



Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Cambridgeshire Police And Crime Commissioner
2025/26

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1 INTRODUCTION

1.1 Background

The Police and Crime Commissioner (“the Commissioner”) is required to operate a balanced 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 Commissioner’s low risk appetite, providing adequate security and liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Commissioner’s capital plans. These capital plans provide a guide to the borrowing need of the Commissioner, essentially the longer term cash flow planning, to ensure that the Commissioner can meet the 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 the Commissioner’s risk or cost objectives.

The contribution the treasury management function makes to the Commissioner 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.

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.”

Local authority, in the definition above, encompasses the Police and Crime Commissioner.

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.

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities, including the Commissioner, 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; and
- the implications for future financial sustainability.

The aim of this strategy is to ensure that the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite are understood.

1.2.2 Treasury Management reporting

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

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).

A mid-year treasury management report – This will update the Commissioner on the progress of the capital and treasury position, amending prudential indicators as necessary, and whether any policies require revision.

An annual treasury report – This provides details of actual prudential and treasury indicators and actual treasury operations at the year end compared to the estimates within the strategy.

1.2.3 Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Commissioner. This role is undertaken by the Chief Finance Officer and the Business Co-ordination Board.

1.2.4 Quarterly reports

In addition to the three major reports detailed above two quarterly reports for periods at the end of June and the end of December are also required. However, these additional reports do not have to be reported to the Commissioner, but do require to be adequately scrutinised. This role is undertaken by the CFO. These reports should specifically comprise of updated Treasury/Prudential Indicators.

1.3 Treasury Management Strategy for 2025/26

The strategy for 2025/26 covers two main areas:

Capital issues

- the capital plans and the prudential indicators;
- the Minimum Revenue Provision (MRP) policy.

Treasury management issues

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

These elements cover the requirements of the Local Government Act 2003, DLUHC (now MHCLG) Investment Guidance, DLUHC (now MHCLG) MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

Affordability and Financial Planning: The Capital Programme and the Medium-Term Financial Strategy (MTFS) will include forecasts on capital expenditure, revenue consequences of capital programmes and the requirement to financially support capital investment, mainly through borrowing. This work will have identified the potential financial position for the Force in respect of the coming medium term, considering known information and stated assumptions.

Capital Sustainability: For the period of the MTFS there is a necessary move away from funding of the capital programme through use of capital reserves and grants into a position of funding through borrowing for specific projects. The replacement of the Parkside police station and custody provision in South Cambridgeshire is the largest capital project in recent years and will require a significant amount of capital investment.

Approval Process: Once the Commissioner has approved the capital programme, then capital expenditure can be committed against these approved schemes. Whether capital projects are funded from grant, capital allocations or borrowing, the revenue costs must be able to be met from existing revenue budgets. Following approval by the Commissioner capital expenditure is then monitored on a regular basis at the Force Executive Board (FEB) and the Business Coordination Board (BCB) meetings.

Capital receipts: Capital receipts cannot be spent on revenue items but will reduce the requirement for borrowing. The Commissioner continues to keep under review the pool of surplus land and underutilised assets in the portfolio which may release surplus land and building to realise capital receipts.

Prudential Borrowing: The Commissioner can set their own borrowing levels based on capital need and the ability to pay for the borrowing. The levels will be set by using the indicators and factors set out in the Prudential Code. The borrowing costs are not supported by the Government so the Commissioner needs to ensure the repayment costs can be funded. Due to the ongoing debt charges (i.e. MRP and external interest charges) the Chief Finance Officer (CFO) will keep under review external borrowing and any potential alternative funding source for financing the capital programme.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that those with responsibility for treasury management, particularly those responsible for its scrutiny, receive adequate training in treasury management. The Commissioner and members of the substantive Joint Audit Committee (JAC) will be provided with appropriate training. The training needs of treasury management officers are periodically reviewed.

1.5 Treasury Management Consultants

The Commissioner uses MUFG (formerly Link Group, Link Treasury Services Limited) as its external treasury management advisors. The Commissioner recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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

2 THE CAPITAL PROGRAMME 2025/26 – 2028/29

The Commissioner's capital expenditure plans are the key driver of treasury management activity. The capital expenditure plans are reflected in the prudential indicators, which are designed to assist with this overview and confirmation of capital expenditure plans. These indicators are separated out in Appendix 5.1, with the following table providing an overview.

Table 1

£000's		2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Plan	2027/28 Plan	2028/29 Plan
Opening Capital Financing Requirement (CFR)		23,854	27,662	45,659	84,633	81,687	84,785
<i>Capital investment:</i>							
Tangible assets additions		9,677	23,617	43,257	19,287	10,222	8,546
Intangible assets additions		310	-	-	-	-	-
TOTAL CAPITAL EXPENDITURE	(A)	9,987	23,617	43,257	19,287	10,222	8,546
<i>Source of Finance:</i>							
Capital receipts		(2)	-	-	(17,357)	(643)	-
Government Grants		(10)	(57)	-	-	-	-
Other Grants		-	(650)	(641)	-	-	-
		(12)	(707)	(641)	(17,357)	(643)	-
<i>Sums set aside from Revenue:</i>							
Direct revenue contributions		(4,217)	(2,886)	(1,540)	(1,540)	(1,540)	(1,540)
		(4,217)	(2,886)	(1,540)	(1,540)	(1,540)	(1,540)
<i>Reserves:</i>							
Tfr from Capital Carry Forward Reserve		(702)	(683)	-	-	-	-
Tfr from Other Reserves		(50)	(137)	(280)	(390)	(1,385)	(280)
		(752)	(820)	(280)	(390)	(1,385)	(280)
TOTAL FINANCING	(B)	(4,981)	(4,413)	(2,461)	(19,287)	(3,568)	(1,820)
Net financing need	(A)-(B)	5,006	19,204	40,796	-	6,654	6,726
Minimum Revenue Provision (MRP)	(C)	(1,198)	(1,207)	(1,822)	(2,946)	(3,556)	(4,504)
Movement in CFR	(A)-(B)+(C)	3,808	17,997	38,974	(2,946)	3,098	2,222
Closing Capital Financing Requirement	(D)	27,662	45,659	84,633	81,687	84,785	87,007
<i>Borrowing represented by:</i>							
Loan Finance		15,806	39,896	74,224	73,522	79,366	85,095
TOTAL BORROWING	(E)	15,806	39,896	74,224	73,522	79,366	85,095
(Under)/Over borrowing	(D)-(E)	(11,856)	(5,763)	(10,409)	(8,165)	(5,419)	(1,912)

Table 1 shows the movement in Capital Financing Requirement from the unaudited position in the 2023/24 accounts to the end of the Medium-Term Financial Strategy period. This takes account of the capital programme for the same period.

- Total capital expenditure is shown, which for 2025/26 to 2028/29 amounts to £81.3m and includes the purpose built Milton Police Station, alongside several other large projects.
- Total financing includes the different sources of financing, direct revenue contributions and use of capital reserves.
- The Minimum Revenue Provision is a charge to the revenue budget to reflect a repayment of the capital outlay.
- The Net Financing Need is the difference of capital expenditure to the total of financing available; this shows the requirement to borrow to support the current plans.
- Loan Finance represents the overall debt position from borrowing; the outstanding loan balance, deducting principal repayments within year and adding any planned borrowing.

- The table also shows the currently under-borrowed position which is the difference of the Capital Financing Requirement and the current level of Loans and Finance Leases outstanding. A key Prudential Indicator is set on these figures and detailed in section 3 Borrowing.

2.1 Capital expenditure and Financing

The Commissioner's capital expenditure plans, both those agreed previously and those forming part of this budget cycle, are summarised within **Table 1** and detail how the plans are being financed by capital or revenue resources. The capital expenditure plans are a key prudential indicator with any shortfall of resources resulting in a borrowing need. See also the table at Appendix 5.1.1 that specifically details this indicator.

2.2 The Commissioner's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Commissioner's Capital Financing Requirement (CFR), shown in **Table 1**, but also detailed in Appendix 5.1.2. 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 Commissioner's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) 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.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Commissioner's borrowing requirement, these types of scheme include a borrowing facility and so the Commissioner is not required to separately borrow for these schemes. The Commissioner currently does not have any such schemes within the CFR.

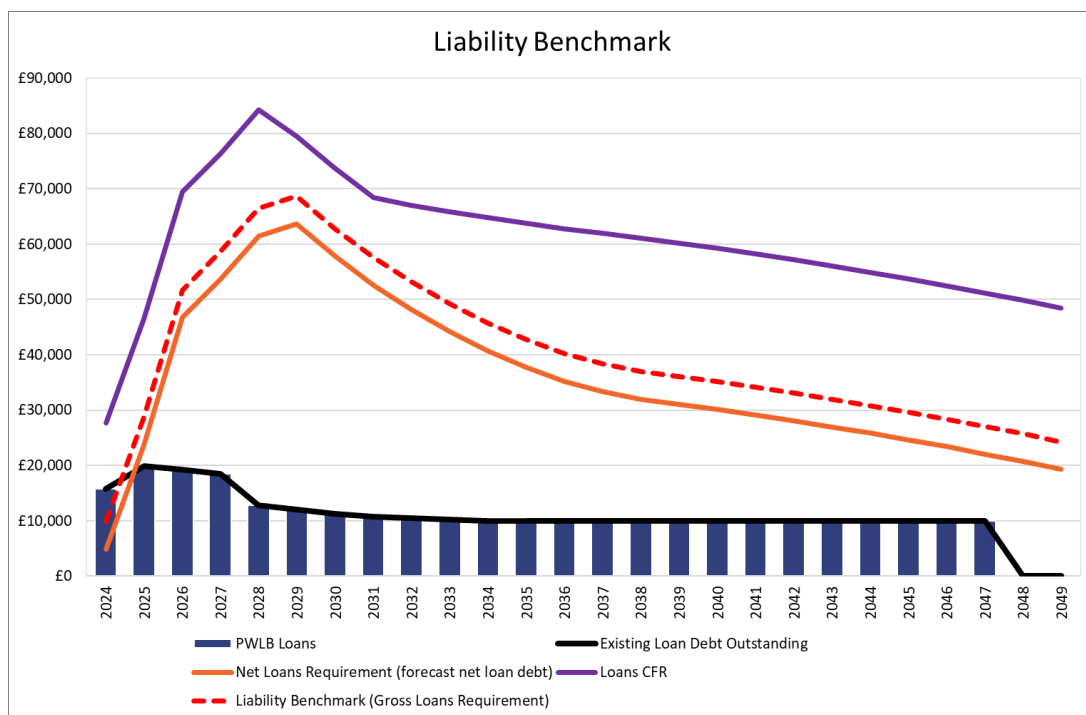
2.3 Liability Benchmark

The Commissioner is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the Liability Benchmark:

1. Existing loan debt outstanding: the Commissioner's existing loans that are still outstanding in future years.
2. Loans 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 will show the Commissioner's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its 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.

The following graph illustrates the above components with the current debt shown in the blue bars. The sharp increase in the other components are reflective of the increased borrowing need for the planned capital expenditure for the major capital schemes.



The Liability Benchmark will be analysed as part of the annual Treasury Management strategy, and any substantial mismatches between actual loan debt outstanding and the liability benchmark will be explained. Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment (unless any currently unknown future borrowing plans increase the benchmark loan debt requirement). The Treasury Strategy will explain how the treasury risks inherent in these mismatched positions will be managed.

2.4 Core funds and expected investment balances

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.). **Table 2** shows estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Table 2 – Cash available to invest

YEAR END RESOURCES £000's		2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Plan	2027/28 Plan	2028/29 Plan
General and Earmarked Reserve		27,086	25,361	24,870	24,954	22,961	22,681
Capital Receipts Reserve		77	-	-	-	-	-
TOTAL RESERVES		27,163	25,361	24,870	24,954	22,961	22,681
Provisions		2,651	2,651	2,651	2,651	2,651	2,651
TOTAL CORE FUNDS AVAILABLE	(A)	29,814	28,012	27,521	27,605	25,612	25,332
<i>Working Capital:</i>							
Stock		1,428	1,428	1,428	1,428	1,428	1,428
Debtors		23,343	23,343	23,343	23,343	23,343	23,343
Creditors		(25,656)	(25,656)	(25,656)	(25,656)	(25,656)	(25,656)
		(885)	(885)	(885)	(885)	(885)	(885)
Under-borrowing		(11,856)	(5,763)	(10,409)	(8,165)	(5,419)	(1,912)
TOTAL EXISTING REQUIREMENT	(B)	10,971	4,878	9,524	7,280	4,534	1,027
Cash available to invest	(A)-(B)	18,843	23,134	17,997	20,325	21,078	24,305

Table 2 shows the value of the remainder of core funds available to invest after consideration of cash backed reserves, provisions and the under-borrowed amount are offset against the working capital requirements of the organisation. The levels of provision and working capital are projected forward at the same level as for 2023/24.

2.5 Minimum Revenue Provision (MRP) Policy Statement

Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a charge to the revenue account known as the Minimum Revenue Provision (MRP).

The Commissioner is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the asset provide benefit/useful life. A prudent provision means that the Capital Finance Requirement runs down to zero over the life of the asset and that the cost of the asset is reflective of the economic benefits provided during the life of an asset.

The MRP Guidance (2018 fourth edition) gives four ready-made options for calculating MRP, but the Commissioner can use any other reasonable basis that can be justified as prudent.

The MRP policy statement requires full approval in advance of each financial year. The Commissioner is recommended to approve the following MRP Statement.

From 1 April 2008 – 31st March 2024 for all unsupported borrowing (including Finance Leases) the MRP policy will be:

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This option provides for a reduction in the borrowing need over approximately the asset's life.

From 1 April 2024 for all unsupported borrowing (including Finance Leases) the MRP policy will be **Asset life method** with a combination of **Annuity** and **Straight-Line calculations** as follows:

- Asset life straight line method for all short-term assets (generally non-Land and Building assets)

- Asset life annuity method for all long-term Land and Building assets 40 years and over. The specified rate of interest will be the average interest rate of the Commissioner's debt (using the PWLB loan rates) as at the end of the year preceding the first year in which the annuity rate is to be applied.

Repayments included in finance leases are applied as MRP.

MRP Overpayments – under the MRP guidance, any charges made in excess of the statutory MRP can be made, known as voluntary revenue provision (VRP).

VRP can be reclaimed in later years if deemed necessary or prudent. For these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year.

Cumulative VRP overpayments made to date are zero.

We do not have any overpayments to date or currently planned.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Commissioner. The Treasury Management function ensures that the Commissioner's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity and the Commissioner'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.

3.1 Current portfolio position

The overall Treasury Management portfolio as at 31st March 2024 and for the position as at 31st December 2024 are shown below for both borrowing and investments. The 31st March 2025 figures show the estimated year end position.

Table 3

TREASURY PORTFOLIO						
	31 March 2024		31 December 2024		31 March 2025	
	£000	%	£000	%	£000	%
Treasury Investments						
Banks (UK)	10,870	100%	10,870	100%	9,500	100%
Banks (Rest of World)	0	0%	0	0%	0	0%
Local Authorities	0	0%	0	0%	0	0%
DMADF (H.M. Treasury)	0	0%	0	0%	0	0%
Money Market Funds	0	0%	0	0%	0	0%
Certificates of Deposit	0	0%	0	0%	0	0%
Total Managed In-house	10,870	100%	10,870	100%	9,500	100%
Bond Funds	0	0%	0	0%	0	0%
Property Funds	0	0%	0	0%	0	0%
Total Managed Externally	0	0%	0	0%	0	0%
Total Treasury Investments	10,870	100%	10,870	100%	9,500	100%
Treasury External Borrowing						
Local Authorities	0	0%	0	0%	0	0%
PWLB	15,805	100%	20,175	100%	39,896	100%
Total External Borrowing	15,805	100%	20,175	100%	39,896	100%
Net Treasury Investments / (Borrowing)	(4,935)		(9,305)		(30,396)	

The Commissioner's forward projections for borrowing are summarised in **Table 1**, which shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Within the prudential indicators there are several key indicators to ensure that the Commissioner's activities are operated within well-defined limits. One of these is that the Commissioner needs to ensure that the 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 purposes.

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

3.2 Treasury Indicators: limits to borrowing activity

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.

To calculate an operational boundary an operational buffer of 10% is added to the value of the Capital Financing Requirement. In addition, where there is the potential for borrowing to be needed earlier than planned, the estimated loan requirement is also added.

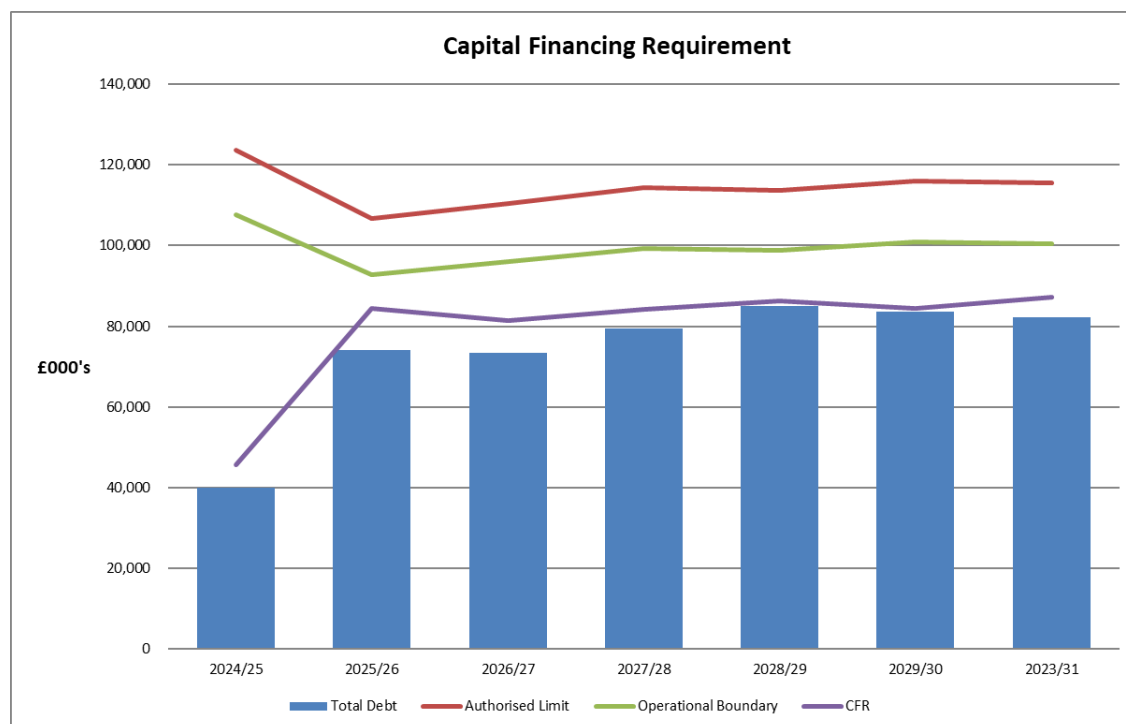
The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited and this limit needs to be set or revised by the Commissioner. It reflects the level of external debt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

1. 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 authorities and councils' plans, or those of a specific authority or council, including the Commissioner, although this power has not yet been exercised.
2. The Authorised Limit has been determined to be 15% above the operational boundary.
3. The below highlights the Authorised Limit the Commissioner has approved for 2025/26 and forecasts the changes expected over the period to 2028/29:

Table 4

LIMITS TO BORROWING ACTIVITY £000's	2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Plan	2027/28 Plan	2028/29 Plan
Capital Financing Requirement (CFR)	27,662	45,659	84,633	81,687	84,785	87,007
Operational Margin (10% of CFR)			8,463	8,169	8,479	8,701
			93,096	89,856	93,264	95,708
Borrowing Capability Factor *			-	6,654	6,726	4,030
OPERATIONAL BOUNDARY	96,462	107,604	93,096	96,510	99,990	99,738
AUTHORISED LIMIT (15% above Operational Boundary)	110,931	123,745	107,060	110,987	114,989	114,698

The Capital Financing Requirement graph below illustrates the relationship between the Commissioner's current and planned borrowing, with the CFR, Operational Boundary and the Authorised Limit.



3.3 Prospects for Interest Rates

The Commissioner has appointed MUFG (formerly known as Link Group) as Treasury Advisor and part of their service is to assist the Commissioner to formulate a view on interest rates. MUFG provided the following forecasts on 11th November 2024. This forecast has not changed and remains current at the time of writing. These are forecasts for Bank Rate, average earnings and PWLB certainty rates (gilt yields plus 80 basis points).

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

MUFG provide context for this forecast, shown in Appendix 5.4.

Gilt yields and PWLB rates. The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of the forecasts, but the risk to this forecast is to the upside.

Target borrowing rates are set two years forward (as we expect rates to fall back) and the current PWLB Certainty borrowing rates are set out in the below table.

PWLB Debt	Current borrowing rate (21.01.2024)	Target borrowing rate (end of Q3 2026)
5 Year Loan	5.07%	4.30%
10 Year Loan	5.17%	4.50%
25 Year Loan	5.76%	4.90%
50 Year Loan	5.93%	4.70%

MUFG's borrowing advice is that the long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3.00%). As all PWLB Certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed local authority market borrowing should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

3.4 Borrowing strategy

The Commissioner is currently maintaining an under-borrowed position (see **Table 1**). This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Commissioner's reserves, balances and cash flow has been used as a temporary measure. This strategy is 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. That is, Bank Rate remains elevated through to the second half of 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 Treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then, where possible, borrowing will be postponed.*
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing 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.*

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

The Commissioner will not borrow more than, or in advance of, the need 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 Commissioner can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.7 Debt rescheduling

There are no plans for rescheduling our current borrowing in the debt portfolio. All rescheduling will be discussed with the Commissioner prior to any decision being taken.

3.8 New financial institutions as a source of borrowing and/or types of borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, as managed by the treasury management team. Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy.

The Commissioner’s investment policy has regard to the following:

- MHCLG’s Guidance on Local Government Investments (“the Guidance”)
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 (“the CIPFA TM Code”)
- CIPFA Treasury Management Guidance Notes 2021

The Commissioner’s investment priorities will be security first, portfolio liquidity second, then return. The Commissioner will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity and with regard to the Commissioner’s risk appetite.

The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. The Commissioner has adopted a prudent approach to managing risk and defines risk appetite by the following means: -

1. 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.
 2. Other information: 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 Commissioner will engage with advisors to maintain a monitor on market pricing such as “credit default swaps” and overlay that information on top of the credit ratings.
 3. Other information sources used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
 4. The Commissioner has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in appendix 5.4 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.
 - 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 members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.
-

5. Non-specified investments limit. The Commissioner has determined that zero Non-specified investments will be undertaken. This will limit the maximum total exposure to non-specified investments to 0% of the total investment portfolio, (see paragraph 4.3).
6. Lending limits, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.
7. The Commissioner will set a limit for the amount of the investments which are invested for longer than 365 days, (see paragraph 4.4).
8. Investments will only be placed with counterparties from the UK and countries with a specified minimum sovereign rating, (see paragraph 4.3).
9. The Commissioner has engaged external consultants to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Commissioner in the context of the expected level of cash balances and need for liquidity throughout the year.
10. All investments will be denominated in sterling.
11. As a result of the change in accounting standards for 2023/24 under IFRS 9, the Commissioner 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.

However, the Commissioner will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

Changes in risk management policy from last year - The above criteria are unchanged from last year.

4.2 Creditworthiness policy

The primary principle governing the Commissioner's investment criteria is the security of investments, although the yield or return on the investment is also a key consideration. After this main principle, the Commissioner will ensure that:

- A policy is maintained that covers both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- There is sufficient liquidity in its investments. For this purpose, there will be set procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Commissioner's prudential indicators covering the maximum principal sums invested.

The CFO will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to the Commissioner for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Commissioner may use, rather than defining what types of investment instruments are to be used.

Credit rating information is supplied by MUFG (formerly Link Group), our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes,

rating Watches (notification of a likely change), rating Outlooks (notification of the longer term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum of the Commissioner's criteria will be suspended from use, with all others being reviewed in light of market conditions.

The criteria for providing a pool of high quality investment counterparties (both specified and non-specified investments) is:

- Banks 1 - good credit quality – the Commissioner will only use banks which:
 - i. are UK banks; and/or
 - ii. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of AA- and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
 - iii. Short Term – F1
 - iv. Long Term – A-
- Banks 2 – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised or it meets the ratings in Banks 1 above.
- Banks 3 – The Commissioner's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Money market funds (MMFs) CNAV – AAA
- Money market funds (MMFs) LVNAV – AAA
- Money market funds (MMFs) VNAV – AAA
- Ultra-Short Dated Bond Funds with a credit rating of at least 1.25 – AAA
- Ultra-Short Dated Bond Funds with a credit rating of at least 1.50 - AAA
- UK Government (including gilts, Treasury Bills and the DMADF)
- Local authorities, parish councils, Commissioners etc

A limit of 0% will be applied to the use of non-specified investments.

Use of additional information other than credit ratings. Additional requirements under the Code require the Commissioner to supplement credit rating information. Whilst the above criteria relies primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and monetary limits applying to investments. The time and monetary limits for institutions on the Commissioner's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch Rating	Money and/or % Limit	Time Limit
Banks 1 - higher quality	A- / F1	25% of available funds (max £10m)	365 days
Banks 2 – part nationalised	A- / F1	25% of available funds (max £10m)	365 days
Commissioner' bank (when not within Banks 1)		£10m	Overnight
DMADF	AAA	unlimited	6 months
Local authorities	N/A	£10m	365 days

	Fund rating	Money and/or % Limit	Time Limit
Money market funds CNAV	AAA	100% of available funds	Liquid
Money market funds LVNAV	AAA	100% of available funds	Liquid
Money market funds VNAV	AAA	100% of available funds	Liquid
Ultra-Short Dated Bonds Funds	AAA	100% of available funds	Liquid

The proposed criteria for specified and non-specified investments are shown in Appendix 5.5.

Creditworthiness - 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 Commissioner will not set a minimum rating for the UK.

CDS prices - Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

4.3 Country and sector limits

Due care will be taken to consider the country, group and sector exposure of the Commissioner's investments.

The Commissioner has determined that approved counterparties from the UK and countries with a minimum sovereign credit rating of AA- from Fitch or equivalent will be used. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

In addition:

- no more than 50% of available funds will be placed in a country outside of the UK (this applies to Banks 1 (see 4.2 above) only, not Money Market Funds);
- limits in place above will apply to a group of companies;
- sector limits will be monitored regularly for appropriateness.

4.4 Investment strategy

In-house funds - 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. The current shape of the yield curve suggests that the risks are relatively balanced between Bank Rate staying higher for longer, if inflation picks up markedly through 2025 post the 30th October 2024 Budget, or it may be cut quicker than expected if the economy stagnates. The economy only grew 0.1% in Q3 2024, but the CPI measure of inflation is now markedly above the 2% target rate set by the Bank of England's Monetary Policy Committee two to three years forward.

Accordingly, while most 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.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.

- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations - The current forecast shown in appendix 5.4, includes a forecast for Bank Rate to fall to a low of 3.5%.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as:

2024/25 (remainder)	4.60%
2025/26	4.10%
2026/27	3.70%
2027/28	3.50%
2028/29	3.50%
Later years	3.50%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Commissioner'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.

The Commissioner has approved the treasury indicator and limit for investments greater than 365 days as:

Maximum principal sums invested > 365 days	2025/26	2026/27	2027/28
Principal sums invested > 365 days	£0	£0	£0

For cash flow generated balances, the Commissioner will seek to utilise business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 365 days) in order to benefit from the compounding of interest.

4.5 Investment risk benchmarking

These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons in the mid-year or Annual Report.

- Security - the Commissioner's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:
 - 0.05% historic risk of default when compared to the whole portfolio.
- Liquidity - in respect of this area the Commissioner seeks to maintain:
 - Liquid short-term deposits having the lower of at least £5m or 25% of funds available with a week's notice.
- Yield - local measures of yield benchmarks are:
 - Investments - internal returns above the 7-day SONIA compounded rate.

4.7 Environmental, Social & Governance (ESG)

Treasury Management Practice 1 (TMP1) of the Treasury Management Code includes ESG within the framework of investing activity. ESG consideration is defined as the understanding of ESG risks that an entity is exposed to and evaluating how well it manages these risks. The Treasury Management Code recognises (page 50) that “there is a diversity of market approaches to ESG classification and analysis”, making it difficult for public service organisations to develop a consistent and detailed approach to ESG. As such the Commissioner will determine the ESG eligibility of counterparties at the point of investment. It is not anticipated that investment activity will be restricted by negatively screening institutions nor attempting to invest sustainably with available cash resources. Whilst efforts will be made in regard to this latter point, it falls outside the scope of ESG consideration under TMP1. For clarity, the Commissioner places ESG consideration secondary to the investing principles of Security, Liquidity and Yield (SLY).

4.8 End of year investment report

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

5 APPENDICES

5.1 APPENDIX: Prudential and Treasury Indicators 2025/26 – 2028/29

5.1.1 Capital Expenditure

This provides a summary of the Commissioner’s capital expenditure. It reflects matters previously agreed and those proposed for the forthcoming financial periods.

Capital Expenditure		2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Plan	2027/28 Plan	2028/29 Plan
Total Capital Expenditure	(A)	9,987	23,617	43,257	19,287	10,222	8,546
Financed by:							
Capital receipts		(2)	-	-	(17,357)	(643)	-
Revenue contribution		(4,217)	(2,886)	(1,540)	(1,540)	(1,540)	(1,540)
Grants and other contributions		(762)	(1,527)	(921)	(390)	(1,385)	(280)
Finance lease and PFI liabilities		-	-	-	-	-	-
Total Financing	(B)	(4,981)	(4,413)	(2,461)	(19,287)	(3,568)	(1,820)
Net financing need for year	(A)-(B)	5,006	19,204	40,796	-	6,654	6,726

5.1.2 Capital Financing Requirement

This shows the difference between the Commissioner’s capital expenditure and the revenue or capital resources set aside to finance that spend. The CFR will increase where capital expenditure takes place and will reduce as the Commissioner makes Minimum Revenue Provision (“MRP”) or Voluntary Revenue Provision (“VRP”) or otherwise sets aside revenue or capital resources to finance expenditure.

Capital Financing Requirement		2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Plan	2027/28 Plan	2028/29 Plan
Opening CFR		23,854	27,662	45,659	84,633	81,687	84,785
Capital spend		9,987	23,617	43,257	19,287	10,222	8,546
Resources used		(4,981)	(4,413)	(2,461)	(19,287)	(3,568)	(1,820)
MRP & VRP		(1,198)	(1,207)	(1,822)	(2,946)	(3,556)	(4,504)
Closing CFR		27,662	45,659	84,633	81,687	84,785	87,007

5.1.3 Authorised Limit

This represents a control on the maximum level of external debt the Commissioner can incur. The Commissioner has to show this aggregate amount split into the element in respect of actual external borrowing and that which relates to ‘other long-term liabilities’ - the latter being credit arrangements, as defined in statute and which will include the principal element of any finance lease or Private Finance Initiative obligations payable.

Authorised Limit		2023/24 Actual	2024/25 Forecast	2025/26 Budget	2026/27 Plan	2027/28 Plan	2028/29 Plan
Borrowing		110,731	123,545	106,860	110,787	114,789	114,498
Other Long Term Liabilities		200	200	200	200	200	200
Total Authorised Limit		110,931	123,745	107,060	110,987	114,989	114,698

5.1.4 Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed. Again, the Commissioner is required to disclose an aggregate limit and separately disclose the element that relates to actual external borrowing and that which relates to other long-term liabilities. Unlike the Authorised Limit, the Operational Boundary is not an absolute limit, but it reflects the Commissioner's expectations of the level at which external debt would not ordinarily be expected to exceed.

Operational Boundary	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual	Forecast	Budget	Plan	Plan	Plan
Borrowing	96,362	107,504	92,996	96,410	99,890	99,638
Other Long Term Liabilities	100	100	100	100	100	100
Total Operational Boundary	96,462	107,604	93,096	96,510	99,990	99,738

5.1.5 External Debt

The Commissioner has to disclose the closing balance for actual gross borrowing in respect of the financial period just ended, together with the level of other long-term liabilities and so the actual aggregate level of external debt at the Balance Sheet date. This clarifies the overall level of external debt and allow comparison to the Commissioner's actual borrowing need as provided by the Gross debt and the CFR Indicator.

Actual External Debt as at 31st March	2024/25 Forecast
Borrowing	39,896
Other Long Term Liabilities	-
Total External Debt	39,896

5.1.6 Gross Debt and the Capital Financing Requirement

The Commissioner should only borrow to support a capital purpose, and borrowing should not be undertaken for revenue or speculative purposes. If the level of gross borrowing is below the Commissioner's capital borrowing need – the CFR – it demonstrates compliance with the requirement of this Indicator.

Gross Debt and the CFR	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual	Forecast	Budget	Plan	Plan	Plan
CFR	27,662	45,659	84,633	81,687	84,785	87,007
Gross Borrowing	15,806	39,896	74,224	73,522	79,366	85,095
Under/(Over) Borrowing	11,856	5,763	10,409	8,165	5,419	1,912

5.1.7 Liability Benchmark

Any years where actual loans are less than the benchmark indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark represent an overborrowed position, which will result in excess cash requiring investment (unless any currently unknown future borrowing plans increase the benchmark loan debt requirement).

Liability Benchmark	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual	Forecast	Budget	Plan	Plan	Plan
Existing Loan Debt Outstanding	15,539	19,896	19,224	18,522	12,787	12,018
Liability Benchmark (Gross Loans Requirement)	10,755	28,728	51,717	58,576	66,497	68,659
Under/(Over) Liability Benchmark	(4,784)	8,832	32,493	40,054	53,710	56,641

5.1.8 Ratio of Financing Costs

This Indicator shows the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue stream – i.e., taxation and non-specific grant income. The higher the ratio, the higher the proportion of resources tied up just to service net capital costs, and which represent a potential affordability risk.

Ratio of Financing Costs		2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
		Actual	Forecast	Budget	Plan	Plan	Plan
Interest cost on existing borrowing		526	503	718	687	655	372
Interest cost on new borrowing		-	-	1,832	2,664	2,768	3,215
Gains/losses on debt rescheduling		-	-	-	-	-	-
Interest and investment income		(750)	(750)	(750)	(550)	(400)	(400)
MRP & VRP		1,198	1,207	1,822	2,946	3,556	4,504
Total Financing Costs	(A)	974	960	3,622	5,747	6,579	7,691
Net Budget Requirement	(B)	178,160	188,686	204,101	209,770	218,259	220,800
Ratio of financing costs	(A)/(B)	0.55%	0.51%	1.77%	2.74%	3.01%	3.48%

5.1.9 Maturity Structure of Borrowing

The Commissioner is required to set gross limits on maturities for the periods shown and covers both fixed and variable rate borrowings. The reason being to try and control the Commissioner's exposure to large sums falling due for refinancing.

Maturity structure of borrowing:	Actual	Lower Limit	Upper Limit
Under 12 months	3%	0%	100%
12 to 24 months	3%	0%	100%
2 to 5 years	35%	0%	100%
5 to 10 years	10%	0%	100%
Over 10 years	49%	0%	100%

5.1.10 Limit for Principal Sums Invested for Longer Than a Year

This Indicator is seeking to support control of liquidity risk. The limits should be set with regard to the Commissioner's liquidity needs and reduce the potential need to have to make early exit from an investment to recover funds.

	Actual	Limit
Upper limit on total principal sums invested longer than a year	£ -	£ -

A limit of zero is set to ensure that investments are not tied up for any period greater than 12 months.

5.2 APPENDIX: Interest Rate Forecasts

The PWLB rates below are based on the new margins over gilts announced on 11th January 2024. PWLB forecasts shown below have taken into account the 20-basis point certainty rate reduction effective as of the 1st November 2012.

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

Developed economies have been open for some months now post-pandemic, but the degree to which inflation took root in those economies demanded central banks tighten monetary policy dramatically compared to the ultra-low interest rates of the past decade.

Although the CPI measure of inflation has now approached 2%, the Bank of England's Monetary Policy Committee has to exercise fine judgment as to the degree of inflation emanating from the 30 October Budget, and the subsequent election of Donald Trump to be the new President of the USA from 20 January 2025. Moreover, geo-political events may play a meaningful part in impacting monetary policy over the coming months.

5.3 APPENDIX: Economic Background

The third quarter of 2024 (July to September) saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.

The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.

The Government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.

The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.

Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation

is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.

The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.

Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.

Our forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.

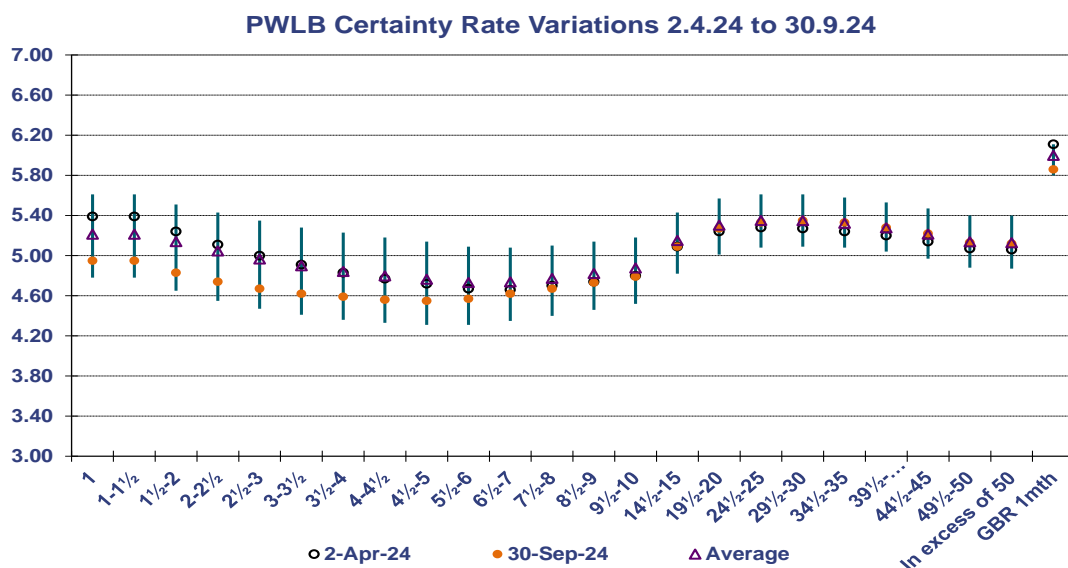
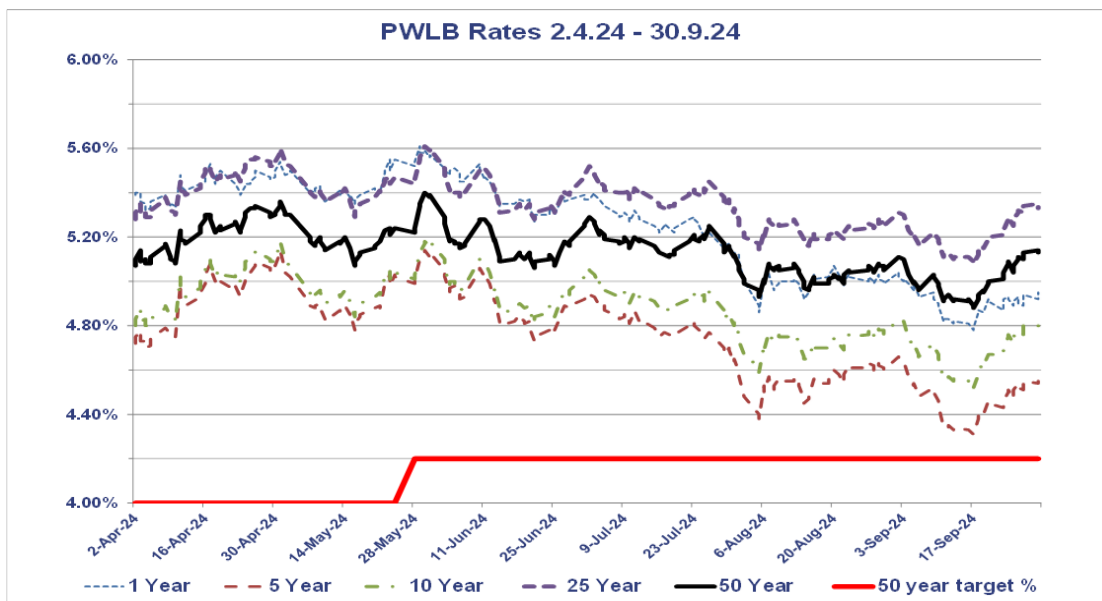
Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.

The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

MPC meetings: 9 May, 20 June, 1 August, 19 September 2024

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- By the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5.00%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- November saw a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.



High/Low/Average PWLB Rates for 02.04.24 – 30.09.24

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2024	5.39%	4.72%	4.80%	5.28%	5.07%
30/09/2024	4.95%	4.55%	4.79%	5.33%	5.13%
Low	4.78%	4.31%	4.52%	5.08%	4.88%
Low date	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.14%	5.18%	5.61%	5.40%
High date	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
Average	5.21%	4.76%	4.88%	5.35%	5.14%
Spread	0.83%	0.83%	0.66%	0.53%	0.52%

5.4 APPENDIX: MUFG (Link Group) - Prospects for Interest Rates

The Commissioner has appointed MUFG (formerly known as Link Group) as its treasury advisor and part of their service is to assist the Commissioner to formulate a view on interest rates. Link provided the following forecasts on 11th November 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

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

Following the 30th October Budget, the outcome of the US Presidential election on 6th November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7th November, we have significantly revised our central forecasts for the first time since May. In summary, our Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect our increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

If we reflect on the 30th October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.

Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and

France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

So far, we have made little mention of the US President election last week. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geopolitical risks abound in Europe, the Middle East and Asia.

Our revised PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15th June 2023 for those authorities with an HRA (standard rate minus 60 bps).

5.5 APPENDIX: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

The MHCLG issued Investment Guidance in 2018, and this forms the structure of the Commissioner's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils and authorities to invest prudently, and that priority is given to security and liquidity before yield. To facilitate this objective, the guidance requires the Commissioner to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. The former Police Authority adopted the Code in February 2006 and the Commissioner will apply its principles to all investment activity. In accordance with the Code, the Director of Finance has produced the treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are to set an annual investment strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Commissioner will use. These are high security (i.e. high credit rating, although this is defined by the Commissioner, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Commissioner is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Commissioner has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, housing association, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, rated AAA by Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum Short-Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Commissioner has set additional criteria to set the time and amount of monies which will be invested in these bodies. These criteria are set out below:

	Fitch Rating	Money and/or % Limit	Time Limit
Banks 1 - higher quality	A- / F1	25% of available funds (max £10m)	365 days
Banks 2 – part nationalised	A- / F1	25% of available funds (max £10m)	365 days
Commissioner’ bank (when not within Banks 1)		£10m	Overnight
DMADF	AAA	unlimited	6 months
Local authorities	N/A	£10m	365 days
	Fund rating	Money and/or % Limit	Time Limit
Money market funds CNAV	AAA	100% of available funds	Liquid
Money market funds LVNAV	AAA	100% of available funds	Liquid
Money market funds VNAV	AAA	100% of available funds	Liquid
Ultra-Short Dated Bonds Funds	AAA	100% of available funds	Liquid

Non-specified investments – not used.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Commissioner receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Commissioner’s CFO, and if required new counterparties which meet the criteria will be added to the list.

Environmental, Social & Governance (ESG) Considerations – The Treasury Management Code has been updated to reflect the more commonplace discussion around Environmental, Social & Governance (ESG) considerations. A clear understanding of what ESG investment considerations means requires clarification to ensure that unexpected risks to investment activity does not arise. ESG, for investment purposes, is about understanding the ESG “risks” that an entity is exposed to and evaluating how well it manages these risks. All entities will be subject to these to one extent or other.

All the main agencies are now extolling how they incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings. As such, the incorporation of ESG by the mainstream rating agencies is, to an extent, already being carried out.

The Commissioner’s ESG considerations will not be a mechanism for Socially Responsible Investing, which is typically where you apply negative screens to investment consideration. Equally it will not be a policy for Sustainable Investing, where investing in products and companies is based on expected sustainable and beneficial societal impact, alongside a financial return. However, where appropriate and available options are provided, consideration to invest in such ethical instruments will play a factor in decision making.

Investment guidance has the security, liquidity, and yield (SLY) principle at its core and paramount in all investment decisions for the Commissioner will be the priority of security and liquidity over other factors. It is expected that a trade-off with yield will be made for ethical investment opportunities and these considerations will be made on a case-by-case basis. As the ESG area expands there will be further development in the Commissioner’s overall strategy in this regard.

5.6 APPENDIX: Treasury Management scheme of delegation

(i) Commissioner / Business Co-Ordination Board (BCB)

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Commissioner / BCB

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Resources Group / Commissioner

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

5.7 APPENDIX: The Treasury Management role of the section 151 officer

The S151 officer (CFO to Commissioner)

- 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;
- recommending the appointment of external service providers;
- ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Commissioner;
- ensure that the Commissioner has appropriate legal powers to undertake expenditure on non-financial assets and their financing.