

## Council – 24 February 2025

### Treasury Management Strategy 2025/26

Purpose	For Decision
Classification	Public
Executive Summary	The Treasury Management Strategy Statement sets out how the Council's treasury service will support the capital expenditure and financing decisions taken over the three-year period from 2025/26 to 2027/28. The day-to-day treasury management function and the limitations on activity through treasury indicators are also set out in the statement.
<b>Recommendations</b>	<b>It is recommended that Council approve:</b>  <b>1) the Treasury Management Strategy 2025/26 to 2027/28 including the Annual Treasury Management Investment Strategy for 2025/26 (and the remainder of 2024/25), and the Treasury Indicators contained within, as provided in Appendix 1 be approved.</b> <b>2) that authority is delegated to the Section 151 Officer, who in turn delegates to Hampshire County Council's Deputy Chief Executive and Director of Corporate Operations, as agreed in the Service Level Agreement, to manage all Council investments and borrowing according to the Treasury Management Strategy Statement as appropriate.</b>
Reasons for recommendation(s)	To comply with the statutory guidance issued by the Government in January 2018 and the CIPFA 2021 Prudential and Treasury Management Codes requiring all local authorities to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year.

	This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
Ward(s)	All
Portfolio Holder(s)	Councillor Jeremy Heron – Finance and Corporate
Strategic Director(s)	Alan Bethune – Strategic Director Corporate Resources & Transformation & Section 151 Officer
Officer Contact	Gemma Farley Principal Accountant, Hampshire County Council 0370 779 4704 gemma.farley@hants.gov.uk

## **Introduction and background**

1. The Treasury Management Strategy is a high-level document, giving an overview of how the Council manages and invests its surplus cash and its associated investment assets.
2. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
3. Treasury risk management at the Council is conducted within the framework of the CIPFA Code which requires the Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
4. Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

## **Policies and approvals required**

### Treasury Management Strategy Statement

5. The Treasury Management Strategy Statement sets out how the Council's treasury service will support the capital expenditure and financing decisions taken over the three-year period from 2025/26 to 2027/28. The day-to-day treasury management function and the limitations on activity through treasury indicators are also set out in the statement.
6. This report has been prepared prior to the adoption of the Capital Programme for 2025/26 and subsequent years. Therefore, the target indicators may be subject to minor variation. These indicators are targets only and minor adjustments will not be reported.
7. Any adjustments to the treasury management limits will be reported.

### Treasury Management Investment Strategy

8. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice (the CIPFA Code). This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
9. The Treasury Management investment strategy sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.
10. This strategy is shown in Appendix A in Section 5.
11. The policies and parameters included in this report provide an approved framework within which officers undertake the day-to-day treasury activities.
12. This strategy aims to strike a balance between allowing for current investment levels to continue, whilst also considering the Council's intention to directly invest in both commercial and residential property.

## **Corporate plan priorities**

13. Management of the Council's cash flows, borrowing and investments, and the associated risks ensures we are being

financially responsible which underpins the delivery of all our priorities.

### Options appraisal

14. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The S151 Officer believes that the strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed in Table 1.

**Table 1: Alternative strategies and their implications**

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

**Table 1: Alternative strategies and their implications**

<b>Alternative</b>	<b>Impact on income and expenditure</b>	<b>Impact on risk management</b>
		long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

**Consultation undertaken**

15. This report has been produced in consultation with Hampshire County council’s Investments & Borrowing team.
16. In November 2024, several members attended the annual treasury management briefing session provided by the Council’s treasury advisors Arlingclose.
17. The Audit Committee considered the Treasury Management Strategy Report 2025/26 at its meeting on 24 January 2025 and supported the recommendations set out in the report.

**Financial and resource implications**

18. Hampshire County Council’s Investments and Borrowing Team carry out the day-to-day management of the Council’s cash balances and investments. The council’s in-house finance team undertake the accounting, and the Section 151 Officer retains responsibility for strategic pooled fund investment and long-term borrowing decisions.
19. This is a financial report with any additional implications already detailed and considered in the main body of the report and appendices.

## **Legal implications**

20. To comply with the statutory guidance issued by the Government in January 2018 and the CIPFA 2021 Prudential and Treasury Management Codes requiring all local authorities to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
21. The Council's Treasury Management Strategy Statement follows the latest codes of practice and the MHCLG and CIPFA guidance.
22. With effect from February 2014 Hampshire County Council (HCC) and New Forest District Council ("the Council") established arrangements for the joint discharge of functions under Section (101) (1) and (5) of the Local Government Act 1972 and Section 9EA and 9EB Local Government Act 2000. Under this arrangement, HCC's Investments and Borrowing Team provide a Treasury Service which includes the management of the Council's cash balances and investment of surplus cash or sourcing of borrowing in accordance with the agreed Treasury Management Strategy Statement.

## **Environmental / climate and nature implications**

23. There are no environmental implications arising directly from this report.

## **Equalities implications**

24. There are no equality implications arising directly from this report.

## **Crime and disorder implications**

25. There are no crime and disorder implications arising directly from this report.

## **Data protection / information governance / ICT implications**

26. There are no data protection, information governance or ICT implications arising directly from this report.

**Appendices:**

Appendix 1 – Treasury  
Management Strategy 2025/26 –  
2027/28

**Background Papers:**

None

**TREASURY MANAGEMENT STRATEGY 2025/26 – 2027/28**

**1. INTRODUCTION**

- 1.1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.
- 1.2. Treasury risk management at the Council is conducted within the framework of the CIPFA Code which requires the Council to approve a Treasury Management Strategy Statement (TMSS) before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 1.3. Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

**2. EXTERNAL CONTEXT**

- 1.4. The following paragraphs explain the economic and financial background against which the TMSS is being set.

**Economic background**

- 1.5. The impact on the UK from the Government's Autumn Budget, slower interest rate cuts, modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Council's treasury management strategy for 2025/26.
- 1.6. The Bank of England's (BoE) Monetary Policy Committee (MPC) held 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.

### **Credit outlook**

- 1.7. Credit Default Swap (CDS) prices are used as an indicator of credit risk, where higher premiums indicate higher perceived risks. CDS prices have typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in 2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.
- 1.8. Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.
- 1.9. Overall, the institutions on the counterparty list provided by the Council's treasury management adviser, Arlingclose, remain well-capitalised. Arlingclose's counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

### **Interest rate forecast (December 2024)**

- 1.10. Arlingclose forecasts that the Bank of England's MPC will continue reducing rates through 2025, taking the Bank Rate to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as increasing the forecast terminal rate at the end of the cycle.
- 1.11. Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued

volatility), but to end the forecast period modestly lower compared to now. Yields will continue remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.

1.12. A more detailed economic and interest rate forecast provided by Arlingclose is attached at Appendix A.

### 3. BALANCE SHEET SUMMARY AND FORECAST

1.13. On 31 December 2024, the Council held £132.0m of borrowing and £57.4m of investments. This is set out in further detail at Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in Table 2.

<b>Table 2: Balance Sheet Summary and Forecast</b>	<b>31/03/24 Actual £m</b>	<b>31/03/25 Estimate £m</b>	<b>31/03/26 Forecast £m</b>	<b>31/03/27 Forecast £m</b>	<b>31/03/28 Forecast £m</b>
General Fund CFR	26.4	27.3	34.6	32.4	30.4
Housing Revenue Account CFR	19.8	30.0	43.8	55.9	71.5
HRA Settlement	114.0	109.9	105.8	101.7	97.6
<b>Total CFR</b>	<b>160.2</b>	<b>167.2</b>	<b>184.2</b>	<b>190.0</b>	<b>199.5</b>
Less: Other debt liabilities *					
- Leases	0.0	0.0	0.0	0.0	0.0
<b>Loans CFR</b>					
Less: External borrowing ***	(124.0)	(132.9)	(115.8)	(111.7)	(107.6)
<b>Internal borrowing</b>	<b>36.0</b>	<b>34.3</b>	<b>68.4</b>	<b>78.3</b>	<b>91.9</b>
Less: Balance sheet resources	(67.5)	(45.2)	(40.2)	(36.9)	(32.6)
<b>New borrowing or Treasury investments (-)</b>	<b>(31.5)</b>	<b>(10.9)</b>	<b>28.2</b>	<b>41.4</b>	<b>59.3</b>

\* Leases liabilities that form part of the Council's debt

\*\* IFRS 16 requires the Council to change how it recognises its leases from 1 April 2024

\*\*\* shows only loans to which the Council is committed and excludes optional refinancing

1.14. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

1.15. The General Fund CFR is showing an increase over the period as the Council implements the new Waste Strategy. New commercial and residential investment schemes have currently been put on hold due to the current interest rates making schemes less viable. The Housing Revenue Account (HRA) CFR is also increasing as the Council looks to deliver the requirements arising from Decarbonisation, Planned Maintenance, and the current Housing Development Programme, as per the Housing Strategy to 2026. Table 1 demonstrates that the Council will be internally borrowed beyond the resources available for investment. At this point, an external borrowing position sets in. At the appropriate time the Council will consult with its treasury advisors on how best to service its borrowing requirements, including the possibility of renewing maturing loans on the HRA.

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

#### 1.17. **Liability benchmark**

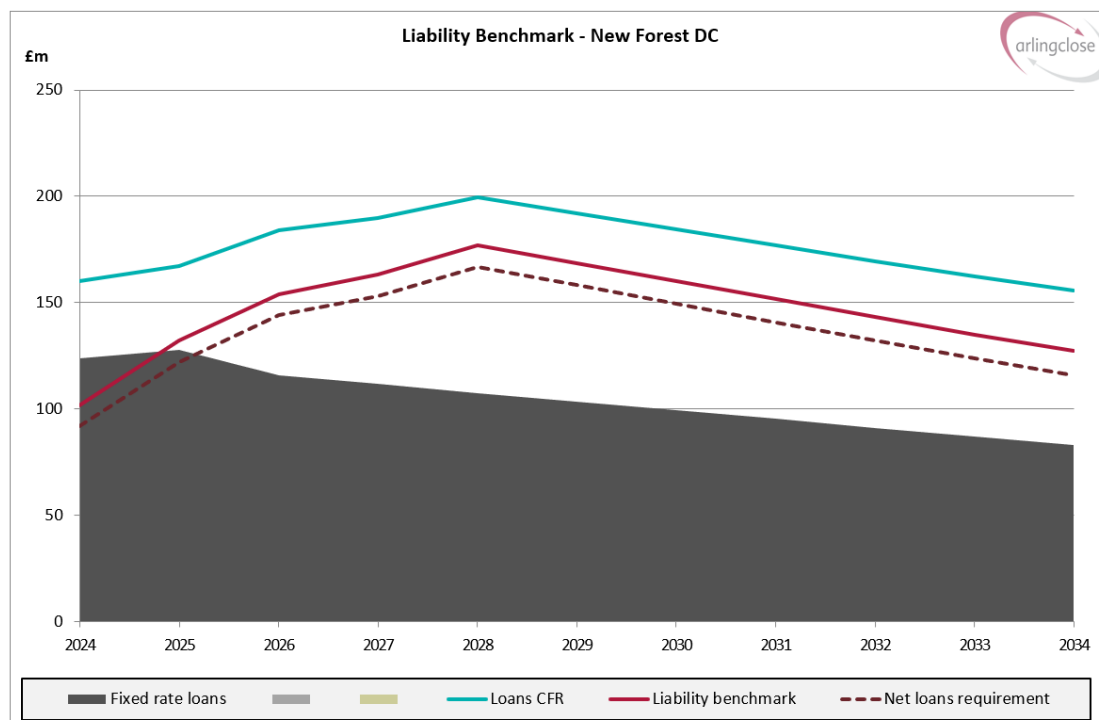
1.18. To compare the Council's actual borrowing against an alternative strategy, CIPFA requires that a liability benchmark is calculated to show the lowest risk level of borrowing. This assumes the same forecasts as Table 2, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

1.19. 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.

<b>Table 3: Liability benchmark</b>	<b>31/03/24 Actual £m</b>	<b>31/03/25 Estimate £m</b>	<b>31/03/26 Forecast £m</b>	<b>31/03/27 Forecast £m</b>	<b>31/03/28 Forecast £m</b>
Total CFR	160.2	167.2	184.2	190.0	199.5
Less: Balance sheet resources	(67.5)	(45.2)	(40.2)	(36.9)	(32.6)
<b>Net loans requirement</b>	<b>92.7</b>	<b>122.0</b>	<b>144.0</b>	<b>153.1</b>	<b>166.9</b>
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
<b>Liability benchmark</b>	<b>102.7</b>	<b>132.0</b>	<b>154.0</b>	<b>163.1</b>	<b>176.9</b>

1.20. At the start of the period, 31 March 2024, the Council had a Total CFR of £160.2m, external borrowing of £124.0m, balance sheet resources of £67.5m and a liability benchmark of £102.7m. The difference of £36.2m between the CFR and external borrowing is internal borrowing which is where the Council has used its own resources to fund its borrowing requirement.

## Graph 1: Liability Benchmark



The full liability benchmark is available at Appendix D to this report.

1.21. The liability benchmark is the lowest level of debt the Council could hold if it used all of its balances, reserves, and cash flow surpluses to fund its CFR. The liability benchmark graph is based on five years of data which explains why the Loans CFR line in Graph 1 continues to reduce past the initial five-year period – the diagram assumes that no new capital projects will begin after 2027/28, which is a very unlikely scenario but a reflection of the current horizon for capital expenditure forecasts.

1.22. The Council expects a positive liability benchmark across the forecast period, due to a rising CFR in combination with an expectation that balance sheet resources will drop, which generally means an authority is required to take external borrowing to fund the gap between its resources and the CFR.

1.23. The chart shows that it is expected that the external borrowing the Council has already arranged will not be sufficient, with it being below the minimum borrowing requirement, and so indicates that additional borrowing may be required to rectify this.

1.24. Unfortunately, a limitation of liability benchmarking is that the further out the forecast, the less it can be relied upon (particularly after 2027/28 after the end of the current capital expenditure forecast period) and so as time passes, the requirement to borrow may change and either may not be there for the whole period, or alternatively cash flow requirements that are not known about today may become present later which may require the Council to take additional external borrowing in the future.

#### **4. BORROWING STRATEGY**

1.25. The Council currently holds £137.0m of loans. The balance sheet forecast in Table 1 shows that the Council is forecast to maintain a net borrowing position and so may need to borrow to fund capital expenditure to maintain its long-term and minimum level of investments. The Council may also borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £230.5m.

##### **Objectives**

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

##### **Strategy**

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

1.28. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring

additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2025/26 with a view to keeping future costs low, even if this causes additional cost in the short-term.

- 1.29. The Council has previously raised all of its long-term borrowing from the Public Works Loan Board (PWLB) but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans. The Council may take the decision to retain the level of current borrowing attributed to the Housing Revenue Account to meet forthcoming pressures related to maintenance and building requirements. The level of borrowing could be retained through rearranging PWLB loans on maturity.
- 1.30. The Council may also arrange forward starting loans during 2025/26, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. The council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money.
- 1.31. In addition, the Council may borrow short-term loans (normally for up to one month) to cover unplanned cash flow shortages.

### **Sources of borrowing**

- 1.32. The approved sources of long-term and short-term borrowing are:
  - HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)

- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
- any institution approved for investments
- 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 Hampshire Pension Fund)
- capital market bond investors
- retail investors via a regulated peer-to-peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

### **Other sources of debt finance**

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

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback
- similar asset-backed finance

### **Short-term and variable rate loans**

1.34. These loans leave the Council exposed to the risk of short-term interest rate rises, which is monitored through the indicator on interest rate exposure in the treasury management indicators below.

### **Debt rescheduling**



1.35. The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities could arise and the opportunity to reschedule is kept under review.

## **5. TREASURY INVESTMENT STRATEGY**

1.36. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £29.7m and £76.6m.

### **Objectives**

1.37. 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. The council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

### **Strategy**

1.38. 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.

1.39. Given the increasing risk the Council aims to continue to hold investments that provide diversification through greater security and/or higher yielding asset classes. This is especially the case for the estimated funds that are available for longer-term investment.

1.40. At 31 December 2024 approximately 42% of the Council's investment balances were invested so that they were not subject to bail-in risk, as they were invested in Government investments, pooled property and equity funds, and secured bank bonds. Of the 58% of investment balances that were subject to bail-in risk, 82% were held in overnight money market funds and cash plus funds which are subject to a reduced risk of bail-in due to the high level of diversification within these investments, and 18% were held in overnight bank call accounts for liquidity purposes.

1.41. Further detail is provided at Appendix B.

### **Environmental, social and governance factors**

1.42. 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 Council does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in strategic pooled funds, the Council will prioritise 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.

### **Business models**

1.43. Under the new IFRS 9 standard, the accounting for certain investments depends on the 'business model' for managing them. The Council aims to achieve value from its internally managed treasury investments through a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

### **Investments in pooled funds**

1.44. The Council continues to invest in pooled funds which enables it to achieve a greater degree of diversification than could effectively be achieved by directly owning individual assets. Pooled funds are managed by specialist external fund managers who are best placed to select and manage investments, for example with property

investments in selecting appropriate buildings and then managing the relationship with tenants and the maintenance of those buildings.

- 1.45. Diversification in itself does not guarantee positive outcomes. The selection of a pooled fund is carefully managed to target funds with a strong performance track record and objectives that are well aligned to the Council's income returns aims without putting its initial investment at undue risk over the longer term. The Council is therefore currently invested in a pooled fund that specialises in providing income returns to support the revenue budget. As a result of their income focus this fund may not achieve the same capital growth and therefore total return, as other more general investment funds, however it is likely to deliver good income returns for the longer term.
- 1.46. The investible universe for pooled funds is vast and part of the service provided by Arlingclose as treasury advisers is to conduct research and suitable due diligence on pooled funds prior to making recommendations to their clients.
- 1.47. Past performance does not guarantee that funds can replicate successful outcomes in future and knowing which funds will perform well is not an exact science. The Council will therefore continue to conduct its own ongoing review and scrutiny of the performance of its pooled fund investments. The Council will also discuss these investments regularly with Arlingclose, who provide advice based on regular meetings with representatives from the pooled funds and their own ongoing due diligence on areas such as performance and investment style, strategy, and process.
- 1.48. The Council is aware of the risks involved with investing in pooled funds that hold underlying investments in equities and property. When the Council began to specifically target higher returns from a proportion of its investments, it also established a Treasury Management Reserve to mitigate the risk of an irrecoverable fall in the value of these investments. The balance held in this reserve is currently £300,000.

1.49. At the current time, the Council's pooled fund investments are valued with an unrealised capital loss of £0.7m. To date, the statutory override in place of IFRS 9 for local authorities exempts the Council from taking this unrealised loss to the Comprehensive Income and Expenditure Statement. This override is due to come to an end on 31 March 2025, following which the Council will be required to reflect any unrealised capital gains or losses on investments in the revenue account on an annual basis.

### **Investment limits**

1.50. The maximum that will be lent to any one organisation (other than the UK Government) will be £7m. Over the longer term it is expected that the Council's cash balances will reduce, and new external borrowing will need to be taken. This limit allows the flexibility to ensure that all of the Council's cash can be invested in accordance with this TMSS.

1.51. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits are also placed on fund managers as shown in Table 4.

<b>Table 4: Investment limits</b>	<b>Cash limit</b>
Any single organisation, except the UK Central Government	£7m each
UK Central Government	Unlimited
Any group of pooled funds under the same management	£17.5m per manager

### **Approved counterparties**

1.52. The Council may invest its surplus funds with any of the counterparty types in Table 5, subject to the limits shown.

<b>Table 5: Sector and counterparty limits</b>			
<b>Sector</b>	<b>Time limit</b>	<b>Counterparty limit</b>	<b>Sector limit</b>
The UK Government	3 years	Unlimited	n/a

Local authorities & other government entities	3 years	£7m	Unlimited
Secured investments *	3 years	£7m	Unlimited
Banks (unsecured) *	13 months	£3.5m	Unlimited
Building societies (unsecured) *	13 months	£3.5m	£7m
Registered providers	3 years	£3.5m	£17.5m
Money market funds *	n/a	£7m	Unlimited
Strategic pooled funds	n/a	£7m	£35m
Real estate investment trusts	n/a	£7m	£17.5m
Other investments *	5 years	£3.5m	£7m

This table must be read in conjunction with the notes below

### **Time limit**

1.53. Borrowing to invest primarily for financial return is in contravention of the CIPFA Treasury Management Code. To reflect the expectation that long-term borrowing will be a requirement for the Council, time limits for investment have therefore been shortened to a maximum of 3 years.

### **\* Minimum credit rating**

1.54. 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-/A3. 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 known factors including external advice will be taken into account.

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

## **UK Government**

- 1.56. Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 3 years.

## **Local authorities and other government entities**

- 1.57. 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.

## **Secured investments**

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

## **Banks and building societies (unsecured)**

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

## **Registered providers (unsecured)**

- 1.60. Loans and bonds issued by, guaranteed by, or secured on the assets of registered providers of social housing

and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government, and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

### **Money market funds**

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

### **Strategic pooled funds**

- 1.62. Bond, equity and property funds, including exchange traded funds, that offer enhanced returns over the longer term but are more volatile in the short term. These allow the council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

### **Other investments**

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

### **Operational bank accounts**

- 1.64. The Council may incur operational exposures, for example through current accounts, 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 low. The Council's operational bank account is with Lloyds and aims to keep the overnight balances held in current accounts as positive, and as close to £0 as possible. 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 Council maintaining operational continuity.

### **Risk assessment and credit ratings**

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

- no new 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.

1.66. 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**

1.67. The Council 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 and reports in the quality financial press and analysis and advice from



the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

- 1.68. 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 Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will likely lead to investment returns falling but will protect the principal sum invested.

### **Liquidity management**

- 1.69. The Council has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements, such as payroll, grant income and council tax precept. Limits on long-term investments are set by reference to the Council's medium term financial position (summarised in Table 1) and forecast short-term balances.
- 1.70. The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds), of which at least two will be UK domiciled, to ensure that access to cash is maintained in the event of operational difficulties at any one provider, except in cases of extreme market stress whereby the Council will be able to invest all of its liquid cash in one provider only, being the Debt Management Office.

## **6. TREASURY MANAGEMENT PRUDENTIAL INDICATORS**

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

### **Interest rate exposures**

1.72. The following table shows the sensitivity of the Council's current investments and borrowing to a change in interest rates. Fixed rate investments maturing during the year are assumed to be variable for the remainder of the year.

<b>Table 6: Interest rate exposures</b>	<b>31 December 2024</b>	<b>Impact of +/- 1% interest rate change</b>
	<b>£m</b>	<b>£m</b>
Sums subject to variable interest rates		
Investment	57.4	+/- 0.6
Borrowing	(12.1)	+/- (0.1)

### **Maturity structure of borrowing**

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

<b>Table 7: Refinancing rate risk indicator</b>	<b>Upper</b>	<b>Lower</b>
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	25%	0%
5 years and within 10 years	35%	0%
10 years and above	100%	0%

1.74. 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.

### **Principal sums invested for periods longer than a year**

1.75. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early

repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

<b>Table 8: Price risk indicator</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>No fixed date</b>
Limit on principal invested beyond a year	£15m	£15m	£10m	£10m

1.76. Long-term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

1.77. In effect, the annual limit and the no fixed date limit would be added together to reach the total limit on principal invested beyond year end, meaning that during 2025/26, for example, the Council could invest up to £25m for the long-term, subject to investment balances and cash flow requirements.

## **7. RELATED MATTERS**

1.78. The CIPFA Code requires the Council to include the following in its TMSS.

### **Financial derivatives**

1.79. Local authorities 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 authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

1.80. 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 taken into account 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.

- 1.81. 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.
- 1.82. 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**

- 1.83. On 1 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 each month and interest transferred between the General Fund and HRA at the Bank of England base rate (Bank Rate).

### **Investment of money borrowed in advance of need**

- 1.84. The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be

managed as part of the Council's overall management of its treasury risks.

### **Markets in Financial Instruments Directive**

1.85. The Council 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 Council's treasury management activities, the s151 Officer believes this is the most appropriate status.

## **8. FINANCIAL IMPLICATIONS**

1.86. The budget for investment income in 2025/26 is £1.3m, whilst the budget for debt interest paid in 2025/26 is £5.5m, based on an average debt portfolio of £146m at an average interest rate of 3.8%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different. Interest paid on any new borrowing will depend on the actual level of borrowing necessary and the interest rates obtained on that borrowing.

## **Appendix A – Arlingclose Economic & Interest Rate Forecast – December 2024**

### **Underlying assumptions:**

- As expected, the Monetary Policy Committee (MPC) held Bank Rate at 4.75% in December, although, with a 6-3 voting split and obvious concerns about economic growth, presented a much more dovish stance than had been expected given recent inflationary data.
- The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers.
- UK GDP recovered well in H1 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.
- Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.
- CPI inflation rates have risen due to higher energy prices and less favourable base effects. The current CPI rate of 2.6% could rise further in Q1 2025. The Bank of England (BoE) estimates the CPI rate at 2.7% by year end 2025 and to remain over target in 2026.
- The MPC re-emphasised that monetary policy will be eased gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy.

- US government bond yields have risen following strong US data and uncertainty about the effects of Donald Trump's policies on the US economy, particularly in terms of inflation and monetary policy. The Federal Reserve pared back its expectations for rate cuts in light of these issues. Higher US yields are also pushing up UK gilt yields, a relationship that will be maintained unless monetary policy in the UK and US diverges.

**Forecast:**

- In line with our forecast, Bank Rate was held at 4.75% in December.
- The MPC will reduce Bank Rate in a gradual manner. We see a rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.
- Long-term gilt yields have risen to reflect both UK and US economic, monetary, and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.
- This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.
- The risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.

## Appendix A

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
<b>Official Bank Rate</b>													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
<b>3-month money market rate</b>													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.90	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
<b>5yr gilt yield</b>													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.34	4.30	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.05	4.05	4.05
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
<b>10yr gilt yield</b>													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.56	4.55	4.45	4.30	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
<b>20yr gilt yield</b>													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	5.05	5.00	4.90	4.80	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
<b>50yr gilt yield</b>													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.52	4.70	4.60	4.50	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

National Wealth Fund (NWF) Rate = Gilt yield + 0.40%



## Appendix B – Existing Investment & Debt Portfolio Position at 31 December 2024

### Treasury investment position

<b>Investments</b>	30/09/20 24 Balance	Net moveme nt	31/12/20 24 Balance	31/12/20 24 Income return	31/12/202 4 Weighted average maturity years
	£m	£m	£m	%	
<b>Short term Investments</b>					
Banks and building societies:					
- Unsecured	4.0	4.0	8.0	4.66	0.01
- High quality	2.0	(2.0)	0.0	N/A	N/A
Money Market Funds	13.7	11.6	25.3	4.76	0.00
Government:					
- Local authorities	1.5	(1.5)	0.0	N/A	N/A
- Supranational banks	1.5	(1.5)	0.0	N/A	N/A
- UK Treasury Bills	6.0	7.0	13.0	4.77	0.06
Cash plus funds	2.0	0.0	2.0	4.49	0.01
	<b>30.7</b>	<b>17.6</b>	<b>48.3</b>	<b>3.99</b>	<b>0.02</b>
<b>Long term investments</b>					
- Pooled property*	7.6	0.0	7.6	5.12	N/A
- Pooled equity*	1.5	0.0	1.5	7.36	N/A
	<b>9.1</b>	<b>0.0</b>	<b>9.1</b>	<b>5.49</b>	<b>N/A</b>
<b>TOTAL INVESTMENTS</b>	<b>39.8</b>	<b>17.6</b>	<b>57.4</b>	<b>4.86</b>	<b>0.02</b>

\* The rates provided for pooled fund investments are reflective of annualised income returns over the year to 31 December 2024 based on the market value of investments 12 months earlier.

## Appendix B

<b>Treasury management position</b>	31/12/2024 Balance £m	31/12/2024 Rate %
<b>External borrowing</b>		
- PWLB	(124.0)	3.48
- Other Local Authorities	(8.0)	5.50
<b>Other long-term liabilities</b>		
- Leases	0	
<b>Investments</b>		
- Investments	57.4	4.86
<b>Net Debt</b>	<b>(74.6)</b>	

### Appendix C - Q3 2024/25 Treasury Management Indicators at 31 December 2024

<b>Debt limits</b>	2024/25 Maximum £m	31/12/24 Actual £m	2024/25 Operational Boundary £m	2024/25 Authorised Limit £m	Complied
Total debt	(134.9)	(132.0)	(211.5)	(230.5)	✓

<b>Refinancing rate risk indicator</b>	31/12/24 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	9%	25%	0%	✓
12 months and within 24 months	3%	25%	0%	✓
24 months and within 5 years	9%	25%	0%	✓
5 years and within 10 years	16%	25%	0%	✓
10 years and above	63%	100%	0%	✓

<b>Price risk indicator</b>	2024/25 £m	2025/26 £m	2026/27 £m	No fixed date
Actual principal invested beyond a year	-	-	-	£9.1m
Limit on principal invested beyond a year	£20m	£15m	£15m	£10m
Complied	✓	✓	✓	✓

Appendix D – 50-year Liability Benchmark graph

