00%	0.00%	0.04%	0.06%	0.04%	0.06%

The Council's minimum long term rating criteria is currently "A3" (A-), meaning the average expectation of default for a one year investment in an institution with a "A3" long term rating would be 0.06% of the total investment (e.g. for a £1m investment the average loss would be £600). This is only an average as any specific institution loss is likely to be higher.

APPENDIX 5

NON-TREASURY INVESTMENT ACTIVITIES

Details of the actual spend and commitments on the Council's non-treasury activities are outlined below:

Description	£m	Purpose
General		
Manchester Airport Shares as at 31 March 2024	50.7	Strategic shareholdings in Manchester Airport Group
Manchester Airport Group	38.8	Regeneration – 3 Shareholder loans
Homestep	0.4	Regeneration – Capital loan monies advanced to assist first time buyers to acquire property within Trafford which remains in place
Town Centre	0.7	Regeneration – Capital loan monies advanced to assist businesses occupy empty high street units within Trafford.
Sub-total	**90.6**	
Asset Regeneration Schemes		
Property Purchases	62.5	
Property Development	47.2	
Equity	52.5	
Development Debt	197.1	
Sub-total	**359.3**	
TOTAL	**449.9**	Further information can be found in Capital Strategy Report February 2025