TREASURY MANAGEMENT STRATEGY

Organisation	Gravesham Borough Council
Title	Treasury Management Strategy
Department	Corporate Services
Subject	Treasury Management
Review date	2026

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1. INTRODUCTION

1.1. The Treasury Management Strategy Statement (TMSS) for 2025/26 covers two main areas:
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- Treasury Management Issues
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1.2. These elements cover the requirements of the Local Government Act 2003, DLUHC Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code, and the CIPFA Treasury Management Code.

2. TRAINING

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

2.2. Furthermore, the Code states that they expect "all organisations to 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 decisions making

2.3. As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

2.4. Record attendance at training and ensure action is taken where poor attendance is identified.

2.5. Prepare tailored learning plans for treasury management officers and council members.

2.6. Require treasury management officers and council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).

2.7. Have regular communications with officer and council members encouraging them to highlight training needs on an ongoing basis.

2.8. Member training was provided by the Council's treasury management consultant, MUFG on 29 June 2023. Further training will be made available in early 2025-26.

2.9. The training needs of treasury management officers are periodically reviewed.

2.10. A formal record of the training received by officers central to the Treasury function will be maintained by Principal Accountant (Housing and Exchequer).

They will also maintain a formal record of the treasury management/capital finance training received by members.

3. TREASURY MANAGEMENT CONSULTANTS

3.1. The Council currently uses MUFG Corporate Markets Treasury Limited (formerly Link Group, Link Treasury Services Limited) as its external treasury management advisors.

3.2. The Council 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 services providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

3.3. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council 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.

3.4. MUFG have provided a summary on the economic background. This can be found in Appendix A.

4. THE CAPITAL PRUDENTIAL INDICATORS 2025/26 TO 2027/28

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

4.2. Capital Expenditure. This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts.

4.3. Given where the authority is in the annual budget setting process, the capital estimates on the following page are based on the latest information available.

4.4. Members are asked to approve the capital expenditure forecasts and also to delegate authority to the Director (Corporate Services) in consultation with the Chair of the Finance and Audit Committee to amend the forecasts and other indicators as necessary in line with the authority's budget which will be discussed and approved by Full Council on 25 February 2025. Any such amendments will be circulated to members of the Finance and Audit Committee prior to amendment.

Capital Expenditure	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Non-HRA	10.153	28.944	32.331	27.129	14.688
HRA	14.722	24.322	27.344	32.131	18.998
Total	24.875	53.266	59.675	59.260	33.685

4.5. The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Total	24.875	53.266	59.675	59.260	33.685
Financed by:					
Grants/Contributions	2.017	4.342	13.059	12.041	1.263
Major Repairs Reserve	8.475	5.980	7.615	5.574	5.574
Capital receipts	1.053	7.750	7.129	7.253	0.654
Reserves	1.570	1.419	1.672	0.819	1.187
Revenue	3.258	4.769	3.979	0.000	0.000
Revenue Grants not yet applied	0.249	0.082	0.106	0.000	0.000
Net financing need for the year	8.253	28.924	26.115	33.573	25.007

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

4.7. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

4.8. The adoption of International Financial Reporting Standard (IFRS16) has introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is low value. When such lease contracts and the related assets and liabilities are brought onto the balance sheet, a Council will increase its long-term liabilities and as a result this will increase the debt liability. This change in accounting arrangements would result in a one-off increase to the CFR and an equal increase in revenue account balances. To ensure Councils are in the same position as if the change had not occurred, the annual MRP charge will include an amount equal to the amount that been taken to the balance sheet to reduce the liability. Officers are currently assessing the impact on this new accounting standard and therefore the forecast CFR figures below, do not include the impact of these changes. However, due to the Council having minimal exposure to leases, there will not be a material impact on the figures reported.

4.9. During 2024/25 the Government issued an update to the Local Government Act 2003 regulations which specifically relates to the Minimum Revenue Provision. Where possible, the impacts of these new regulations have been incorporated into the figures below but due to the complexity of the transaction between the Council and Rosherville Property Development, the Council's wholly owned subsidiary, further clarification will need to be sought. See Para 5.4 for further details.

4.10. The Finance and Audit Committee is recommending to Council to approve the CFR projections on the following table:

Note	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
CFR – Non HRA	85.227	109.908	129.925	139.039	149.618
CFR – HRA	79.000	80.462	84.423	98.437	102.315
Total CFR	164.227*	190.370	214.348	237.476	251.933
Movement in CFR	2.717	26.143	23.978	23.128	14.457

4.11. * The CFR for the year ending 2023/24 has been updated following an MRP Assurance Appraisal undertaken by MUFG (see Para 5.2)

Note	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
New financing need for the year	8.253	28.924	26.115	33.573	25.007
Long Term Debtor	2.191	1.898	3.245	0.000	0.000
Less HRA contribution to loan repayment	(6.798)	(4.679)	(4.411)	(9.013)	(9.042)
Less MRP and other financing movements	(0.929)	0.000	(0.971)	(1.432)	(1.508)
Movement in CFR	2.717	26.143	23.978	23.128	14.457

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

4.13. There are four components to the Liability Benchmark: -

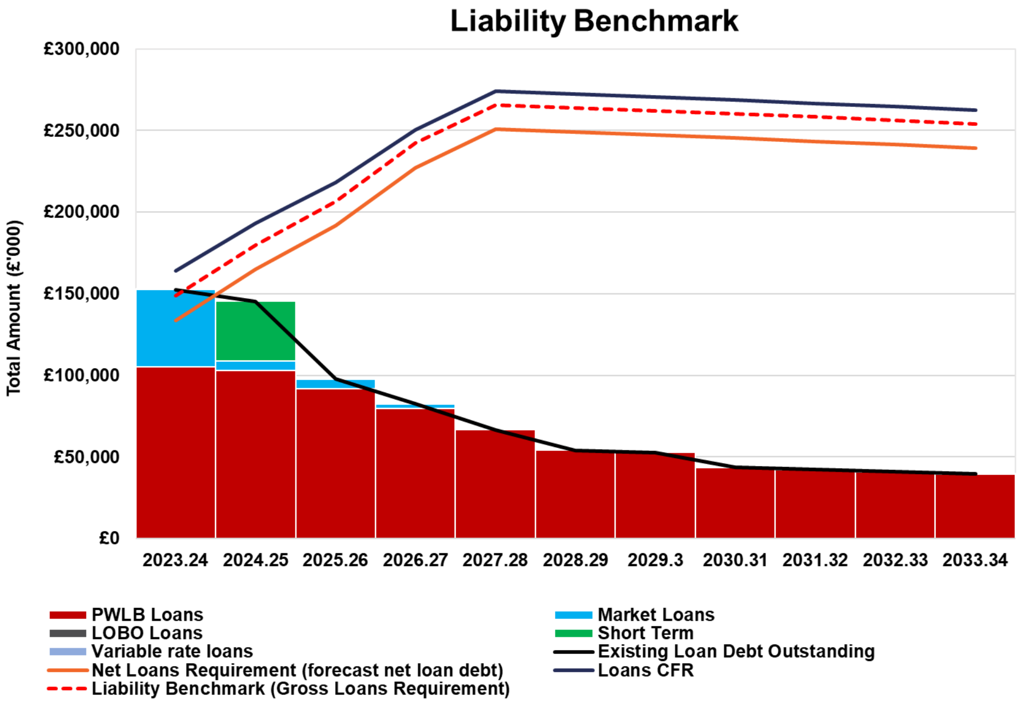
4.13.1. Existing loan debt outstanding: the Council's existing loans that are still outstanding in future years.

4.13.2. 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.

4.13.3. Net loans requirement: this will show the Council'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 other major cash flows forecast.

4.13.4. Liability benchmark: this equals net loans requirement plus short-term liquidity allowance.

A graphical representation of the Council's Liability Benchmark is shown below.



4.14. **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.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Fund Balances / Reserves (HRA and Non-HRA)	28.454	24.463	18.588	18.858	18.801
Capital receipts	20.466	13.816	8.472	1.802	1.046
Grants / Contributions	1.179	1.323	1.040	1.040	1.040
Total core funds	50.099	39.602	28.100	21.700	20.887

5. MINIMUM REVENUE PROVISION POLICY

5.1. During 2024/25 the Government issued an update to the Local Government Act 2003 regulations. Capital Finance: guidance on minimum revenue provision (5th edition) has been published alongside the regulations to assist Council's in determining an annual prudent Minimum Revenue Provision (MRP). The regulations apply from 1 April 2025, except for regulation 28(2) and 28(3) which applies from 7 May 2024.

5.2. The Council commissioned MUFG Corporate Markets Treasury Limited to undertake an MRP Assurance Appraisal following the introduction of the new regulations. This appraisal included

- A comprehensive review of the Council's CFR calculation to 31 March 2024
- A detailed appraisal of the calculation of the current annual MRP charges against the current approved MRP Policy
- Assessment of the current profile of the annual MRP charge to revenue for the payment of the outstanding CFR in terms of prudence, affordability and sustainability
- A comparison of the current MRP profile to write down the CFR with any alternative profile for the repayment which would be considered prudent
- A comprehensive examination of the current approved MRP policy
- Provide suggested changes to the approved MRP Policy Statement, to comply with the latest regulations and statutory guidance where required to assist in the reconciliation of the Council's published Capital Finance Requirement (CFR) and the CFR as per the Council's balance sheet.

5.3. This review highlighted an overcharge of MRP totalling £813k resulting from the historic adjustment A calculation and other anomalies. To correct the position, the Council will be reducing the MRP charge in current and future years by this total.

5.4. The Council has sought advice from external sources to fully understand the impact of the new regulations on the transaction between the Council and Rosherville Property Development Ltd, the Council's wholly owned subsidiary. This is a complex transaction and as a result it has not been possible to seek a consensus view. Therefore, the Council may need to engage with MHCLG to ensure that it is complying with the regulations and making a prudent provision in relation to this transaction. Should there be a financial impact, not yet reflected in this report, the revised implications will be reported to a future Finance and Audit Committee.

5.5. In order to ensure compliance with the previous MRP regulations, the revised MRP regulations and that the Council's MRP charge for 2024/25 is prudent, Officers have updated the Minimum Revenue Provision Policy for 2024/25.

6. REVISED MINIMUM REVENUE PROVISION POLICY FOR 2024/25

6.1. The Council's MRP policy has been revised following a comprehensive review of MRP charges and methodology. This updated policy reflects the new MRP calculation methods to be implemented in 2024/25.

6.2. It also reflects the part of the new Statutory Instrument 2024 no. 478 that is effective from 2024/25 i.e., the requirement to charge MRP for expected credit losses which occur on all new capital loans issued by local authorities from 7 May 2024.

6.3. Supported borrowing - For capital expenditure incurred before 1 April 2008 and capital expenditure incurred on or after that date which the Council is satisfied forms part of its Supported Capital Expenditure, the Council will apply the Asset Life Method using an annuity calculation and will apply Adjustment A (as calculated under the original regulation 28), which was a means of maintaining broad neutrality between the old and new MRP systems that took effect prior to April 2004. This methodology writes down the debt liability over a much shorter period than the previous regulatory method and is therefore deemed more prudent.

6.4. Unsupported borrowing will be subject to MRP using the Asset Life method, which will be charged over a period which is reasonably commensurate with the estimated useful life of the assets. An annuity method will be applied for the MRP calculation.

6.5. The interest rate applied to the annuity calculations will reflect the market conditions at the time and will for the current financial year be based on PWLB annuity rates.

6.6. MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for assets under construction where the MRP will be deferred until the year after the asset becomes operational.

6.7. The Guidance requires that MRP in relation to the acquisition of share capital should be provided over a maximum of 20 years. The Council has an equity investment in its wholly owned housing company Rosherville Property Development Ltd (RPDL) on which it provides MRP over 20 years in accordance with the Guidance on an annuity basis. MRP will commence in the year following the capital expenditure in accordance with the regulations. This charge will commence in 2025/26, however, the Council will consider making a Voluntary Revenue Provision (VRP) in 2024/25 which it will offset in whole or part against the overcharge reference in para 5.3.

6.8. For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts from the principal loan repayments will be used to reduce the CFR instead of MRP. Where no principal repayment is made in a given year, MRP will be charged over the life of the asset funded by the loan on an annuity basis. The Council's MRP charge for loans issued to Elizabeth Huggins Cottages Charity in 2022/23 and 2023/24 will commence in 2024/25. The Council's MRP charge for loans issued to the wholly owns housing company, RPDL, up to and including 2024/25 will commence in 2025/26. Loans issued to RPDL and any other third party from 2025/26 will commence in the year after the expenditure has been incurred in accordance with the regulations.

6.9. For capital loans to third parties granted on or after 7 May 2024 - Where those loans are subject to an expected or actual credit loss, the MRP charge will be at least the amount of the recognised credit loss for the financial year, after adjusting for any previous MRP or capital receipts applied to the loan.

6.10. Through its duty to charge depreciation and hold an MRR for HRA assets, prudent provision is made with respect to expenditure on the CFR relating to the HRA. The Council can however choose to make additional HRA MRP.

6.11. MRP Overpayments – Under the MRP Guidance, MRP made in excess of the statutory prudent amount can be made, known as voluntary revenue provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2025 the total HRA VRP overpayments were £52.433m. This is equivalent to the value of HRA self-financing loans that have been repaid since the start of the scheme. Up until the 31 March 2024 the total GF VRP overpayments were £143,367.

7. MINIMUM REVENUE PROVISION POLCY FOR 2025/26

7.1. Authorities are required by statute to comply with the Regulations for MRP set out in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 no. 3146 (as amended). The new Statutory Instrument 2024 no 478 published in April 2024 amends the 2003 regulations and will take effect from 1 April 2025, with one exception which will apply in 2024/2025 i.e. the requirement to charge MRP for expected credit losses which occur on all new capital loans issued by local authorities from 7 May 2024. At the same time detailed revised MRP Guidance was issued which authorities are required under statute to have regard to

7.2. The Council's MRP policy for 2025/26 has been updated to reflect the requirements of the 2024 regulations and revised MRP Statutory Guidance.

7.3. Supported borrowing - For capital expenditure incurred before 1 April 2008 and capital expenditure incurred on or after that date which the Council is satisfied forms part of its Supported Capital Expenditure, the Council will apply the Asset Life Method using an annuity calculation and will apply Adjustment A (as calculated under the original regulation 28), which was a means of maintaining broad neutrality between the old and new MRP systems that took effect prior to April 2004. This methodology writes down the debt liability over a much shorter period than the previous regulatory method and is therefore deemed more prudent.

7.4. Unsupported borrowing will be subject to MRP using the Asset Life method, which will be charged over a period which is reasonably commensurate with the estimated useful life of the assets. An annuity method will be applied for the MRP calculation.

7.5. The interest rate applied to the annuity calculations will reflect the market conditions at the time and will for the current financial year be based on PWLB annuity rates.

7.6. MRP on all capital expenditure will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for assets under construction where the MRP will be deferred until the year after the asset becomes operational.

7.7. The Guidance requires that MRP in relation to the acquisition of share capital should be provided over a maximum of 20 years. The Council has an equity investment in its wholly owned housing company Rosherville Property Development Ltd on which it provides MRP over 20 years in accordance with the Guidance on an annuity basis. MRP will commence in the year following the capital expenditure in accordance with the regulations.

7.8. For capital loans which are classed as non-commercial and have not been subject to a recognised credit loss in the current or any previous financial year the Council will provide MRP over the useful life of the assets purchased by the third party on an annuity basis.

7.9. For capital loans which are classed as commercial the Council will provide MRP over a maximum of the useful life of the assets purchased by the third party on an annuity basis. MRP will commence in the year following the capital expenditure in accordance with the regulations, or where MRP has not yet been provided on prior years capital expenditure, will commence in 2025/26.

7.10. Capital receipts received from the non-commercial and commercial loan repayments in the financial year will be used to reduce the debt liability i.e. the capital receipts will be used in lieu of MRP to reduce the CFR.

7.11. For capital loans to third parties granted before 7 May 2024 - Where those loans have been subject to an actual or expected credit loss in the current or any previous financial year then MRP will be provided over a maximum of the useful life of the assets purchased by the third party on an annuity basis. MRP will commence in the 2025/26.

7.12. For capital loans to third parties granted on or after 7 May 2024 - Where those loans are subject to an expected or actual credit loss, then the MRP charge will be at least the amount of the recognised credit loss for the financial year, after adjusting for any previous MRP or capital receipts applied to the loan.

7.13. Through its duty to charge depreciation and hold an MRR for HRA assets, prudent provision is made with respect to expenditure on the CFR relating to the HRA. The Council can however choose to make additional HRA MRP.

7.14. MRP Overpayments – Under the MRP Guidance, MRP made in excess of the statutory prudent amount can be made, known as voluntary revenue provision (VRP). VRP can be reclaimed in later years if deemed necessary or prudent. In order for these amounts to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2025 the total HRA VRP overpayments were £52.433m. This is equivalent to the value of HRA self-financing loans that have been repaid since the start of the scheme. Up until the 31 March 2024 the total GF VRP overpayments were £143,367.

8. BORROWING

8.1. The capital expenditure plans set out in Section 4 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council'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.

8.2. The current portfolio position - The Council's treasury position as at 31 March 2024 and the position as at 31 December 2024 are shown below for both borrowing and investments. The reduction in the balance held in Property Funds between the two periods reflects the funds termination and the Council's investment being repaid. The increase in the investment balance managed in-house reflects that at the end of 2023-24 the Council was maximise the use of its cash balances instead of securing external debt.

TREASURY PORTFOLIO				
	Actual 31/03/2024	Actual 31/03/2024	Actual 31/12/2024	Actual 31/12/2024
Treasury Investments	**£'000**	**%**	**£'000**	**%**
Banks	-	0%	5,000	22%
Local Authorities	-	0%	-	0%
Money Market Funds	1,480	8%	2,330	10%
Certificate of Deposits	-	0%	-	0%
Call Accounts - Bank	-	0%	-	0%
Call Accounts - Building Society	-	0%	-	0%
Total managed in house	**1,480**	**8%**	**7,330**	**33%**
Multi Asset Funds	8,862	47%	8,970	40%
Property Funds	8,540	45%	5,985	27%
Total managed externally	**17,402**	**92%**	**14,955**	**67%**
Total treasury investments	**18,882**	**100%**	**22,285**	**100%**
Treasury External Borrowing				
PWLB	105,073	69%	112,181	73%
Local Authorities	47,400	31%	42,500	27%
Short Term - Trust Funds	17	0%	17	0%
Total external borrowing	**152,490**	**100%**	**154,698**	**100%**
Net treasury investments / (borrowing)	**(133,608)**		**(132,413)**	

8.3. Officers continue to identify opportunities to arrange future borrowing in advance of the date the loan is taken to benefit for lower interest rates, a strategy which has worked well to date.

8.4. The Council's forward projections for borrowings are summarised in the next table. The following table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement – CFR), highlighting any under or over borrowing.

Note	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
External Debt at 1 April	151.983	152.490	177.949	201.812	213.272
Expected Change in Debt	0.507	25.459	23.863	11.460	(0.328)
Actual gross debt as at 31 March	152.490	177.949	201.812	213.272	212.944
The Capital Financing Requirement	164.227	190.370	214.348	237.476	251.933
(Under)/Over Borrowing	(11.737)	(12.421)	(12.536)	(24.204)	(38.989)

8.5. Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits.

One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years (shown as net borrowing above). This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

8.6. The Director (Corporate Services) reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties in the future. This view takes account of current commitments, existing plans and the proposals in the Budget Setting Reports for 2025/26.

9. TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

9.1. **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.

Operational Boundary	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Total	250.370	274.348	297.476	311.934

9.2. The Authorised Limit for external debt – This is a key prudential indicator represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this needs to be set or revised by the Full Council. 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.

9.3. 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 councils' plans, or those of a specific council, although this power has not yet been exercised.

9.4. The Finance and Audit Committee is asked to recommend to Council the following Authorised Limit:

Authorised limit	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Total	265.370	289.348	312.476	326.934

10. PROSPECTS FOR INTEREST RATES

10.1. MUFG are the Council's current treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. MUFG provided the following forecasts on 11 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

10.2. MUFG updated their forecast for interest rates on 11 November which took into account the Government's October budget, the outcome of the US Presidential election and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) in November. This resulted in a significantly revised central forecast and sees Bank Rate forecasts 50bps to 75bps higher than previous assumptions. The PWLB forecasts were also materially lifted to reflect concerns around the future path of inflation and the increased level of Government borrowing over the term of the current Parliament.

10.3. PWLB Rates – the overall longer-run trend is for gilt yields to fall back over the timeline of the forecast, but the risks to our forecasts are to the upsides. The target borrowing rates are set two years forward (as rates are expected to fall back) and the PWLB certainty borrowing rates are set out below.

PWLB Debt	Borrowing Rates as at 11/11/2024	Target Borrowing (end Q3 2026)
5 years	5.02%	4.30%
10 years	5.23%	4.50%
25 years	5.66%	4.90%
50 years	5.42%	4.70%

11. THE BORROWING STRATEGY

11.1. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), had not been fully funded with loan debt as cash supporting the Council'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, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.

11.2. Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Director (Corporate Services), will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

11.2.1. if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing wll be postponed.

11.2.2. 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.

11.3. Any decisions will be reported to the Finance and Audit Committee as part of the next Treasury update.

12. POLICY ON BORROWING IN ADVANCE OF NEED

12.1. The Council will not borrow more than, or in advance of its need, purely in order to profit from the investments 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 Council can ensure the security of such funds.

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

13. DEBT RESCHEDULING

13.1. Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment or rebalancing of the portfolio to provide more certainty is considered appropriate.

13.2. If rescheduling is done, it will be reported to the Finance and Audit Committee, as part of the next Treasury update.

14. NEW FINANCIAL INSTITUTIONS AS A SOURCE OF BORROWING

14.1. Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both non-HRA borrowing and gilts + 40 basis points for HRA borrowing. However, consideration may still need to be given to sourcing 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).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

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

15. APPROVED SOURCES OF LONG- AND SHORT-TERM BORROWING

15.1. In recent years when it has been necessary to take on external borrowing to fund capital expenditure, this has been secured through the PWLB or from Local Authorities. When borrowing, the Council will need to carefully consider and take the necessary steps to secure the most appropriate source of borrowing. The Council will consider (but not limited to) the following sources for external borrowing.

- PWLB
- Municipal Bonds Agency
- Local authorities
- Banks

- Pension Funds
- Insurance Companies
- UK Infrastructure Bank
- Market (long-term, short-term, LOBO)
- Stock Issue

16. AFFORDABILITY PRUDENTIAL INDICATORS

16.1. The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. Finance and Audit Committee are asked to recommend the following indicators to Full Council for approval:

16.2. **Ratio of financing costs to net revenue stream** - This indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream (includes Council Tax, NNDR and rental income and fees and charges).

%	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Non- HRA	7%	13%	26%	24%	24%
HRA	6%	6%	7%	9%	10%
Total	6%	9%	14%	15%	16%

16.3. During 2025/26, Officers will be reviewing this indicator to ensure that it provides a true reflection of the Council's position and sound basis for year-on-year comparisons.

16.4. Non-HRA - The Council is currently reviewing how it treats interest incurred on external borrowing that it onward lends to its Local Authority Trading Companies (LATCO's). This potentially reduces the financing costs for non-HRA and therefore the ratio's detailed above would also reduce accordingly.

16.5. HRA ratios – the following indicators identifies the trend of HRA debt in relation to revenue income and HRA debt per dwelling.

	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
HRA debt £m	70.861	72.323	76.284	90.299	93.772
Net Debt Costs £m	2.435	2.400	2.517	3.404	4.125

	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
HRA income £m	39.357	37.612	37.200	38.063	39.553
Ratio of debt costs to revenue income %	6%	6%	7%	9%	10%
Average Number of HRA dwellings	5,660	5,673	5,667	5,717	5,772
Debt per dwelling £	£12,520	£12,750	£13,460	£15,790	£16,250

16.6. **Maturity Structure of Borrowing -** These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits. The current maturity profile for the Council's current fixed interest rate borrowing as of 27 January 2025 is shown in the first table. The Council does not currently have any variable interest rate borrowing.

Maturity Structure of fixed interest rate borrowing 2025/26			
	Lower	Upper	Current
Under 12 months	0%	50%	30.3%
12 months to 2 years	0%	50%	7.1%
2 years to 5 years	0%	75%	28.2%
5 years to 10 years	0%	75%	9.5%
10 years to 20 years	0%	100%	4.4%
20 years to 30 years	0%	100%	6.0%
30 years to 40 years	0%	100%	9.7%
40 years to 50 years	0%	100%	4.8%
Over 50 years	0%	100%	0.0%

Maturity Structure of variable interest rate borrowing 2025/26		
	Lower	Upper
Under 12 months	0%	50%
12 months to 2 years	0%	50%

2 years to 5 years	0%	75%
5 years to 10 years	0%	75%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%
Over 50 years	0%	100%

17. ANNUAL INVESTMENT STRATEGY

17.1. **Investment Policy – Management of Risk -** 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 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, (Appendix 2 of this report).

17.2. The Council'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 Code")
- CIPFA Treasury Management Guidance Notes 2021

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

17.4. In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

17.5. The above guidance from the DLUHC and CIPFA places 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: -

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 Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **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.

4. The Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Appendix B 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 one year left to run to maturity, if they were classified as being non-specified solely due the maturing 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 members and officers before being authorised for use.

5. **Non-specified investments limit.** The Council has determined that it will limit the maximum total exposure to non-specified investments as being £25m of the total investment portfolio, (see paragraph 19.1).

6. **Lending limits**, (amounts and maturity), for each counterparty is set at £8m and in accordance section 18 and Appendix B.

7. **Transaction limits** for groups, counterparties and money market funds are set at £8m.

8. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 19.1).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 19.1).

10. This authority has engaged **external consultants**, (see paragraph 3.1), 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.

11. All investments will be denominated in **sterling**.

12. As a result of the change in accounting standards for 2022/23 under IFRS 9, the Council will consider the implications of investment instruments which could result in adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In January 2023, DLUHC confirmed that the temporary statutory override allowing English local authorities time to adjust their portfolio prior to implementing IFRS 9 had been extended for a further two years to 31 March 2025). A further consultation has been released on the future of the override to which the Council has submitted a response. At the time of preparing this report, the result of the consultation has not been announced.

17.6. However, this authority 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 20.8). Regular monitoring of investment performance will be carried out during the year.

18. CREDITWORTHINESS POLICY

18.1. This Council applies the creditworthiness service provided by the MUFG Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

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

18.2. This modelling approach combines credit ratings and any assigned Watches and 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 Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands.

Colour/ long term rating	Maximum Period of investment
Yellow	5 Years
Purple	2 Years
Orange	1 Year
Blue	1 Year (nationalised or semi nationalised UK Banks)
Red	6 Months
Green	100 days
No Colour	Not to be used

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

18.4. Typically the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occassions 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.

18.5. All credit ratings will be monitored on a daily basis by officers within the Finance Department. The Council is alerted to changes to ratings of all three agencies through its use of the MUFG creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in the Credit Default Swap market against the iTraxx European Senior Financials benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

18.6. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on any external support for banks to support its decision making process.

18.7. **Creditworthiness –** Significant levels of downgrades to Short and Long-Term ratings have not materialised since the crisis in March 2020. In the main where they did change any alternations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Council will not set a minimum sovereign rating for the UK.

18.8. **CDS prices –** Although bank CDS prices, spiked upwards in autumn 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. MUFG monitor CDS prices as part of the creditworthiness service to local authorities and the Authority has access to this information via its MUFG-provided Passport portal.

19. OTHER LIMITS

19.1. Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, group, and sectors.

- **Non-Specified Investment Limit –** The Council has determined that it will limit the maximum total exposure to non-specified investments as being £25m of the total investment portfolio.
- **Country Limits –** As in previous years the Council has determined that it will only use approved counterparties from countries with a minimum sovereign rating of AAA, as determined by at least two of the three rating agencies (Fitch, Moody's or Standard and Poor's). The list of countries that currently qualify using the credit criteria as at the date of this report are

shown in Appendix C. Officers will amend this list during the year should ratings change in accordance with this policy.

- Other Limits – In addition:
  - a) no more than £16m will be placed with any non-UK country at any time.
  - b) limits in place above will apply to a group of companies.
  - c) sector limits will be monitored regularly for appropriateness.

20. INVESTMENT STRATEGY

20.1. **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. 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 30 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.

20.2. Accordingly, while most cash balances are required in order to manage the ups and downs of cash glow, 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.

20.3. **Investment returns expectations** – The current forecast showing in paragraph 8.1, includes a forecast for Bank Rate to fall to a low of 3.5%.

20.4. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (although as there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts)

Average earnings in each year	Percentage
2024/25 (residual)	4.60%
2025/26	4.10%
2026/27	3.70%
2027/28	3.50%
2028/29	3.50%
Years 6 to 10	3.50%
Years 10+	3.50%

20.5. For its cash flow generated balances, the Council will seek to utilise its 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.

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

Maximum principal sums invested > 365 days			
	2025/26 £m	2026/27 £m	2027/28 £m
Principal sums invested > 365 days	8.000	8.000	8.000

20.7. Whilst the Council holds investments with three Multi Asset Funds, two active Property Funds with a view to holding the funds for a longer term, due to the funds liquidity they are not taken into account for the purposes of the above indicator. The indicator applies to funds invested for a fixed period only.

20.8. **Investment Risk Benchmark -** The Council will use an investment benchmark to assess the investment portfolio of 30 day backward SONIA (Sterling Overnight Index Average).

21. END OF YEAR INVESTMENT REPORT

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

22. SERVICE INVESTMENTS

22.1. The Investment Strategy recognises that the Council may, from time to time, make investment decisions are part of its policy decision making process or to help it fulfil its strategic objectives. Such decisions will be subject to due diligence checks but will be classified as a service investment, rather than a treasury managment investment, and will therefore fall outside of the specified/non specified investment categories.

22.2. At the time of preparing this report the Council had interests in two such service investments:

- Municipal Bonds Agency (MBA) - In January 2015, a report to Cabinet outlined proposals by the Local Government Association (LGA) to set up the MBA with the aim that the Agency would be able to provide council's with the opportunity to raise funds at significantly lower rates than those offered by the Public Works Loan Board (PWLB). The Council, along with many other local authorities become a member of the MBA and therefore £20,000 was paid in February 2015 towards the Agency's estimated start-up costs of £1m. It is anticipated that there will, at some point, be a financial return (to be remunerated at commercial rates) for these capital subscriptions to the Agency's establishment costs. There were significant difficulties with the original proposed offer, but work progressed following the engagement of PFM and in March 2020 issued its first bond. Gravesham will consider the use of the MBA as and when it is deemed appropriate.
- Property acquisitions – In previous Treasury Management Strategy Statements, updates on properties were reported under the Service Investments section of the report. Due to the revised reporting

reqiuirements from MHCLG, the impact of such investments are incorporated throughout this report and the Capital Strategy provides a longer term focus of such investments.

23. SCHEME OF DELEGATION

The Treasury Management Scheme for Delegation is outlined in Appendix D.

24. ROLE OF THE SECTION 151 OFFICER

The council's Section 151 Officer is the Director (Corporate Services) and their role is outlined in Appendix E.

25. RISK

25.1. Given the nature, size and volume of the transactions involved, Treasury Management continues to remain a high-risk area and as such is reflected in the corporate risk register. A summary of the perceived risks associated with Treasury Management is identified below.

Risk Area Identified	Potential Impact of Risk	Mitigation
Interest rates	Interest rate forecasts vary from the assumptions made in the financial forecasts resulting in a shortfall in investment interest.	Professional and specialist advice taken on interest rate forecast. Cash flow modelled against anticipated financial forecast. Treasury Management Strategy and Policies.
Cash flow	Unexpected adverse movements of significant sums of money may vary from the cash flow estimated and therefore result in a reduction in investment interest.	Cash flow modelled against anticipated financial forecast.
Sums lost in imprudent investment	Loss of sums invested in institution that is unable to pay its creditors.	Invest in institutions in accordance with MUFG creditworthiness service and in conjunction with Finance Teams assessment of the various counterparties.
Capital loss on investments managed by external fund managers	On redemption a capital loss may be realised which will be charge to the Council's revenue provision	Meet regularly with external fund managers to understand fund position and outflows. Also maintain reserve to mitigate losses should they arise

Downgrading of banks and building societies	Loss of sums invested	Invest with the Government's Deposit Management Account Facility if necessary.
Legal and regulatory risk	The council fails to act in accordance with its legal powers	Comprehensive documentation of the organisation's legal powers.
Sums lost through fraud, error, and corruption	Financial Loss	Proper system of internal controls.
Refinancing borrowing on appropriate terms and conditions.	Higher borrowing costs	Reliable forecasts of maturing loans and capital expenditure to enable the council to negotiate appropriate terms.

APPENDIX A

Summary of MUFG Economic Background as at 12 December 2024

- The economy's stagnation in June and July pointed to a mild slowdown in UK growth than a sudden drop back into a recession. However, in the period to December the biggest impact on the economy's performance has been the negative market sentiment to the Budget on 30 October.
- The Bank of England forecasts CPI to be elevated at 2.7% (Q4 2025) before dropping back to sub 2% in 2027. Nonetheless, since the Budget the prospect that the CPI measure will be close to 3% by the end of the year before falling back slowly during 2025. How high inflation goes will be determined by a several factors including Major investment in the public sector which is expected to lift UK GDP to 1.7% in 2025 before it moderates in 2026 and 2027. However, this will be dependent on fast tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building and increase in the employee participation rate within the economy. Blockages in planning permissions and the inability to identify resources to deliver large scale projects would lead to upside risks to inflation and increased prospect of further Government borrowing and tax rises
- Unemployment stands at low 4.3% (September), whilst wages are risking at 4.3% (year on year) including bonuses and 4.8% excluding bonuses. The Bank would ideally like to see further wage moderation to underpin further gradual relaxing of monetary policy. The market is currently pricing in reductions in the Bank of England Base rate in February and May to 4.25% but further cuts are highly likely to be even more data dependent.

APPENDIX B SPECIFIED AND NON-SPECIFIED INVESTMENTS

Investments that councils can make are of two types and these are identified in the subsequent paragraphs and table.

Specified Investments offer high security and high liquidity, must be in sterling and have a maturity of no more than a year. Such investments made with the UK government, UK local authorities and town/parish councils automatically count as specified investments.

Non-Specified Investments are those investments not meeting the definition of specified investments, which are therefore of greater potential risk. Any investments with a maturity exceeding one year are automatically classed as non-specified investments. The criteria for selecting counterparties for longer term investments is the same as that for short term investments i.e., MUFG Durational Colour bands.

All specified and non-specified Investments will be

- Subject to the sovereign, group and counterparty exposure limits identified in the Annual Investment Strategy
- Subject to the duration limit recommended by MUFG Solutions at the time each investment is placed
- Subject to a maximum of £25m of cored funds, in aggregate, being held in non-specified investments at any one time.

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with maturities up to maximum of 1 year

	Minimum Credit Criteria	Maximum maturity period
Debt Management Agency Deposit Facility	N/A	6 months
UK Government Gilts	UK sovereign rating	12 months
UK Government Treasury Bills	UK sovereign rating	12 months
Bonds issued by multilateral development banks	AAA	6 months
Money Market Funds (including Money Market Funds with notice periods)	AAA	Liquid
VNAV Ultra Short Duration Bond Funds with a credit score of 1.25	AA	Liquid
VNAV Ultra Short Duration Bond Funds with a credit score of 1.5	AA	Liquid
UK Local authorities and other public authorities ie Police and Fire authorities	N/A	12 months
Term deposits with housing associations	Blue Orange	12 months 12 months

	Red Green No Colour	6 months 100 days Not for use
Term deposits with banks and building societies	MUFG's "Green" rating	As per MUFG's rating
Term deposits with part nationalised banks	MUFG's "Blue" rating	As per MUFG's rating
Certificates of deposit (CD's) or Corporate bonds with banks and building societies	MUFG's "Green" rating	As per MUFG's rating
Certificates of deposit (CD's) with part nationalised banks	MUFG's "Green" rating	As per MUFG's rating
Gilt Funds	UK sovereign rating	
Sovereign bond issues (other than the UK govt)	AAA	

NON-SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities in excess of 1 year**

	Minimum Credit Criteria	Max. maturity period
Fixed term deposits with variable rate and variable maturities: - Structured deposits with UK nationalised and part nationalised banks	UK Sovereign rating	2 years
Fixed term deposits with variable rate and variable maturities: -Structured deposits with banks and building societies	UK Sovereign rating	2 years
Term deposits with unrated counterparties : ie Local Authorities, Police Authorities, Fire Authorities, Housing Associations	UK Sovereign rating	50 years
Term deposits with UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	MUFG's "Purple" rating	2 years
Term deposits with banks and building societies	MUFG's "Purple" rating	2 years
Certificates of deposits with UK nationalised and part nationalised banks excluding Ulster bank (part of RBS)	MUFG's "Purple" rating	2 years
Certificates of deposits with banks and building societies	MUFG's "Purple" rating	2 years

Commercial paper issuance with UK nationalised and part nationalised banks excluding Ulster Bank (part of RBS)	UK sovereign rating	2 years
Commercial paper issuance bank and building societies	MUFG's "Purple" rating	2 years
Bonds issued by multilateral development banks	AAA	5 years
Sovereign bond issues (other that the UK Government)	AAA	5 years
UK Government Gilts	UK Sovereign rating	Max of 25% 5 years
Property Funds	N/A	No Limit
Multi Asset Funds	N/A	No Limit

ACCOUNTING TREATMENT OF INVESTMENTS - The accounting treatment may differ from the underlying cash transactions arising from investment decisions made by this Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, we will review the accounting implications of new transactions before they are undertaken.

APPENDIX C

Approved countries for investments (Position as at 10/01/2025)

All counterparties in addition to meeting the minimum credit criteria specified in the Annual Investment Strategy must be regulated by a AAA sovereign rated as such by at least two of the three rating agencies (Fitch, Moody's and Standard and Poor's) with the exception of the UK.

The list will be reviewed and amended if appropriate daily by the Director (Corporate Services).

As of 10 January 2025, sovereigns meeting the above requirement were:

- Australia
- Canada (currently rated AAA by Moody's and S&P, AA+ by Fitch)
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland
- U.K. (currently rated AA by Standard and Poor's, AA- by Fitch and Aa3 by Moody's)

APPENDIX D

Treasury Management Scheme for Treasury Delegation

i. **Full Council**
   - receiving and reviewing reports on treasury management policies, practices and activities
   - approval of annual strategy

ii. **Finance & Audit Committee**

- To receive and scrutinise the council's Treasury Management Strategy and the prudential indicators prior to the start of the financial year and make recommendations thereon to the Full Council
- To receive and scrutinise the Treasury Management Annual Report and comment on any actions that may have taken during the course of the year.
- To monitor the overall state of the council's finances on at least a quarterly basis and advise on any actions it recommends.
- To consider the division of responsibilities in respect of the Treasury Management function.
- To consider the selection of external service providers and agreeing terms of appointment.

APPENDIX E

The treasury management role of the section 151 officer

The S151 (responsible) officer

- 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
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long-term timeframe
- 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 authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans, and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above

APPENDIX F GLOSSARY

Authorised Limit	This represents a level of borrowing which, though not desired, could be afforded but may not be sustainable.
Asset Life (Equal Instalment Method)	Where MRP is an equal annual charge every year and is calculated by dividing the original amount of borrowing by the useful life of that asset.
Capital Financing Requirement	A measurement of the council's underlying need to borrow for a capital purpose.
Certificate of Deposit	An investment product offered by banks and other financial institutions which is issued for a specific period of time and at a certain interest rate, but which can be traded on the secondary market, providing a greater level of flexibility.
CIPFA Treasury Management Code of Practice	The professional code governing treasury management, which the council has formally adopted.
Debt Management Agency Deposit Facility	This deposit facility allows short-term or long-term deposits to be lodged with the government. This offers the highest security for a Principal sum on short-term placements.
Money Market Funds	A money market fund is a "pool" of different types of investments, managed by a fund manager. The pool of investments will typically include bank deposits, certificates of deposit (CDs) amongst other investments. A number of organisations will invest in a particular fund. The interest rate yield on an MMF deposit is not known at the time of the deal. In return for this uncertainty, money can be accessed whenever necessary. 20.3.
Minimum Revenue Provision (MRP)	The minimum amount which a council must charge to its revenue budget each year.
Multi-Asset Fund	An investment product with a higher level of diversification (in areas such as equities, bonds, property, etc) and which therefore offers a certain level of protection in times when markets are volatile.
Municipal Bond Agency	An agency established by the Local Government Association intended to offer

	councils an alternative and less costly option for borrowing of long-term funds than the PWLB through the introduction of competition and diversity to the marketplace.
Net Revenue Stream (NRS)	The NRS for the general fund is the “amount to be met from government grant and local taxpayers”, as shown in the consolidated revenue account. This represents the budget requirement for the council. The NRS for the housing revenue account is the amount to be met from housing subsidy and rent income as shown in the HRA accounts.
Operational Boundary	This indicator is based on the probable external debt during the year; it is not a limit. Actual external debt could vary around this boundary for short times during the year. It should act as a monitoring indicator to ensure that authorised limit is not breached.
Prudential Indicators	These demonstrate a council’s ability to meet the key principles of the Prudential Code by reflecting the level to which its capital programme is affordable, prudent, and sustainable and they help to explain this effectively to those charged with governance.
Public Works Loan Board (PWLB)	Part of the government’s debt management office, making long-term funds available to local authorities on prescribed terms and conditions. The PWLB is normally the cheapest source of long-term borrowing for a local authority.