REPORT REFERENCE NO.	**DSFRA/25/5**
MEETING	**DEVON & SOMERSET FIRE & RESCUE AUTHORITY (Budget Meeting)**
DATE OF MEETING	**17 FEBRUARY 2025**
SUBJECT OF REPORT	**TREASURY MANAGEMENT STRATEGY (INCLUDING PRUDENTIAL AND TREASURY INDICATORS REPORT 2025-26 TO 2027-28)**
LEAD OFFICER	**Head of Finance (Treasurer)**
RECOMMENDATIONS	***That the Authority be recommended to approve:*** ***(a). the Treasury Management Strategy and the Annual Investment Strategy; and*** ***(b). the Minimum Revenue Provision statement for 2025-26, as contained at Appendix B;***
EXECUTIVE SUMMARY	As agreed at the Authority meeting of 18 December 2017, item DSFRA/49a refers, there is a requirement for the Resources Committee to review the Treasury Management Strategy for recommendation to the Authority. This report sets out a treasury management strategy and investment strategy for 2025-26, including the Prudential Indicators associated with the capital programme for 2025-26 to 2027-28 considered elsewhere on the agenda of this meeting. A Minimum Revenue Provision Statement for 2025-26 is also included for approval. The 2021-22 revised Prudential Code also requires the Treasurer to certify that none of the Authority's spending plans include the acquisition of assets primarily held for yield.
RESOURCE IMPLICATIONS	As indicated in this report
EQUALITY RISKS AND BENEFITS ANALYSIS	The contents of this report are considered compatible with existing human rights and equality legislation.
APPENDICES	A. Prudential and Treasury Management Indicators 2025-26 to 2027-28 B. Minimum Revenue Provision Statement 2025-26. C. MUFG Corporate Markets Treasury Ltd (Formally Link Treasury Solutions) economic report
BACKGROUND PAPERS	Local Government Act 2003.

	Chartered Institute of Public Finance Accountancy's (CIPFA) Prudential Code and CIPFA Treasury Management Code of Practice

1. INTRODUCTION

Background

1.1. The Authority is required to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Authority's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2. The second main function of the treasury management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that the Authority can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Authority risk or cost objectives.

1.3. The contribution the treasury management function makes to the Authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

1.4. CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.5. The Authority has not engaged in any commercial investments and has no non-treasury investments.

Statutory requirements

1.6. The Local Government Act 2003 (the Act) and supporting regulations requires the Authority to "have regard to" the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Authority's capital investment plans are affordable, prudent and sustainable.

1.7. The Act therefore requires the Authority to set outs its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act); this sets out the Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.8. The Ministry of Housing, Communities and Local Government (MHCLG) issued revised investment guidance which came into force from 1 April 2018. This guidance was captured within the revised Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code 2017.

CIPFA requirements

1.9. The CIPFA 2021/22 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability; and
- declare that the capital spends do not include the acquisition of assets primarily for yield.

1.10. The aim of this capital strategy is to ensure that all elected members on the Authority fully understand the overall long-term policy objectives, the resulting capital strategy requirements, governance procedures and the risk appetite.

Treasury Management reporting

1.11. The Authority is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. Prudential and Treasury Indicators and Treasury Strategy (this report): The first, and most important report is forward looking and covers:

- the capital plans, (including prudential indicators);
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

b. A Mid-year Treasury Management Report: This is primarily a progress report and will update the Authority on the capital position, amending prudential indicators as necessary, and whether any policies require revision. In addition, this Authority will receive quarterly update reports.

c. **An Annual Treasury Report**: This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.12. The above reports are required to be adequately scrutinised before being recommended to the Authority. This role is undertaken by the Resources Committee.

1.13. In addition to the Treasury management reports identified in 1.11 of this report, quarterly treasury management reports will be prepared as part of the budget monitoring reporting cycle. These will update on the approved indicators as required by the CIPFA Prudential Code 2021.

1.14. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management. The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Authority's treasury management activities;
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives;
- Receipt by the Authority of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a mid-year review report and an annual report (stewardship report) covering activities during the previous year;
- Delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices - for the Authority the delegated body is Resources Committee - and for the execution and administration of treasury management decisions - for the Authority the responsible officer is the Treasurer; and
- Delegation by the Authority of the role of scrutiny of treasury management strategy and polices to a named body - for the Authority the delegated body is Resources Committee.

Treasury Management Strategy for 2025-26

1.15. The suggested strategy for 2025-26 in respect of the following aspects of the treasury management function is based upon the Treasury Officers' views on interest rates, supplemented with leading market forecasts provided by the Authority's treasury advisor, MUFG Corporate Markets Treasury (formally Link Treasury Solutions).

1.16. The strategy for 2025-26 covers two main areas:

Capital Issues

- capital plans and prudential indicators; and

- the Minimum Revenue Provision statement.

Treasury Management Issues

- treasury limits in force which will limit the treasury risk and activities of the Authority;
- treasury Indicators;
- the current treasury position;
- the borrowing requirement;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers.

Training

1.17. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Treasury Management Advisors

1.18. The Authority uses MUFG Corporate Markets Treasury Ltd. as its external treasury management advisors.

1.19. The Authority recognises that responsibility for treasury management decisions remains with the Authority at all times and will ensure that undue reliance is not placed upon the services of its external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, its treasury advisers.

1.20. The Authority also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed, documented and subjected to regular review.

2. CAPITAL PRUDENTIAL INDICATORS FOR 2025-26 TO 2026-27

2.1. The Authority's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

2.2. This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously and those forming part of this budget cycle. The Committee is asked to recommend approval of the capital expenditure forecasts as proposed in the Capital Programme report considered elsewhere on this meeting's agenda. Other long-term liabilities such as Private Finance Initiative (PFI) and leasing arrangements which already include borrowing instruments are excluded.

Proposed Capital Expenditure	**2024/25** (forecast spending) £m	**2025 /26** £m	**2026/27** (provisional) £m	**2027/28** (provisional) £m	**2026 /27** £m	**2027 /28** £m
Estates	0.901	3.796	7.159	10.842	7.298	2.230
Fleet & Equipment	3.799	4.705	3.920	4.825	4.376	5.142
Total	4.700	8.501	11.079	15.667	11.674	7.372

2.3. The table below summarises the financing of the capital programmes shown above. Additional capital finance sources may become available during the year, for example, additional grants or external contributions. The Authority will be requested to approve increases to the capital programme to be financed from other capital resources as and when the need arises.

Capital Financing	**2024-25 (forecast spending)** £m	**2025-26** £m	**2026-27 (provisional)** £m	**2027-28 (provisional)** £m	**2026/27** £m	**2027/28** £m
Capital receipts/ contributions	0.000	0.246	0.130	0.000	1.400	0.000
Capital grants	0.079	0.000	0.000	0.000	0.000	0.000
Capital reserves	2.369	3.993	8.472	-0.070	0.000	0.000
Revenue	0.861	2.450	2.450	2.500	2.550	2.550
Existing borrowing	1.391	1.812	0.000	0.000	2.086	1.046
New borrowing	0.000	0.000	0.027	13.167	5.638	3.776
Total	4.700	8.501	11.079	15.597	11.674	7.372

The Authority's Borrowing Need (Capital Financing Requirement)

2.4. The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

2.5. The CFR does not increase indefinitely, as the Minimum Revenue Provision is a statutory annual revenue charge which broadly reduces the indebtedness in line with each assets life, and so charges the economic consumption of capital assets as they are used.

2.6. The CFR includes any other long-term liabilities (e.g. Private Finance Initiative (PFI) schemes, finance leases). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of scheme include a borrowing facility by the PFI via a public-private partnership lease provider and so the Authority is not required to separately borrow for these schemes. The Authority currently has £3.150m of such schemes within the CFR.

Capital Financing Requirement:

Capital Financing Requirement (CFR)	**2024-25 (forecast spending)** £m	**2025-26** £m	**2026-27 (provisional)** £m	**2027-28 (provisional)** £m
Non-HRA expenditure	23.312	23.219	21.738	33.322
Other Long Term Liabilities	4.120	3.150	2.163	1.137
Total CFR	27.432	26.369	23.900	34.459
Movement in CFR	5.539	1.812	0.097	13.167
Less MRP	(2.534)	(2.875)	(2.566)	(2.608)
Net movement in CFR	3.005	(1.063)	(2.469)	10.559

Core funds and expected investment balances

2.7. The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed, within the table overleaf, are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Estimates of year-end balances for each resource and anticipated day-to-day cash flow balances:

Estimated Year end Resources	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m
Reserve Balances	15.400	6.700	4.480	1.918
Capital receipts/ contributions	0.000	0.000	0.000	0.000
Provisions	0.000	0.000	0.000	0.000
Other	17.104	18.495	20.307	19.292
Total core funds	32.504	25.195	24.787	21.210
Working capital*	1.000	1.000	1.000	1.000
Under/over borrowing	0.000	0.000	0.000	0.000
Expected investments	33.504	26.195	25.787	22.210

*Working capital balances shown are estimated year-end; these may be higher mid-year

Minimum Revenue Provision Strategy

2.8. The Authority is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision).

2.9. The Ministry of Housing, Communities and Local Government (MHCLG) regulations have been issued which require the Authority to approve a **Minimum Revenue Provision Statement** in advance of each year. A variety of options are provided under which Minimum Revenue Provision could be made, with an overriding recommendation that the Authority should make prudent provision to redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.

2.10. The Authority does not plan to make any Voluntary Revenue Provisions within the next three years.

2.11. Although four main options are provided under the guidance, the Authority has adopted as set out in the paragraphs overleaf:

The Asset Life Method

2.12. Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, Minimum Revenue Provision is to be made in equal annual instalments over the life of the asset. In this circumstance the asset life is to be determined when Minimum Revenue Provision commences and not changed after that. Minimum Revenue Provision should normally commence in the financial year following the one in which the expenditure is incurred. However, when borrowing to construct an asset, the Authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may accordingly postpone beginning to make Minimum Revenue Provision until that year. Investment properties should be regarded as becoming operational when they begin to generate revenues.

2.13. As some types of capital expenditure incurred by the Authority are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

2.14. A draft Minimum Revenue Provision statement for 2025-26 is attached at Appendix B of this report for Authority approval.

2.15. The financing of the approved 2025-26 Capital Programme (included elsewhere on the agenda for this meeting) and the resultant prudential indicators, have been set on the basis of the content of this statement.

Prudential Indicators for Affordability

2.16. The previous sections of this report cover the overall limits for capital expenditure and borrowing, but within the overall framework indicators are also included to demonstrate the affordability of capital investment plans.

2.17. A key indicator of the affordability of capital investment plans is the ratio of financing costs to the net revenue stream; this indicator identifies the trend in the cost of capital financing (borrowing costs net of investment income) against the Authority's net budget requirement. Annual capital financing costs are a product of total debt outstanding, the annual repayment regime and interest rates. The forecast ratios for 2025-26 to 2027-28 based on current commitments and the proposed Capital Programme are shown below.

Financing costs as a % of net revenue	2024-25 (forecast spending)	2025-26	2026-27 (provisional)	2027-28 (provisional)
Annual cost	1.99%	2.98%	2.58%	3.07%

3. BORROWING

3.1. The capital expenditure plans set out in Section 2 of this report provide details of the service activity of the Authority. The treasury management function ensures that the Authority's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Authority's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current borrowing position

3.2. The Authority's treasury portfolio position at 31 March 2024 and the current position are summarised below:

TREASURY PORTFOLIO				
	actual **31.3.24**	actual **31.3.24**	current **31.12.24**	current **31.12.24**
Treasury investments	£000	%	£000	%
banks	14,150	63%	33,150	61%
building societies - unrated		0%		0%
building societies - rated		0%		0%
local authorities	5,000	22%	12,000	22%
DMADF (H.M.Treasury)		0%		0%
money market funds	3,320	15%	8,960	17%
certificates of deposit		0%		0%
Total managed in house	**22,470**	**100%**	**54,110**	**100%**
bond funds		0%		0%
property funds		0%		0%
Total managed externally	**0**	**0%**	**0**	**0%**
Total treasury investments	**22,470**	**100%**	**54,110**	**100%**
Treasury external borrowing				
local authorities		0%		0%
PWLB	23,862	100%	23,724	100%
LOBOs		0%		0%
Total external borrowing	**23,862**	**100%**	**23,724**	**100%**
Net treasury investments / (borrowing)	**-1,392**	**0**	**30,386**	**0**

3.3. The Authority's forward projections for borrowing are summarised below. The Table below shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.Actual external debt against the underlying capital borrowing need:

External Debt	2024-25 (forecast spending) £m	2025-26 £m	2026-27 £m	2027-28 £m
Debt at 1 April	23.313	23.219	20.653	33.227
Expected change in Debt	(0.458)	(0.093)	(2.566)	12.574
Other long-term liabilities (OLTL)	4.120	3.150	2.163	1.137
Expected change in OLTL	(0.969)	(0.988)	(1.026)	1.026
Actual gross debt at 31 March	26.004	25.289	19.224	47.963
CFR	27.432	26.369	23.830	34.392
Under/ Over borrowing	(1.427)	(1.080)	(4.606)	13.571

3.4. Within the prudential indicators there are a number of key indicators to ensure that the Authority operates its activities within well-defined limits. One of these is that the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025-26 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

3.5. The Authority complied with this prudential indicator in the current year and is not envisaging difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

Limits to Borrowing Activity

3.6. Two Treasury Management Indicators control the level of borrowing. They are:

- **The operational boundary**: This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Estimated Operational Boundary	2024-25	2025-26	2026-27	2027-28
	£m	£m	£m	£m
Non-HRA expenditure	24,871	24,413	24,346	34,920
Other Long Term Liabilities	4,620	4,620	3,650	2,663
Total	29,490	29,032	27,996	37,583

- **The authorised limit for external debt:** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Authority. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

  This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Authority's plans, or those of a specific Authority, although this power has not yet been exercised.

Estimated Authorised Limit	2024-25	2025-26	2026-27	2027-28
	£m	£m	£m	£m
Non-HRA expenditure	26,037	25,574	25,430	36,583
Other Long Term Liabilities	4,825	4,777	3,758	2,719
Total	30,862	30,351	29,188	39,302

Prospects for interest rates

3.7. The Authority has appointed MUFG Corporate Markets Treasury as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The table overleaf, and narrative within Appendix C - paragraphs C28 and C33, gives their view.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

Borrowing strategy

3.8. As reported within the “Capital Programme 2025-26 to 2027-28” at agenda item 6 of this meeting’s agenda, it is the strategic intent of the Authority not to increase its exposure to external borrowing during the next three years. Subject to permitted increases to Council Tax, the revenue contribution to capital investment has been increased to the target of £2.0m for 2025-26.

3.9. This being the case there is no intention to take out any new borrowing during 2025-26 as the Authority can rely on its prudent Capital Reserve. Should this position change then the Treasury Management Strategy will need to be reviewed to reflect any change to the borrowing strategy and would be subject to a further report to the Authority.

Policy on borrowing in advance of need

3.10. Per statutory requirements, the Authority will not borrow more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Authority can ensure the security of such funds.

Debt rescheduling

3.11. Officers regularly engage with MUFG Corporate Markets Treasury to review the Public Works Loan Board (PWLB) loan portfolio and consider opportunities for early repayment, this is not currently economically viable due to the penalties applied.

3.12. Rescheduling of current borrowing in our debt portfolio is unlikely to occur in the short-term but a watchful eye is kept on the viability of early repayment without incurring a penalty in doing so.

3.13. If rescheduling was to occur, it would be reported to this Committee at the earliest meeting following its action.

Liability Benchmark

3.14. CIPFA has issued revised codes of practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities. One of the changes to the Treasury Management Code is the introduction of a liability benchmark that can be compared to the Local Authority’s borrowing strategy and can be calculated to show the lowest risk level of borrowing.

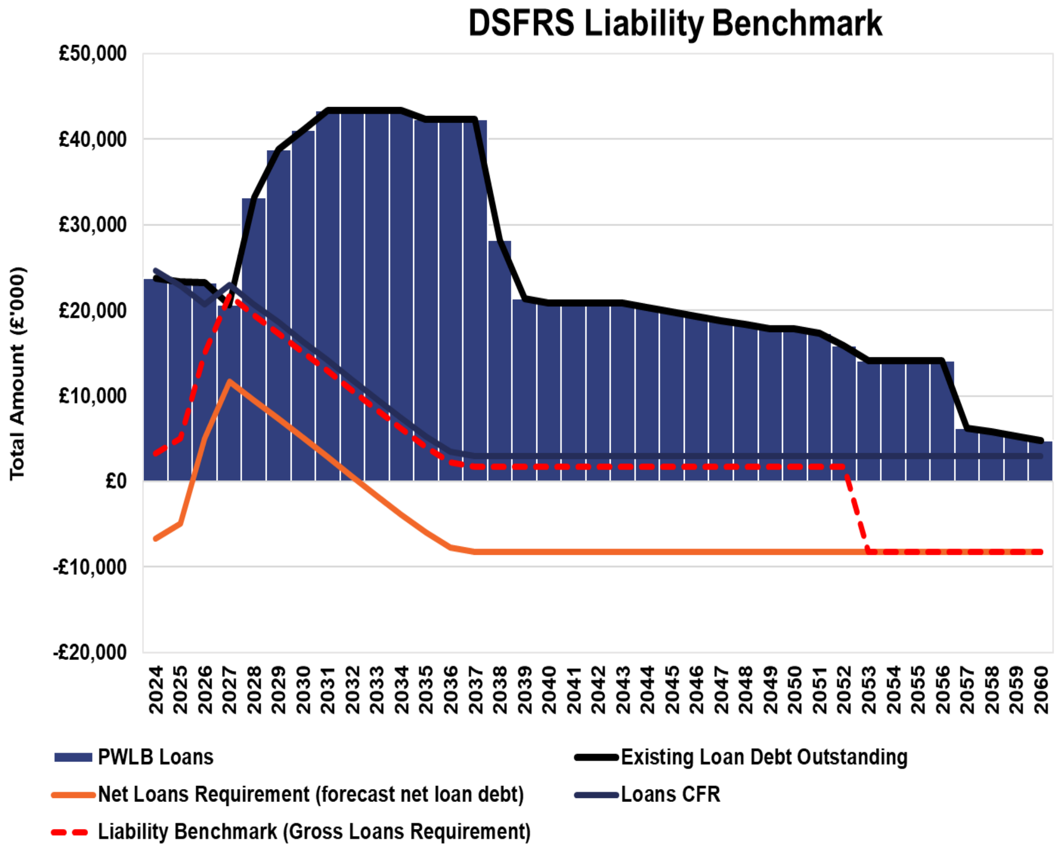
3.15. The chart below shows the liability benchmark that has been calculated from 2024 and future years: The following explanations are provided to assist with understanding the chart:

i. Blue shaded area – represents the Authority’s current fixed term loans for 2021 and future years. The amounts shown include any new borrowing for schemes included in the capital programme but does not include the replacement borrowing for maturing loans, hence the line reduces over time as existing loans are paid off.

ii. Solid blue line – an estimate of Loans Capital Financing Requirement (the CFR less any other long-term debt liabilities), this being the required level to fund the capital programme.

iii. Solid red line – a forecast of the year end liability benchmark representing the lowest amount of borrowing that should be undertaken to maintain the Authority's liquidity and minimise credit risk.

3.16. It is anticipated that the above borrowing requirement is manageable within the current borrowing strategy.



4. ANNUAL INVESTMENT STRATEGY

Investment Policy

4.1. The Authority's Investment Policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance"), CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code") and the CIPFA Treasury Management Guidance Notes 2018. The Authority's investment priorities will be security first, portfolio liquidity second, then yield.

4.2. In accordance with the above guidance from the MHCLG and CIPFA, and in order to minimise the risk to investments, the Authority applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

4.3. Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Authority will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings

4.4. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Creditworthiness Policy

4.5. The Authority applies the creditworthiness service provided by MUFG Corporate Markets Treasury. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's.

4.6. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit defaults swap spreads to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

4.7. This modelling approach combines credit ratings, credit watches, credit outlooks and Credit Default Swap spreads in a weighted scoring system which is then combined with an overlay of Credit Default Swap spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used by the Authority to determine the duration for investments and are therefore referred to as durational bands. The Authority is satisfied that this service now gives a much improved level of security for its investments. It is also a service which the Authority would not be able to replicate using in house resources.

4.8. The MUFG Corporate Markets Treasury creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

4.9. Typically, the minimum credit ratings criteria the Authority uses will be a Short-Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

4.10. All credit ratings will be monitored weekly. The Authority is alerted to changes to ratings of all three agencies through its use of the MUFG Corporate Markets Treasury creditworthiness service. If a downgrade results in the counterparty/investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of Credit Ratings the Authority will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

4.11. Sole reliance will not be placed on the use of this external service. In addition, the Authority will also use market data and market information, information on government support for banks and the credit ratings of that government support.

Approved Instruments for Investments

4.12. Investments will only be made with those bodies identified by the authority for its use through the Annual Investment Strategy.

4.13. **Country Limits.** The Authority will apply a sovereign rating at least equal to that of the United Kingdom (UK) for any UK based counterparty. At the time of writing this report,this was AA long term and F1+ short term. It is possible that the credit rating agencies could downgrade the sovereign rating for the UK but as there is no minimum sovereign rating applying to the UK this approach will not limit the number of UK counterparties available to the Authority. Therefore, to ensure the credit risk is not increased outside the UK, the sovereign rating requirement for investments was amended to "Non UK countries with a minimum sovereign rating of AA-".

4.14. **IFRS16 Lease Accounting.** As a result of the introduction of a new accounting standard associated with leasing, the cost of a lease now needs to be shown on the face of the balance sheet as an asset with the cost of financing the lease shown as a cost of financing. This change took effect from April 2024.

Non-specified Investments

4.15. Non specified investments are those which do not meet the Specified Investment Criteria and covers those counterparties where there is either no recognised credit rating and/or an anticipation that an investment will be for greater than one year in duration.

4.16. The Authority had not previously placed non-specified investments as a result of its prudent approach to place security and liquidity over yield. However, from April 2015, it was agreed that the strategy be amended to include investments with maturity of longer than 364 days. The maximum duration limit on any non-specified deposit will be determined by the colour assigned to the Counterparty on the MUFG Corporate Markets Treasury credit list on the date the investment is placed, but typically will be for no longer than 24 months. Where such investments are placed via the Secondary Market i.e. buying the remaining term of an existing instrument, then the term will be for 24 months.

4.17. A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made it will fall into one of the categories outlined in the below table.

4.18. The maturity limits recommended will not be exceeded. Under the delegated powers the Section 112 Officer (Treasurer) can set limits that are based on the latest economic conditions and credit ratings. The Table below shows those bodies with which the Authority will invest.

Specified Investments	**Non Specified Investments**
Deposits with the Debt Management Agency Deposit Facility	Subsidiary entities
Term Deposits with UK government, UK local authorities, highly credit rated banks and building societies (including callable deposits and forward deals)	Term Deposits with UK government, UK local authorities, highly credit rated banks and building societies (including callable deposits and forward deals) Non-credit rated building societies. ***The total amount of non-specified investments will not be greater than £5m in value.***
Banks nationalised/part nationalised or supported by the UK government	Banks nationalised/part nationalised or supported by the UK government
Money Market Funds	
Non UK highly credited rated banks	
UK Government Treasury Bills	
Certificates of Deposit	
Corporate Bonds	
Gilts	

4.19. The Authority's detailed risk management policy is outlined in the Treasury Management Policy which is reviewed and considered on an annual basis.

Investment Strategy

4.20. In-house funds: The Authority's in-house managed funds are mainly cash-flow derived and investments will accordingly be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates.

4.21. Investment returns: Bank Rates has seen some activity during the last 12 months reducing from 5.25% in March 2024 to the current 4.75% however, the projection is for reductions in the rate during 2025. The Service has assumed that investment earnings from money market-related instruments will be in the region of 3.50%-4.00% for the next 12 months.

4.22. The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

2025-26	4.00%
2026-27	3.50%
2027-28	3.50%
2028-29	3.00%
Later years	3.00%

4.23. **Investment treasury indicator and limit -** total principal funds invested for greater than 365 days. These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

Maximum principal sums invested > 365 days			
£m	**2025-26**	**2026-27**	**2027-28**
Principal sums invested > 365 days	£7m	£7m	£7m

End of year investment report

4.24. At the end of the financial year, the Authority will report on its investment activity as part of its Annual Treasury Report.

Treasury Management Scheme of Delegation

The Authority

- Receiving and reviewing reports on treasury management policies, practices and activities;
- Approval of annual strategy;
- Approval of/amendments to the Authority's adopted clauses, treasury management policy statement and treasury management practices;
- Budget consideration and approval;

- Approval of the division of responsibilities;
- Approving the selection of external service providers and agreeing terms of appointment; and
- Reviewing the treasury management policy and procedures and making recommendations to the Authority.

Resources Committee:

- Receiving and reviewing regular monitoring reports and acting on recommendations; and
- Review of annual strategy prior to recommendation to full authority.

Role of the Section 112 officer (Head of Finance (Treasurer))

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- Submitting regular treasury management policy reports;
- Submitting budgets and budget variations;
- Receiving and reviewing management information reports;
- Reviewing the performance of the treasury management function;
- Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- Ensuring the adequacy of internal audit and liaising with external audit; and
- Recommending the appointment of external service providers.

5. SUMMARY AND RECOMMENDATIONS

5.1. The Authority is required to consider and approve the Treasury Management Strategy to be adopted prior to the start of the financial year. This strategy must also include proposed prudential indicators and a Minimum Revenue Provision statement. Approval of the strategy for 2025-26 as contained in this report will also incorporate the adoption of the revised CIPFA Treasury Management Code of Practice.

ANDREW FURBEAR
Head of Finance (Treasurer)

Prudential and Treasury Management Indicators 2025-26 to 2027-28

PRUDENTIAL INDICATORS				INDICATIVE INDICATORS	
	2025/26 £m Estimate	2026/27 £m Estimate	2027/28 £m Estimate	2028/29 £m Estimate	2029/30 £m Estimate
Capital Expenditure					
Non - HRA	8.501	11.079	15.667	11.674	7.372
HRA (applies only to housing authorities)					
Total	8.501	11.079	15.667	11.674	7.372
Ratio of financing costs to net revenue stream					
Non - HRA	2.98%	2.58%	3.07%	3.38%	3.24%
HRA (applies only to housing authorities)	0.00%	0.00%	0.00%	0.00%	0.00%
Capital Financing Requirement as at 31 March	£000	£000	£000	£000	£000
Non - HRA	23,219	21,668	33,255	38,772	41,129
HRA (applies only to housing authorities)	0	0	0	0	0
Other long term liabilities	3,150	2,163	1,137	362	0
Total	26,369	23,830	34,392	39,134	41,129
Annual change in Capital Financing Requirement	£000	£000	£000	£000	£000
Non - HRA	(1,063)	(2,539)	10,562	4,742	1,995
HRA (applies only to housing authorities)	0	0	0	0	0
Total	(1,063)	(2,539)	10,562	4,742	1,995
PRUDENTIAL INDICATORS - TREASURY MANAGEMENT					
Authorised Limit for external debt	£000	£000	£000	£000	£000
Borrowing	25,574	25,430	36,583	41,903	44,366
Other long term liabilities	4,777	3,758	2,719	1,655	862
Total	30,351	29,188	39,302	43,558	45,228
Operational Boundary for external debt	£000	£000	£000	£000	£000
Borrowing	24,413	24,346	34,920	39,965	42,310
Other long term liabilities	4,620	3,650	2,663	1,637	862
Total	29,032	27,996	37,583	41,602	43,171
Maximum Principal Sums Invested over 364 Days					
Principal Sums invested > 364 Days	7,000	7,000	7,000	7,000	7,000

TREASURY MANAGEMENT INDICATOR	Upper Limit %	Lower Limit %
Limits on borrowing at fixed interest rates	100%	70%
Limits on borrowing at variable interest rates	30%	0%
Maturity structure of fixed rate borrowing during 2024/25		
Under 12 months	30%	2%
12 months and within 24 months	30%	11%
24 months and within 5 years	50%	3%
5 years and within 10 years	75%	5%
10 years and above	100%	79%

MINIMUM REVENUE STATEMENT 2025-26

Supported Borrowing

The Minimum Revenue Provision will be calculated using the regulatory method (option 1). Minimum Revenue Provision will therefore be calculated using the formulae in the old regulations, since future entitlement to RSG in support of this borrowing will continue to be calculated on this basis.

Un-Supported Borrowing (including un-supported borrowing prior to 1 April 2008)

The Minimum Revenue Provision in respect of unsupported borrowing under the prudential system will be calculated using the asset life method (option 3). The Minimum Revenue Provision will therefore be calculated to repay the borrowing in equal annual instalments over the life of the class of assets which it is funding. The repayment period of all such borrowing will be calculated when it takes place and will be based on the finite life of the class of asset at that time and will not be changed.

Finance Lease and PFI

In the case of Finance Leases and on balance sheet PFI schemes, the Minimum Revenue Provision requirement is regarded as met by a charge equal to the element of the annual charge that goes to write down the balance sheet liability. Where a lease of PFI scheme is brought, having previously been accounted for off-balance sheet, the Minimum Revenue Provision requirement is regarded as having been met by the inclusion of the charge, for the year in which the restatement occurs, of an amount equal to the write-down for the year plus retrospective writing down of the balance sheet liability that arises from the restatement. This approach produces a Minimum Revenue Provision charge that is comparable to that of the Option 3 approach in that it will run over the life of the lease or PFI scheme and will have a profile similar to that of the annuity method.

Minimum Revenue Provision will normally commence in the financial year following the one in which the expenditure was incurred. However, when borrowing to construct an asset, the authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may accordingly postpone the beginning to make Minimum Revenue Provision until that year. Investment properties will be regarded as becoming operational when they begin to generate revenues.

Minimum Revenue Provision Overpayments

A change introduced by the revised MHCLG Minimum Revenue Provision Guidance was the allowance that any charges made over the statutory Minimum Revenue Provision, Voluntary Revenue Provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until 31 March 2024 the total Voluntary Revenue Provision overpayments were £nil.

APPENDIX C TO REPORT DSFRA/25/5

MUFG CORPORATE MARKETS TREASURY ECONOMIC REPORT

ECONOMICS UPDATE

- The third quarter of 2024/25 (October to December) saw:
  - GDP growth contracting by 0.1% m/m in October following no growth in the quarter ending September;
  - The 3myy rate of average earnings growth increase from 4.4% in September to 5.2% in October;
  - CPI inflation increase to 2.6% in November;
  - Core CPI inflation increase from 3.3% in October to 3.5% in November;
  - The Bank of England cut interest rates from 5.0% to 4.75% in November and hold them steady in December.
  - 10-year gilt yields starting October at 3.94% before finishing up at 4.57% at the end of December (peaking at 4.64%).

- The 0.1% m/m fall in GDP in October was the second such decline in a row and meant that GDP would need to rise by 0.1% m/m or more in November and December, for the economy to grow in Q4 as a whole rather than contract. With on-going concern over the impact of the October budget and drags from higher interest rates and weak activity in the euro zone, our colleagues at Capital Economics have revised down their forecast for GDP growth in 2025 to 1.3% (it was initially 1.8% in the immediate wake of the Budget.)

- This quarter saw the composite activity Purchasing Manager Index (PMI) dip below the level of 50 that separates expansion from contraction for the first time since October 2023. Although December's composite PMI came in above this level, at 50.5, this was still consistent with the 0% rise in real GDP in Q3 being followed by a flat-lining, or potential contraction, in the final quarter of 2024. However, the economy is unlikely to be quite as weak as that given that the PMIs do not capture rises in government spending, but the data does underline the continued divergence in trends between the manufacturing and services sectors. The manufacturing PMI fell for its fourth consecutive month in December, from 48.0 in November to 47.3. That's consistent with manufacturing output falling by 1.5% q/q in the final quarter of 2024 after flatlining through the summer months. This weakness in the manufacturing sector was offset by a rebound in the services sector. The services PMI rose from 50.8 in November to 51.4 in December, which is consistent with non-retail services output growth increasing from +0.1% q/q to +0.3% for October - December. This suggests that more of the recent slowdown in GDP is being driven by the weakness in activity overseas rather than just domestic factors. Additionally, the services output prices balance rose for the third consecutive month, from 55.4 in November to 56.9, showing signs that price pressures are reaccelerating.

- After rising by 1.4% q/q in July - September, the retail sector had a difficult final quarter of the year. Indeed, the bigger-than-expected 0.7% m/m fall in retail sales in October (consensus forecast -0.3% m/m) suggested that households' concerns about expected tax rises announced in the Budget on 30th October contributed to weaker retail spending at the start of the quarter. The monthly decline in retail sales volumes in October was reasonably broad based, with sales in five of the seven main sub sectors slipping. However, the potential for seasonally adjusted sales to rise in November - if October's figures were impacted by the timing of the school half term – combined with a rebound in consumer confidence and rising real incomes, points to some promise to the final quarter of 2024

- The Government's October budget outlined plans for a significant £41.5bn (1.2% of GDP) increase in taxes by 2029/30, with £25bn derived from a 1.2% rise in employers' national insurance contributions. The taxes are more than offset by a £47bn (1.4% of GDP) rise in current (day-to-day) spending by 2029/30 and a £24.6bn (0.7% of GDP) rise in public investment, with the latter being more than funded by a £32.5bn (1.0% of GDP) rise in public borrowing. The result is that the Budget loosens fiscal policy relative to the previous government's plans - although fiscal policy is still being tightened over the next five years – and that GDP growth is somewhat stronger over the coming years than had previously been forecasted. By way of comparison, the Bank of England forecasts four-quarter GDP growth to pick up to almost 1¾% through 2025 (previously forecast to be 0.9%) before falling back to just over 1% in 2026.

- December's pay data showed a rebound in wage growth that will likely add to the Bank of England's inflationary concerns. The 3myy rate of average earnings growth increased from 4.4% in September (revised up from 4.3%) to 5.2% in October (consensus forecast 4.6%) and was mainly due to a rebound in private sector pay growth from 4.6% to 5.4%. Excluding bonuses, public sector pay stagnated in October and the 3myy rate fell from 4.7% to 4.3%.

- The number of job vacancies also fell again from 828,000 in the three months to October to 818,000 in the three months to November. This marks the first time it has dropped below its pre-pandemic February 2020 level of 819,000 since May 2021. Despite this, the Bank of England remains concerned about the inflationary influence of high wage settlements as well as the risk of a major slowdown in labour market activity.

- CPI inflation has been on the rise this quarter, with the annual growth rate increasing from 1.7% in September to 2.3% in October, before rising further to 2.6% in November. Although services CPI inflation stayed at 5.0% in November, the Bank had expected a dip to 4.9%, while the timelier three-month annualised rate of services CPI rose from 5.0% to 5.1%. That shows that there currently isn't much downward momentum. Moreover, the wider measure of core CPI inflation rose from 3.3% to 3.5% in November. Both services and core inflation are currently at rates well above those consistent with the 2.0% target and are moving in the wrong direction. Capital Economics forecast that after dipping to 2.5% in December, CPI inflation will rise further in January, perhaps to 2.8%. Although CPI inflation is expected to be back at close to the 2.0% target by the end of 2025, given that a lot of the rise in inflation in the coming months will be due to base effects that won't persist, the potential for a broader set of tariffs to arise from the US as well as the constant threat of geo-political factors to impact energy and food prices suggest risks remain very much to the upside.

- Throughout the quarter gilt yields have risen. The 10-year gilt yield increased from 3.94% at the start of October to 4.57% by the year end (and has subsequently risen to 4.64% early in 2025). As recently as mid-September 10-year gilt yields were at their low for the financial year, but since then, and specifically after the Budget at the end of October, yields have soared. Overall, the reaction to the UK Budget highlights how bond markets are both fragile and highly attentive to news about the fiscal outlook.

- The FTSE 100 started off this quarter at 8,276, before finishing up at 8,121. In particular, UK markets have continued to fall further behind US equities, a trend which has accelerated since Trump's election victory in November, partly due to the UK stock market being less exposed to AI hype, and it being weighed down by its relatively large exposure to the energy and materials sectors.

MPC meetings: 7th November & 18th December 2024

- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut, but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

- At the 18 December meeting, another split vote arose. Members voted 6-3 to keep Bank Rate on hold at 4.75%, but dissenters (Dhingra, Ramsden and Taylor) were keen for rates to be cut further as concerns over the slowing down of the UK economy took root, despite near-term inflation fears remaining.

- The MPC again stated that "a gradual approach" to rate cuts "remains appropriate" and that policy will "remain restrictive for sufficiently long".