APPENDIX 1

TREASURY MANAGEMENT STRATEGY 2024-25

INTRODUCTION

1.1 Cheshire Fire Authority ("the Authority") is required to operate a balanced budget meaning that cash raised during the year from grants, council tax and other income sources will match the cash expenditure for the year. The first requirement of treasury management is to ensure that this cashflow is adequately planned with cash being available when it is needed. Surplus funds are invested in low risk counterparties or financial instruments commensurate with a low risk appetite, that offer adequate liquidity (i.e. ease of access) before considering any return on the investment. The investment strategy objectives are, in order of priority, security, liquidity and then yield (i.e. interest earned).

1.2 The second main function of treasury management is the funding of the capital programme. The capital programme and plans provide a guide to the Authority's borrowing requirement which is essentially the longer-term cashflow planning to ensure that the capital programme commitments can be met. The management of longer-term cashflow may involve arranging long or short-term loans or the use of cashflow surpluses. Any debt currently held may also be re-structured when favourable conditions arise and in line with risk and/or cost objectives.

1.3 The contribution the treasury management function makes to the organisation 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 balance on the General Reserve.

1.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities. The Authority does not currently undertake or plan to enter into any non-treasury activities.

1.5 CIPFA published revised Prudential and Treasury Management Codes on 20 December 2021. The Authority has regard to these codes of practice when it prepares the Treasury Management Strategy and included Annual Investment Strategy.

1.6 The revised codes have a number of implications for public sector organisations although most have limited or no impact on the Authority, which does not currently hold or plan to enter into any commercial or non-treasury investments. In view of this, the most notable new requirement for the Authority is a requirement to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement (included at paragraph 4.3 of this Strategy).

1.7 In addition, all investments and investment income must be attributed to one of the following three purposes

Treasury Management
Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity that seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments. All of the Authority's current and planned investments fall into this category.

Service Delivery
Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose". The Authority has no Service Delivery investments.

Commercial Return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an organisation's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. The Authority must not and does not borrow to invest primarily for financial return.

1.8 The CIPFA 2021 Prudential and Treasury Management Codes require the preparation of a Capital Strategy providing a longer-term focus to capital plans including:

- 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

The Capital Strategy is being reported separately as part of the annual budget report pack. The aim of the Capital Strategy is to ensure that the Authority fully understands the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

2. TREASURY MANAGEMENT REPORTING REQUIREMENTS

2.1 The Authority is required to receive and approve, as a minimum, three main reports each year concerned with treasury management which include information about policies, estimates and actual income and expenditure.

Treasury Management Strategy (this report) – the first and most important report covering:

- the capital plans (including prudential indicators);
- Borrowing Strategy and prudential limits (how borrowings are to be organised and includes the treasury indicators);
- an Investment Strategy (the parameters on how investments are to be managed); and
- a minimum revenue provision (MRP) policy statement (how residual capital expenditure is charged to revenue over time).

A Mid-Year Treasury Management Report – this updates the Authority on the progress of the capital position, updates prudential indicators as necessary, and whether the actual execution of treasury management is in line with the Strategy or whether any policies need revision.

An Annual Treasury Management 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.

Quarterly reports – In addition to the three major reports detailed above, from 2023-24, additional quarterly reporting (end of June/end of December) is also required. This new reporting requirement is being fulfilled by the inclusion of updated and forecast Treasury/Prudential Indicators within the main First Quarter and Third Quarter financial review reports to Performance and Overview Committee.

Scrutiny - The above reports are required to be adequately scrutinised before being recommended to the Fire Authority. This scrutiny is undertaken regularly by the Head of Finance and the Principal Accountant. as part of the review process as quarterly reports are prepared, and by the Chief Fire Officer and Chief Executive and the Director of Governance prior to reports being submitted for approval to Members.

3. TREASURY MANAGEMENT STRATEGY 2024-25

3.1 The Treasury Management Strategy covers two main areas:-

Capital:

- The capital expenditure plans and associated prudential indicators; and
- The minimum revenue provision (MRP) statement.

Treasury Management:

- The current position;
- Prudential indicators which limit the treasury risks and activities of the Authority;
- Prospects for interest rates;
- The borrowing strategy;
- The policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- The policy on creditworthiness; and
- The policy on using external service providers in relation to Treasury Management.

3.2 These elements cover the requirements of the Local Government Act 2003, the Department of Levelling Up, Housing and Communities (DLUHC) Investment Guidance, DLUHC Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

3.3 The CIPFA Treasury Management Code requires the responsible officer (the Head of Finance) to ensure that anyone with responsibility for treasury management receives adequate training. The Code requires that organisations have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making which is appropriate to the size and complexity of the organisation’s treasury management needs.

3.4 The external treasury management supplier will provide suitable training during the year as appropriate and the training needs of treasury management officers will be regularly reviewed in order to maintain those skills and keep them up to date.

3.5 The Finance team will manage all day to day treasury management services on behalf of the Authority, supported directly by Link Group as its external treasury management advisors. However, it is recognised that responsibility for treasury management decisions remains with the Authority at all times and overdue reliance will not be placed upon one source of advice alone. Nevertheless, it is also recognised that there is value in employing external advisors in order to gain access to specialist skills and resources.

4. CAPITAL EXPENDITURE PRUDENTIAL INDICATORS 2024-27

4.1 Capital expenditure

4.1.1 Capital expenditure plans are a key driver of treasury management activity. The funding of such plans impact on cash balances and borrowing requirements in the short and longer terms. The on-going consequences of these decisions have a direct impact on the annual revenue budget. As such, the following prudential indicators show the proposed capital expenditure plans, how they are to be funded, the impact on the organisation's finances and their affordability in terms of the impact on revenue budgets.

4.1.2 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. These are based on actual and forecast 2023-24 cash spend along with the planned future capital programme.

Table 1: Capital Expenditure

2023-24 Estimate £000	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000	2028-29 Estimate £000
10,284	5,190	3,965	9,905	9,655	1,655

4.1.3 The next table shows how the above capital expenditure is to be financed. Where there is a shortfall in available funds, the shortfall is covered by an additional borrowing requirement. It is anticipated that c£5m of additional borrowing requirement will be utilised over the period, as shown in table 2 below, to finance the completion of the new Crewe Fire Station and continuing modernisation of Service houses. The Fire Station Modernisation Programme is also included in these capital expenditure forecasts, which has recommenced in 2023 following review.

4.1.4 A "placeholder" estimate has been made for re-builds of the Ellesmere Port and Warrington fire stations in 2026-27 and 2027-28. These are yet to be approved, but have been included to forecast future possible spend and borrowing requirements. The builds will be financed with a mix of Capital receipts, reserves and borrowing.

Table 2: Capital Financing

2023-24 Estimate £000		2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000	2028-29 Estimate £000
10,284	Forecast Spend	5,190	3,965	9,905	9,655	1,655
	<u>Financed by</u>:					
0	Capital grants	0	0	0	0	0
0	Capital Receipts	0	0	1,500	1,500	0
5,828	Capital Reserves & Revenue Contributions	4,940	3,715	3,655	3,655	1,655
4,456	Borrowing requirement	250	250	4,750	4,500	0

4.2 Capital Financing Requirement (or borrowing needs)

4.2.1 The second prudential indicator is the Authority's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been financed either from revenue or capital funds. It is essentially a measure of borrowing need and any capital expenditure not financed in the above table will increase the CFR.

4.2.2 It should be noted that the CFR increases in 2023/24, reflecting the construction of the new Crewe Fire Station and then begins to reduce as the borrowing requirement incurred relating to completed recent major estates projects is offset by the annual MRP provision. The impact of the inclusion of Ellesmere Port and Warrington Firr Stations can then be seen in years 2026-27 and 2027-28.

Table 3: Capital Financing Requirement (CFR)

2023-24 Estimate £000	Capital Financing Requirement (CFR)	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000	2028-29 Estimate £000
21,735	CFR brought forward	**25,454**	**24,817**	**24,170**	**27,923**	**31,326**
4,456	Net financing need for the year	250	250	4,750	4,500	0
(737)	Less MRP	(887)	(897)	(997)	(1,097)	(1,097)
25,454	**CFR carried forward**	**24,817**	**24,170**	**27,923**	**31,326**	**30,229**
3,719	**Movement in CFR**	**(637)**	**(647)**	**3,753**	**3,403**	**(1,097)**

4.2.3 The CFR is reduced every year by the minimum revenue provision (MRP). The Authority is required by statute to set aside MRP each year for the repayment of external debt. Under amendment regulation 4(1) of the 2008 Regulations, the Authority has a duty to set aside MRP which it considers to be prudent. Guidance has been issued which sets out recommendations on the interpretation of 'prudent' and the Authority is required to prepare an annual statement on how it proposes to calculate MRP. The 2024-25 annual statement is set out in the Annex.

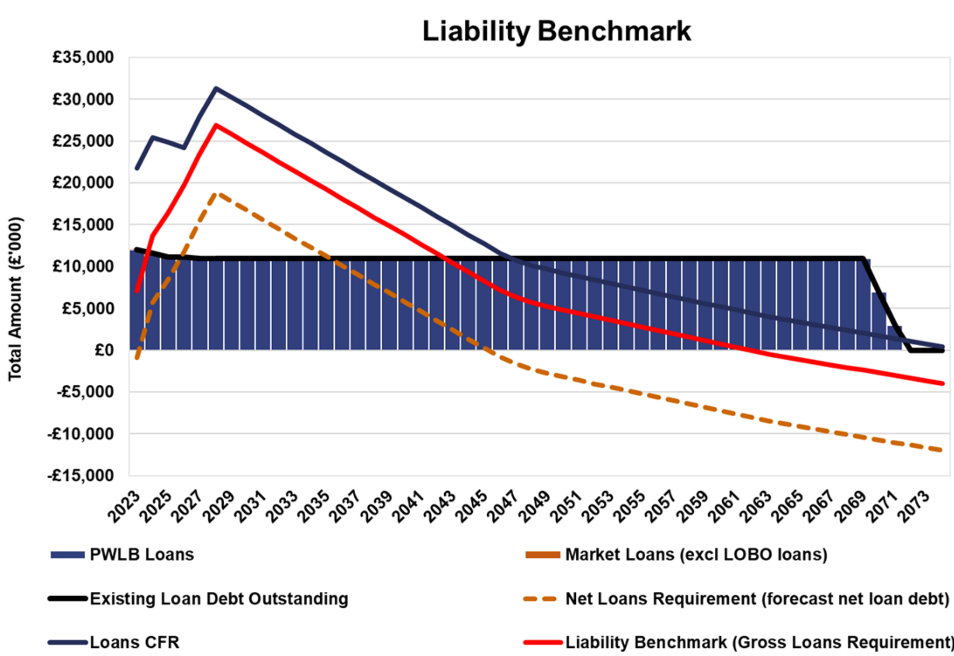
4.2.4 The DLUHC is finalising a consultation on amending MRP regulations/guidance for England which primarily covers concerns that the government has in respect of compliance with the duty to make a prudent MRP. The consultation states that DLUHC are not intending to change the current statutory guidance, but to clearly set out in legislation the practices that authorities should already be following. There are two main proposals and neither will impact upon the Authority's current MRP practices which are already consistent and fully compliant with the intent of the framework and government expectations.

4.3 Liability Benchmark

4.3.1 A new prudential indicator from 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. However, CIPFA strongly recommends that the LB is produced for at least ten years and should ideally cover the full debt maturity profile of a public body. The chart below covers the Authority's full debt maturity profile as recommended.

4.3.2 There are four components to the Liability Benchmark:

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **Loans Capital Financing Requirement (CFR):** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this shows the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.



4.3.3 The aim of the LB is to minimise/reduce refinancing, interest rate and credit risks by informing the timing and duration of new external borrowing. For this purpose it has been assumed that a short-term liquidity allowance of £8m is required to be maintained throughout the period, to provide access to liquidity if needed due to unanticipated short-term cash flow variations.

4.3.4 The chart has changed since the mid year review as it now incorporates the “placeholder” capital requirement for Ellesmere Port and Warrington rebuilds

4.3.5 The chart shows that the Authority’s LB is currently rising sharply to a peak in around 2029 indicating the additional borrowing requirement associated with delivery of the currently approved and forecasted major estates projects. This requirement then reduces as provision is made to repay outstanding borrowing via the annual MRP charge. We would expect to fund the additional borrowing with PWLB fixed rate loans around 2078-28, as these have not been taken they are not shown on the chart. No further Capital Expenditure financed by borrowing is currently planned beyond 2029.

4.3.6 In view of this, by around 2043, the LB will have reduced back down to the level of the existing loan portfolio, indicating that although there is a significant short to medium term requirement for new borrowing, this borrowing would ideally be for a range of durations up to around 13 years, i.e. filling the white triangular period in the chart between 2024 and 2043 where the LB (red line) exceeds the current loan portfolio (black line/bar chart). This profile will change if PWLB long term fixed rate loans are taken.

4.3.7 The chart also shows that that the existing loan debt portfolio will be fully repaid by 2072 and that the requirement to borrow (CFR) will also be reduced to nil by 2074, indicating that the Authority’s current MRP policy remains prudent and appropriate.

4.3.8 The chart then indicates that without any further new approved capital expenditure financed by borrowing beyond the period of the current Capital Strategy, the existing borrowing portfolio exceeds the LB after 2043. If this remains the case then it indicates either excess cash requiring investment or an opportunity to repay/restructure debt over this future period.

4.4 Core Funds and Expected Investment Balances

4.4.1 The application of funds (capital receipts, reserves etc.) to finance capital expenditure or other budget decisions to support the revenue budget will have an on-going impact on the cash available for investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are the estimated year-end balances for reserves. The Capital Receipts and Unapplied Capital Grants reserves are restricted in their usage to funding capital expenditure or repaying debt and cannot be used for revenue purposes.

Table 4: Reserves

	Actual 31 March 23 £000	Forecast 31 March 24 £000	Forecast 31 March 25 £000	Forecast 31 March 26 £000	Forecast 31 March 27 £000	Forecast 31 March 28 £000	Forecast 31 March 29 £000
General Reserve	1,928	1,928	1,928	1,928	1,928	1,928	1,928
Earmarked Reserves							
Capital receipts	0	0	0	3,000	1,500	0	0
Capital Reserves	14,233	13,584	8,851	6,680	4,569	2,458	2,347
Staff related	1,309	581	486	391	391	391	391
Legal and insurance costs	517	479	379	379	379	379	379
ICT and systems development	433	461	495	495	495	495	495
Training	141	225	201	201	201	201	201
Equipment & Uniform	1,724	1,668	1,587	662	662	662	662
Collaborations and partnerships	125	125	917	521	125	125	125
Property related	697	462	441	471	500	530	559
Operational Policy and Assurance - resilience	269	193	166	166	166	166	166
Prevention	1,077	699	650	650	650	650	650
Protection	299	340	249	0	0	0	0
Funding	1,488	1,488	1,448	1,448	1,448	1,448	1,448
UPG	286	318	318	318	318	318	318
Specific projects	64	0	0	0	0	0	0
Total Reserves	**24,590**	**22,551**	**18,116**	**17,310**	**13,332**	**9,751**	**9,669**

<u>Affordability Prudential Indicators</u>

4.4.2 So far the Strategy has covered the control of overall capital expenditure plans and borrowing prudential indicators. The following indicator provides an indication of the impact of the above capital expenditure plans and their financing proposals on the overall finances and precept (council tax).

Table 5: Ratio of financing costs to net revenue funding

2022-23 Actual	**2023-24 Estimate**	**2024-25 Estimate**	**2025-26 Estimate**	**2026-27 Estimate**	**2027-28 Estimate**	**2028-29 Estimate**
2.23%	1.89%	2.36%	2.49%	2.87%	2.97%	2.90%

4.4.3 This indicator identifies the trend in the financing costs of the Authority, (borrowing, MRP and other long term obligation costs), against the net revenue stream. The estimates of financing costs include current commitments and the proposals included in the budget/medium-term financial plan. The above ratio reduces in 2023-24 due to the deferral of new borrowing along with increased net revenue funding, but then estimated to rise due to the requirement to increase borrowing in order to finance the recently completed Wilmslow and Crewe major estates projects.

4.4.4 The above ratios do include estimates on future interest rates incurred with Warrington and Ellesmere Port project (if approved), which is the peak seen in 2027-28. These rates are based on interest rates falling in the next few years.

5. BORROWING

5.1 Section 4 provides details of the capital plans of the Authority. A key function of treasury management is to ensure that the cash resources are organised in accordance with the relevant regulations and professional codes so that sufficient cash is available to meet service activity and the capital strategy. This will involve both cashflow management and where capital expenditure plans require it, the arrangement of appropriate borrowing facilities. This Strategy covers the relevant treasury and prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

Current Debt Position

5.1.1 The current debt position with forward projections, is summarised below. The table shows actual external debt against the underlying capital borrowing need, highlighting any internal borrowing or over borrowing. With forecast additional debt in 2026-28.

Table 6: Debt Position

2022-23 Actual £000	2023-24 Estimate £000	Gross Borrowing Requirement	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000	2026-27 Estimate £000	2027-28 Estimate £000
		External Debt					
12,012	12,012	Debt at 1 April	11,586	18,119	20,119	24,619	29,119
0	(426)	Expected change in Debt	6,533	2,000	4,500	4,500	-
12,012	11,586	External Debt at 31 March	18,119	20,119	24,619	29,119	29,119
0	0	Finance Lease	0	0	0	0	0
0	0	Expected change in Finance Lease	0	0	0	0	0
12,012	11,586	Actual Gross Debt at 31 March	18,119	20,119	24,619	29,119	29,119
21,735	25,454	Capital Financing Requirement	24,817	24,170	27,923	31,326	30,229
9,723	**13,868**	**Internal *1 / (over) borrowing**	**6,698**	**4,051**	**3,304**	**2,207**	**1,110**

**1 – Paragraph 5.4 below discusses the internal borrowing position.*

5.1.2 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 ensures that its gross debt does not, except in the short-term, exceed the total Capital Financing Requirement in the preceding year plus the estimates for any additional Capital Financing Requirement for 2024-25 and the following two financial years. This allows some flexibility for limited early borrowing for future plans but ensures that borrowing is not undertaken for revenue or speculative purposes.

5.1.3 The Treasurer confirms that the Authority complied with this prudential indicator in the current year and does not envisage any issues for the immediate future. This view takes into account current commitments, existing plans and the proposals included in the budget report and Medium Term Financial Plan for 2024-29 to be considered by the Fire Authority on 14th February 2024.

5.2 Treasury Indicators – limits to borrowing activities

5.2.1 There are two limits to borrowing, the operational boundary and the authorised limit for external debt. These are the current debt position as shown in 5.1.1 above plus the forecast requirement for external financing over the next three years.

5.2.2 **The operational boundary** is the limit which external debt and long-term liabilities is not normally expected to exceed. In most cases this would be a similar figure to the Capital Financing Requirement but may be higher or lower depending on the level of actual debt and repayment schedules. Temporary breach of the operational boundary is not in itself cause for concern but an indicator that such liabilities should be reviewed. If there was a sustained breach, (such as an increase in long-term borrowing), then this would need to be investigated and action taken.

5.2.3 The operational boundaries below are based on estimating the Authority's most likely level of borrowing and leasing each year. It includes long-term borrowing to fund capital expenditure plans, short-term temporary borrowing for cashflow purposes and the impact of any finance leases.

Table 7: Operational Boundary

Operational Boundary	**2024-25 Estimate £000**	**2025-26 Estimate £000**	**2026-27 Estimate £000**
Debt	21,119	23,119	25,000
Other long term liabilities	200	200	200
Total	**21,319**	**23,319**	**25,200**

5.2.4 As Table 7 shows, the Operational Boundary over the period 2024-27 is increasing to around £25m in 2025-26 because of the new borrowing requirement in support of the capital programme.

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

5.2.6 This is a statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authorities' plans or those of any specific public body; although this power has yet to be exercised.

5.2.7 There is a statutory requirement for the Authority to confirm the authorised limit. This is set out in the table below:

Table 8: Authorised Limit

Authorised limit for external debt	2024-25 Estimate £000	2025-26 Estimate £000	2026-27 Estimate £000
Borrowing	23,119	25,119	27,000
Other Long Term Liabilities	200	200	200
Total Authorised Limit	**23,319**	**25,319**	**27,200**

5.3 Prospects for Interest Rates

5.3.1 Link Group have been appointed as external treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. The following table gives our current view.

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

Source: Link Group

5.3.2 2023-24 has seen political and economic volatility and uncertainty along with significant inflationary pressures. In the first half of 2023-24 interest rates were increased by a further 1.0%, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.

Forecasts for Bank Rate

5.3.3 The above forecast for interest rates was updated on 7 November and reflects a view that the MPC will be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least the second half of 2024.

5.3.4 It is anticipated that the Bank of England will start rate cuts when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness. Timing on that matter will be one of fine judgment. Cut too soon and inflationary pressures may well build up further, cut too late and any downturn or recession may be prolonged.

5.3.5 In the upcoming months, updated forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

5.3.6 On the positive side, consumers are still estimated to be sitting on some excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, most of those are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

Forecasts for PWLB rates and gilt and treasury yields

5.3.7 PWLB borrowing rates for periods of 5 to 50 years are currently in the range of 5.02% to 5.38%. The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation starts to fall through the remainder of in 2024. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

5.3.8 As the interest forecast table for PWLB certainty rates above shows, there is now forecast to be stability of rates until mid-2024, followed by a gradual reduction during the forecast period to December 2026.

5.3.9 Downside risks to current forecasts for UK gilt yields and PWLB rates include:

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- UK / EU trade arrangements – if there was a major impact on trade flows and financial services.

- Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

5.3.10 Upside risks to current forecasts for UK gilt yields and PWLB rates:

- The Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding

UK sovereign debt. Longer term US treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. Projected gilt issuance, inclusive of natural maturities, could be too much for the markets to comfortably digest without higher yields compensating.

5.3.11 Link's long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3%. As all PWLB certainty rates are currently above this level, borrowing strategies will need to be reviewed in that context.

5.4 Borrowing Strategy

5.4.1 As shown in Table 6, the Authority is currently utilising internal borrowing and forecast to remain so for the period covered by this Strategy. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loan debt as cash supporting reserves, balances and cash flow has been used as a temporary measure. This approach is appropriate for the current economic scenario and prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.

5.4.2 As a result of deferring the approved 2022/23 and 2023/24 new external borrowing, the position at 31 March 2024 is now forecast to be around £13.9m internally borrowed. This is temporarily above the 2023/24 target of £10m, but consistent with the current strategy of increasing internal borrowing over the period of major estates projects delivery in order to minimise new long term external borrowing over this period. It will be achieved through careful cashflow management.

5.4.3 At this point, a temporary increase to the target level of internal borrowing over this period, supported by short periods of temporary external borrowing if required, is considered to be manageable and a sensible position in view of the current high cost of borrowing and forecasts that this will begin to reduce as the economy stabilises over the next two to three years. It is not, however, sustainable on a longer term basis as current reserve balances are used to support current financial plans, most notably the ongoing Fire Station Modernisation Programme. The position will continue to be monitored closely throughout 2024/25 and reviewed again as part of the 2025/26 Treasury Management Strategy.

5.4.4 Against this background and the risks within the economic forecast, caution will be adopted with the 2024-25 treasury operations. The Head of Finance will keep interest rates and the cashflow under regular review in order to adopt a pragmatic approach to changing circumstances, supported by advice from the external Treasury Management advisers.

5.4.5 A key aim of the borrowing strategy is to minimise the cost of the loan portfolio whilst ensuring that the obligation to repay the loans is spread out over a period of time. This reduces the impact of such loans on the revenue budget. The profile of the repayment of the debt portfolio is shown below at 5.6.3.

5.4.6 New long term borrowing is currently planned during the life of this Strategy. Where short term borrowing arrangements are required to support a temporary low general fund bank balance, the Authority will engage with Treasury Advisors to understand if there are any local authority counterparties available to lend from. The offer will then be considered and terms of loans agreed between the Head of Finance and nominated officer from the lending organisation.

5.5 Policy on borrowing in advance of need

5.5.1 The Authority will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds.

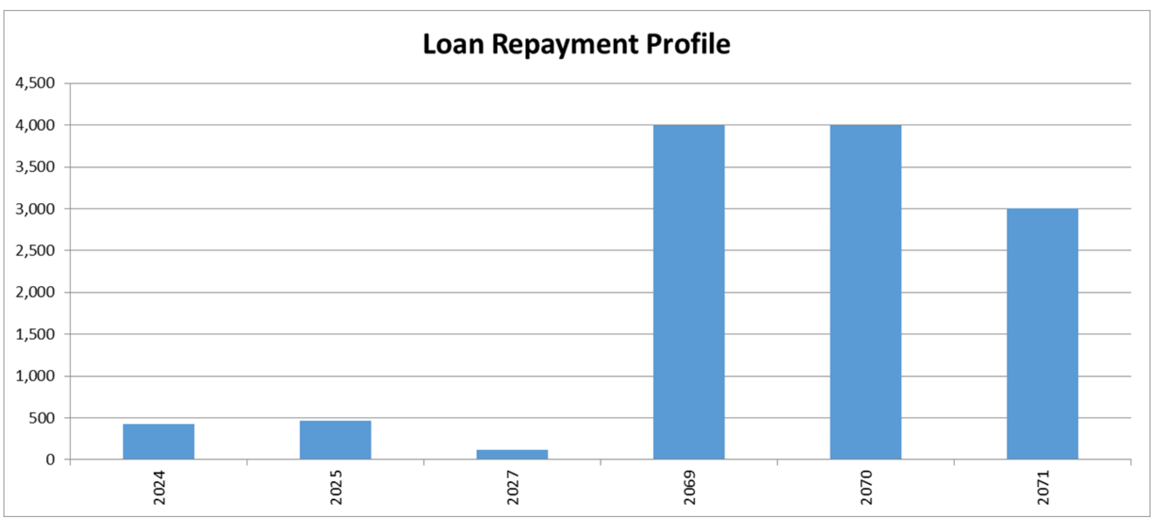
5.6 Debt Rescheduling

5.6.1 Rescheduling of current borrowing in the debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates.

5.6.2 The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cash flow savings
- Helping to fulfil the treasury strategy
- Enhancing the balance of the portfolio (amending the maturity profile and/or the balance of volatility).

5.6.3 Any potential rescheduling will be carefully considered. A table showing the current profile of the debt portfolio, highlighting years in which debt matures, is shown below:



Note- gap between years 2027 to 2069 on the x-axis

5.6.4 All current borrowing is on a fixed rate basis with a current overall weighted average of 1.91% for 2024-25, reduced from 2.01% in 2023-24 due to the planned repayment of a maturing loan on 31/3/24 which was taken out in 2000 at 4.875%. Any new loans taken out will be subject to the rates applicable at that time. Any early repayment of debt would also be subject to either early pay-back premiums or discounts.

5.6.5 Key sensitivities of the interest rate forecast are likely to be:

- if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years; and

- If it were felt that there was a significant risk of a sharp fall in short and long-term interest rates then longer-term borrowing will be postponed until rates were deemed at their lowest and a review of current debt would be undertaken to ascertain the benefit of rescheduling to more competitive short term loans.

5.7 Treasury Management limits on activity

5.7.1 There are three debt-related treasury activity limits. Their purpose is to restrain borrowing activity within certain limits to manage risk and reduce the impact of adverse movement in interest rates. However, if these are set too restrictively they will impair the opportunity to reduce costs or maximise value for money. As such the upper limits on shorter term debt has been raised since the last report to enable the Authority to manage high interest rate risk, through short term borrowing until PWLB long term rates fall.

Table 9: Interest Rate Limits

	2024-25 Upper	2025-26 Upper	2026-27 Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	25%	25%	25%

Table 10: Maturity structure of fixed interest rate borrowing 2024-25

Maturity Structure of Authority Borrowing	Lower Limit %	Upper Limit %
Under 12 months	0%	25%
12 months to 2 years	0%	25%
2 years to 5 years	0%	50%
5 years to 10 years	0%	50%
10 years and above	50%	100%

6. **ANNUAL INVESTMENT STRATEGY**

6.1 Investment Policy

6.1.1 The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This Strategy deals solely with treasury (financial) investments. The Authority does not hold any non-financial investments, essentially the purchase of income yielding assets, but if it did these would now be covered in the separate Capital Strategy.

6.1.2 The Authority's investment policy has regard to the following:

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

6.1.3 The Authority's principal objectives for investments are security first, liquidity next and finally yield (return). The Authority will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate, the Authority will also consider the value available in periods up to 12 months with high credit rated financial institutions.

6.1.4 The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This Authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

a) Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

b) 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 external advisors to monitor market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

d) The Authority has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in table 11 below under the categories of ‘specified’ and ‘non-specified’ investments.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by the Authority before being authorised for use.

Table 11: Approved Investment Instruments

Specified Investments (maturities up to one year)
▫ Bank & Building Societies Term Deposits
▫ Other Local Authority Term Deposits
▫ Debt Management Agency Deposit Facility
▫ AAA Money Market Funds (CNAV/LVNAV/VNAV)
Non-Specified Investments (maturities over one year)
▫ Bank & Building Societies Term Deposits
▫ Other Local Authority Term Deposits
Other Non-Specified Investments
▫ Fixed term deposits with variable rates & maturities

e) Non-specified investments limit. The Authority has determined that it will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio.

f) Lending limits, the maximum amount for each counterparty will be set at £10m per organisation/group. The maximum investment duration for each counterparty will be set in line with the creditworthiness service provided by Link Asset Services as set out in paragraph 6.2.

g) The Authority will set a limit for the amount of its investments which are invested for longer than 365 days, (see paragraph 6.4.5).

h) Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 6.3).

i) The Authority has engaged external consultants, (see paragraph 3.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

j) All investments will be denominated in sterling.

k) As a result of the change in accounting standards for 2023-24 under IFRS 9, the Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the Ministry of Housing, Communities and Local Government, [MHCLG], concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31 March 2023). More recently, a further extension to the over-ride to 31 March 2025 has been agreed by Government.

6.1.5 The above criteria are unchanged from last year.

6.2 Creditworthiness Policy and Exposure to Risk

6.2.1 The Authority utilises the creditworthiness service provided by Link Group, its Treasury Management advisers. This service employs a sophisticated modelling approach incorporating credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- Credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) to give early warning of likely changes in credit ratings; and
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration of investments. The Authority will use counterparties within the following durational bands:

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No Colour Not to be used

6.2.2 The Link creditworthiness service uses a wider array of information rather than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not place undue reliance to just one agency's ratings. Typically, the minimum credit ratings criteria the Authority uses will be a short-term rating (Fitch or equivalent) of F1 and a long-term rating of A- indicating high security and stability. 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.

6.2.3 All ratings and colour codes are monitored weekly via Link's credit listings and in-between via business press. The Authority is alerted to changes to any ratings via email from Link.

- 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 spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in the downgrade of an institution or its removal from the Authority's lending list.

6.2.4 Sole reliance will not be placed on the use of this external service. In addition to Link, the Finance Team officers will also use market data and information on any external support for banks to help support its decision making process.

6.3 Country Limits

6.3.1 The Authority has determined that it will only use approved counterparties from the UK and from countries outside of the UK with a minimum sovereign credit rating of AAA from Fitch (or equivalent). The list will be added to, or deducted from, should ratings change. Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, the Authority will not set a minimum rating for the UK

6.4 Investment Strategy

6.4.1 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods and the current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns. While most of the Authority's cash balances are required in order to manage the 'ups and downs' of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

6.4.2 The Authority would seek to maintain at all times a core liquid balance of £4m.

6.4.3 For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

6.4.4 Bank Rate - The current forecast shown in paragraph 5.3, includes a forecast for a succession of rate decreases from 2023's peak of 5.25%. Bank Rate forecasts for financial year ends (March) are:

2023/24 – 5.25%	2024/25 – 4.00%	2025/26 – 3.00%	2026/27 – 3.00%

Investment treasury indicator and limit

6.4.5 This indicator limits the total funds which the Authority is willing to invest for periods greater than 365 days. This limit is set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment. It is based on the forecast availability of funds after each year-end.

Table 12: Investment Treasury Limit:

	2024-25	**2025-26**	**2026-27**
	Upper	**Upper**	**Upper**
Principal sums invested for longer than 365 days	Nil	Nil	Nil

6.5 End of Year Investment Report

6.5.1 At the end of the financial year, the Treasurer will report on the Authority's investment activity as part of the Annual Treasury Report.

ANNEX 1

Minimum Revenue Provision (MRP) Statement

1. The Authority is required to make an annual provision from revenue to contribute towards the repayment of borrowing. This requirement arises under the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008, which simplifies earlier MRP requirements by placing a duty on the Authority to determine each year an amount of minimum revenue provision, which it considers to be prudent. In order to assist the Authority with this determination, guidance for assessing what would represent a prudent provision has been issued under Section 21 (1A) of the Local Government Act 2003 (the Guidance). The Authority is required to have regard to the Guidance when considering the amount of their annual “prudent” MRP.

2. At the end of 2023-24, around 19% (£4.8m) of the Authority’s Capital Financing Requirement (CFR) will relate to the balance of historic (up to 2017-18) supported debt liability. The Authority determined that from 2023-24, this historic element of the CFR will be charged MRP at the rate fixed as 4% of the balance at 31st March 2023 (£5m). The Authority considers this approach to be more prudent as it will ensure that the CFR will be cleared over a finite 25 year period rather than the previously adopted reducing balance method (6.7% per year) which would technically never clear this element of the Authority’s CFR.

3. Any post 2017-18 new borrowing will continue be subject to MRP under option 3 of the Government Guidance. It will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, MRP in respect of capital expenditure on the new Training Centre Project relates to the estimated life of that asset.

4. The use of this approach for certain schemes will also result in a nil MRP charge until the year after that in which all expenditure on the scheme, project or other item of capital expenditure has been fully accrued under proper accounting practices, regardless of the extent of such expenditure that has not been accrued at the end of the previous financial year. Estimated life periods will be determined using appropriately qualified professional judgement.

5. Based on the current projected capital outturn position for 2023-24 and this statement, it is expected that the resulting MRP charge will be approximately £887k for 2024-25.

6. This MRP statement will be reviewed on an annual basis. If it is proposed to vary the policy during the year, a revised statement will be submitted to the Authority.