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RUSHMOOR BOROUGH COUNCIL

CORPORATE GOVERNANCE, AUDIT AND STANDARDS COMMITTEE

at the Council Offices, Farnborough on
Wednesday, 29th January, 2025 at 7.00 pm

To:

Cllr A.H. Crawford (Chairman)
Cllr Bill O'Donovan (Vice-Chairman)

Cllr A. Adeola
Cllr Gaynor Austin
Cllr C.W. Card
Cllr Rhian Jones
Cllr M.J. Roberts
Cllr M.D. Smith
Cllr Sarah Spall
Cllr P.G. Taylor
Cllr Jacqui Vosper

Non-Voting Member:
Mr. Tom Davies – Independent Member (Audit)

Standing Deputies:
Cllr Leola Card, Cllr Lisa Greenway, Cllr Julie Hall, Cllr S.J. Masterson, Cllr T.W. Mitchell, Cllr M.J Tennant

Enquiries regarding this agenda should be referred to the Committee Administrator, Lucy Bingham, Democratic Services, Tel. (01252 398128) or email lucy.bingham@rushmoor.gov.uk.

A G E N D A

5. **ANNUAL TREASURY MANAGEMENT AND NON-TREASURY MANAGEMENT STRATEGY 2025/26 AND QUARTERLY REPORT OF TREASURY PRUDENTIAL INDICATORS (Q3) –** (Pages 1 - 40)

To consider the Executive Head of Finance's Report No. FIN2423 (copy attached), which seeks approval of the Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy and Treasury Management activities for Quarter 3, 2024/25, and reports on compliance with Prudential Indicators, for recommendation to full Council in February 2025.

PUBLIC PARTICIPATION AT MEETINGS

Members of the public may ask to speak at the meeting on any of the items on the agenda by writing to the Committee Administrator at the Council Offices, Farnborough by 5.00 pm two working days prior to the meeting.

CORPORATE GOVERNANCE, AUDIT AND STANDARDS COMMITTEE

EXECUTIVE HEAD OF FINANCE REPORT NO. FIN2504

29 January 2025

KEY DECISION? NO

ANNUAL TREASURY MANAGEMENT STRATEGY AND ANNUAL NON-TREASURY INVESTMENT STRATEGY 2025-26

SUMMARY AND RECOMMENDATIONS:

SUMMARY:

The Council is required to approve a Treasury Management Strategy and Non-Treasury Investment Strategy (Investment Strategy) for 2025-26 before 1 April 2024.

The attached Treasury Management Strategy Statement (TMSS) for 2025-26 (Appendix 1) and Non-Treasury Investment Strategy (Appendix 2) is prepared in accordance with the “Prudential Code” and the “Treasury Management Code of Practice” in 2017, and the Ministry of Housing, Communities and Local Government (MHCLG) revised guidance on Local Government Investment.

RECOMMENDATIONS:

Members are requested to recommend to Council:

(i) Approval of the Treasury Management Strategy 2025-26, Annual Borrowing Strategy 2025-26 attached at Appendix 1, and
(ii) Approve Annual Non-Treasury Investment Strategy attached 2025-26 at Appendix 2; and
(iii) Approval of the Minimum Revenue Provision (MRP) Statement set out in Appendix 3.

1 INTRODUCTION

1.1 This report sets out the proposed Treasury Management Strategy and Non-Treasury Investment Strategy for the year 2025-26, including the borrowing and investment strategies and treasury management indicators for capital finance for 2025-26 and the Minimum Revenue Provision Statement.

1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires approval of a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.3 The CIPFA Treasury Management Code of Practice 2021 Edition, requires the Authority to have a separate Non-Treasury Investment Strategy (Appendix 2) which must be approved before April 2025.

1.4 Local authorities are also required by regulation to 'have regard to' the provisions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) 2021.

2 PURPOSE

2.1 The primary purpose of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in counterparties or instruments commensurate with the Council's low risk approach, pursuing optimum performance while ensuring that security of the investment is considered ahead of investment return. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure.

2.2 The secondary function of the treasury management operation is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure the Council can meet its capital spending obligations. The management of longer-term cash may involve the arrangement of long and/or short-term loans (external borrowing) or may use longer term cash flow surpluses in lieu of external borrowing (internal borrowing).

2.3 Accordingly, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: *"The management of the Council'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".*

2.4 The primary purpose of non-treasury investment management operations is to ensure that all investments made primarily for service reasons or primarily to generate a profit have a suitable level of security and liquidity. This strategy also ensures that the risks and rewards of these investments are monitored regularly.

2.5 The secondary function of investment management is to generate returns. These returns are monitored on a regular basis.

2.6 The purpose of the treasury management indicators is to set a framework for affordable, prudent and sustainable capital investment.

2.7 The appendices (1 to 3) set out the Treasury Management Strategy, Investment Strategy and Minimal Revenue Provision Statement for 2025-26 and fulfil key legislative requirements as follows:

Appendix 1

- The **Treasury Management Strategy** which sets out how the Council's treasury operation will support capital decisions taken during the period, the day-to-day treasury management and the limitations on activity through treasury prudential indicators, in accordance with CIPFA's Code of Practice on Treasury Management and Prudential Code;
- The **Annual Borrowing Strategy** which sets out the Council's objectives for borrowing together with the approved sources of long and short-term borrowing and;
- **Annual Treasury Management Investment Strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss, in accordance with CIPFA's Code of Practice on Treasury Management.

Appendix 2

- The **Non-Treasury Investment Strategy** sets out the Council's investment decisions taken during the period and monitors performance and security, in accordance with MHCLG (Ministry of Housing, Communities and Local Government) Investment Guidance.

Appendix 3

- The Council's **Minimum Revenue Provision (MRP) Statement,** which sets out how the Council will pay for capital assets through revenue each year, as required by the Local Government Act

2003 (Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003).

2.8 These policies and parameters provide an approved framework within which officers undertake the day-to-day capital, treasury and non-treasury investment activities.

3 SCOPE

3.1 This report covers the Council's treasury management and investment activities as set out in paragraphs 2.1 to 2.8 above. The funds invested consist of short-term cash available due to timing of income and expenditure, prudential borrowing and the Council's capital receipts.

3.2 The Council's treasury management advisors Arlingclose continue to advise diversification in investments (spreading small amounts over a few counterparties) wherever possible.

3.3 Prudential borrowing of £162.0m was incurred by 31st March 2024 in relation to capital expenditure. As this was all borrowed on a short-term basis a proportion of it will need to be refinanced on an ongoing basis as it matures. The Council also plan to reduce this borrowing need by generating approximately £11.9m in asset sales over the next three years, excluding the potential sale of Civic Quarter land and private residential rental units on the Union Yard development.

3.4 Careful observation of the "gross debt v capital financing requirement" indicator will need to be undertaken progressively throughout the financial year.

3.5 Where a material change to the attached strategies occurs during the year a revised strategy will be presented to Full Council before the change is implemented.

TREASURY MANAGEMENT STRATEGY 2025-26

1 INTRODUCTION

1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code. The Corporate Governance Audit and Strategy Committee is the nominated Committee responsible for the effective scrutiny of the Treasury Management Strategy and policies.

1.3 Investments held for service purposes or for commercial profit are considered in a separate part of this report, the Annual Non Treasury Investment Strategy at Appendix 2.

1.4 This Strategy covers:

- External Context
- Local Context
- Annual Borrowing Strategy
- Annual Investment Strategy
- Treasury Management Prudential Indicators
- Related Matters

2 EXTERNAL CONTEXT

Economic background (January 2025):

2.1 Economic background**:** The impact on the UK from the government's Autumn Budget, slower expected interest rate cuts, a short-term boost to but modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Authority's treasury management strategy for 2025/26.

2.2 The Bank of England (BoE) Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25bp cut from the 5.25% peak at the August MPC meeting. At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%.

2.3 The November quarterly Monetary Policy Report (MPR) expected Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker. Current GDP growth was shown to be zero (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the Office for National Statistics (ONS).

2.4 Office for National Statistics (ONS) figures reported the annual Consumer Price Index (CPI) inflation rate at 2.6% in November 2024, up from 2.3% in the previous month and in line with expectations. Core CPI also rose, but by more than expected, to 3.6% against a forecast of 3.5% and 3.3% in the previous month. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.

2.5 The labour market appears to be easing slowly, but the data still require treating with some caution. The latest figures reported the unemployment rate rose to 4.3% in the three months to October 2024 and economic inactivity fell to 21.7%. Pay growth for the same period was reported at 5.2% for both regular earnings (excluding bonuses) and for total earnings. Looking ahead, the BoE MPR showed the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

2.6 The US Federal Reserve has continued cutting interest rates, bringing down the Fed Funds Rate by 0.25% at its December 2024 monetary policy meeting to a range of 4.25%-4.50%, marking the third consecutive reduction. Further interest rate cuts are expected, but uncertainties around the potential inflationary impact of incoming President Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, rising at an (upwardly revised) annual rate of 3.1% in the third quarter of 2024, and inflation remains elevated suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

2.7 Euro zone inflation rose above the European Central Bank (ECB) 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Despite the rise, the ECB continued its rate cutting cycle and reduced its three key policy rates by 0.25% in December. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Credit Outlook:

2.9 Credit Default Swap (CDS) prices have typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in 2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.

2.10 Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.

2.11 Moreover, while a potential easing of US financial regulations under a Donald Trump Presidency may aid their banks' competitiveness compared to institutions in the UK and other regions, it is unlikely there will be any material impact on the underlying creditworthiness of the institutions on the counterparty list maintained by Arlingclose, the authority's treasury adviser.

2.12 Overall, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest Rate Forecast (December 2024):

2.15 The Authority's treasury management adviser Arlingclose expects the Bank of England's MPC will continue reducing Bank Rate through 2025, taking it to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as pushing up the rate at the end of the loosening cycle.

2.16 Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.

2.17 A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix A.

3 LOCAL CONTEXT

3.1 On 31st December 2024, the Council held £125.0m of short-term borrowing and £28.5m of investments. This is set out in further detail in Appendix B. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below. To date the Council has relied upon its own cashflow (internal borrowing) to fund capital expenditure, supplemented by short-term external borrowing to provide liquidity. A significant element of the external borrowing will be replaced during the year with renewed short-term borrowing based upon the Councils projected cashflow requirements. The objective is to minimise the need for external borrowing and enable the CFR to be reduced by replacing capital receipts from asset sales are as these are achieved.

Table 1: Balance Sheet Summary and Forecast in £ millions.

	2023-24 Actual	2024-25 Forecast	2025-26 Estimate	2026-27 Estimate	2027-28 Estimate
Capital Financing Requirement	167.4	170.5	160.9	157.2	155.7
Less: Other Debt Liabilities	1.0	0.7	0.4	0.1	0.1
Loans CFR	**166.4**	**169.8**	**160.5**	**157.1**	**155.6**
Less: External Borrowing	162.0	141.0	19.0	5.0	5.0
Internal Borrowing	**4.4**	**28.8**	**141.5**	**152.1**	**150.6**
Less: Balance Sheet Resources	45.4	40.8	38.2	36.8	37.3
Treasury Investments / (New Borrowing)	**41.0**	**12.0**	**(103.3)**	**(115.3)**	**(113.3)**

3.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The Council will not have sufficient working capital to fund the required level of borrowing and will borrow funds from other local authorities' and Publics Works Loan Board (PWLB) short term to provide liquidity and manage cash requirement during year.

3.3 The Council's CFR is projected to increase to £170.5m in 2024/25 before reducing. The majority of currently held loans are due to mature within the next year and will need to be replaced, meaning the Council can expect to have an ongoing borrowing need in future. Over the forecast period above it is expected that £113.3m of additional borrowing will be needed by 2027/28.

3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. The table above shows that the Council expects to comply with this recommendation during 2025-26 and following two financial years.

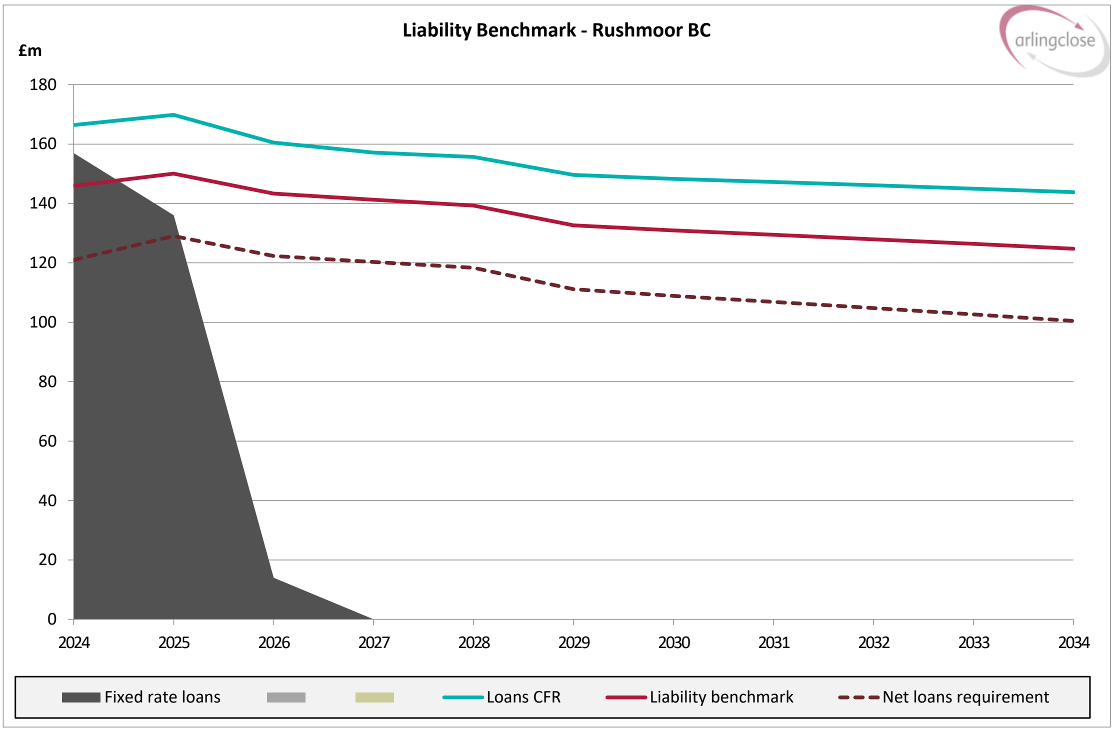
3.5 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as in the table above, but that cash and investment balances are kept to a minimum level of £21m at each year-end. This incorporates £16m invested in strategic pooled funds that cannot be sold at short notice and an additional £5m liquidity buffer to manage short-term cashflow requirements. The minimum cash levels at 31st March 2024 are higher at £25m as the strategic pooled fund balance was higher at this date, it is now lower as some funds have been sold during 2024/25.

3.6 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability Benchmark in £ millions

	2023-24 Actual	**2024-25 Forecast**	**2025-26 Estimate**	**2026-27 Estimate**	**2027-28 Estimate**
Loans CFR	166.4	169.8	160.5	157.1	155.6
Less: Balance Sheet Resources	45.4	40.8	38.2	36.8	37.3
Net Loans Requirement	**121.0**	**129.0**	**122.3**	**120.3**	**118.3**
Plus: Liquidity Allowance	25.0	21.0	21.0	21.0	21.0
Liability Benchmark	**146.0**	**150.0**	**143.3**	**141.3**	**139.3**

3.7 Following on from the medium-term forecast in table 2 above, the 10-year liability benchmark assumes no capital expenditure funded by borrowing after 2029/30. This is shown below together with the maturity profile of the Council's existing borrowing:



3.8 This shows that the Council has a significant borrowing need for a number of years into the future as the CFR and liability benchmark remain high. The majority of the need to borrow is to replace existing short-term loans that will mature.

4 ANNUAL BORROWING STRATEGY 2025-26

4.1 The Council held £145.0m in loans at 31st December 2024 as part of its previous strategy for funding prior years' capital programmes. This represents a decrease in borrowing from the previous year end. The majority of current debt is due to mature with in next 12 months.

4.2 The balance sheet forecast in table 1 (above) shows that the Council expects to need to borrow £103.3m by the end of 2025/26 to fund the capital programme. However, incorporating minimum cash requirements of £21.0m increases this borrowing requirement to £124.3m This borrowing need stems predominantly from the need to replace existing short-term loans as they mature.

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

4.5 **Strategy:** The Council has to date adopted an approach of borrowing on a short-term basis to take advantage of historically low short-term interest rates. Since late 2021 however interest rates, and correspondingly the Council's cost of borrowing, have risen dramatically. Bank of England Base Rate was 0.1% in December 2021 and rose to a high of 5.35% in August 2023. It has now experienced modest falls and is currently 4.75%.

4.6 In the medium term the Council aims to have a higher proportion of debt in longer-term loans, enabling greater long-term certainty in costs. As current interest rates are expected to fall the intention is to wait until rates are lower before beginning this process. The situation is kept under constant review.

4.7 Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

4.8 PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity to retain its access to PWLB loans.

4.9 In addition, the Council may borrow further short-term loans to cover unplanned cash flow shortages.

4.10 **Sources of borrowing**: The approved sources of long-term and short-term borrowing are summarised below:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- National Wealth Fund Ltd
- Any institution approved for investments
- Money market loans (long term & temporary)
- Any other bank or building society authorised to operate in the UK
- UK Local Authorities
- UK public and private sector pension funds (except the Local Government Pension Scheme administered by Hampshire County Council)
- Capital market bond investors
- Retail investors via a regulated peer-to-peer platform
- UK Municipal Bond Agency plc and other special purpose companies created to enable local authority bond issues.
- Lottery monies

4.11 **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire purchase
- Private Finance Initiative
- Sale and leaseback
- Similar asset based finance

4.12 The Council has previously raised all of its borrowing on a short-term basis from Local Authorities. In future the Council expects to continue to utilise this source and is also likely to utilise the PWLB for longer-term loans as appropriate. The Council continues to investigate other sources of finance, that may be available at more favourable rates.

4.13 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment if the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to Council.

5 ANNUAL TREASURY MANAGEMENT INVESTMENT STRATEGY 2025-26

5.1 The Guidance on Local Government Investments in England gives priority to security and liquidity, and the Council's aim has been to achieve a yield commensurate with these principles.

5.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. As at 31st December 2024 the Council's investment balance stood at £28.5m. In future years the Council expects to hold a minimum of £21m in investments. Further detail on current investments is given in Appendix 2.

5.3 During 2024 the Council has generated returns from existing long-term pooled fund investments together with diversification within the Council's investment portfolio. The Council held the following investments on 31st December 2024:

- £15.3m in pooled funds (providing a balance across a range of 5 different types of funds).
- £8.1m held in money market funds with next day access
- £5.0m invested with Cornwall Council for 45 days
- £0.1m deposited with Lloyds Bank plc with next day access

5.4 **Objectives**: The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

5.5 **Strategy**: The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

5.6 The CIPFA Code does not permit local authorities to borrow to invest purely of financial gain. Borrowing and investing for day-to-day treasury management is permitted.

5.7 Long-term investments are also permitted for treasury management purposes. Investments in strategic pooled funds which invest in products such as bonds, property and equity will in the longer term produce higher returns than cash investments. In the long term they are much more likely to protect the value of investments by gaining a return greater than inflation. This is the reason for the Council's current portfolio of strategic pooled funds.

5.8 The Council will give due consideration to the potential sale of strategic pooled funds in future as part of an ongoing review of their risk and return to the Council. A sale at the present time is not a suitable option due as to the current economic climate this would be realising a loss in these investments. The funds are considered long-term products that are unsuitable for sale at short notice.

5.9 **ESG policy:** Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

5.10 **Business models:** Under the IFRS 9 standard on financial instruments, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

5.11 **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown. The schedule of approved counterparties is underpinned by a detailed list of named counterparties. This list is maintained within Financial Services for treasury management operational purposes.

Table 3: Treasury Management Investment Counterparties and Limits

Sector	Time Limit	Counterparty Limit (£m)	Sector Limit (£m)
The UK Government	50 years	Unlimited	N/A
Local authorities and other government agencies	25 years	6	Unlimited
Money market funds*	N/A	6	Unlimited
Secured investments*	25 years	6	Unlimited
Banks (unsecured) *	13 months	3	30
Building societies (unsecured) *	13 months	3	6
Strategic pooled funds	N/A	6	30

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise, the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

5.12 **UK Government:** Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

5.13 **Local Authorities and other government entities:** Loans to, and bonds and bills issued or guaranteed by, other national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

5.14 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision.

Covered bonds, secured deposits and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

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

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

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

5.18 **Operational bank accounts:** These may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £2m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

5.19 Investments may be made with banks or any public or private sector organisations that meet the above credit rating criteria. The Council may also invest with organisations and pooled funds without credit ratings, following an external credit assessment and advice from the Council's treasury management adviser.

5.20 **Credit rating:** Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.

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

- no new investments will be made with that entity
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.22 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

5.23 **Other Information on the Security of Investments**: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

5.24 **Reputational aspects:** The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be considered when making investment decisions.

5.25 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not reflected in general credit-ratings. In these circumstances, where the Council feels the whole market has been affected, it will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

5.26 **Investment limits**: The maximum that will be lent to any one organisation (other than the UK Government) will be £6 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries, and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries. Detail of investment limits are given in table 4 below.

Table 4: Prudential Indicator: Liability Benchmark in £ millions

	Cash Limit
Any group of pooled fund under the same management	15
Investments held in a broker's nominee account	15
Foreign countries	6

5.27 **Liquidity management**: The Council reviews cash flow daily to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast. The Council will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds), of which at least two will be UK domiciled, to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

6 TREASURY MANAGEMENT PRUDENTIAL INDICATORS

6.1 The Treasury Management Code requires that local authorities set several indicators for treasury management performance, which have been set as below. A voluntary measure for credit risk as set out in paragraph 7.2.

6.2 **Credit Risk (Credit Score Analysis)**: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

The advice from Arlingclose is to aim for an average A+, or higher, average credit rating, with an average score of 5 or lower. The scores are weighted according to the size of our deposits (value-weighted average) and the maturity of the deposits (time-weighted average).

Credit risk indicator	**Target**
Portfolio average credit rating	A+
Portfolio average credit score	5.0

6.3 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount cash available within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	**Target**
Total cash available within 3 months	£5m

6.4 **Interest Rate Exposures**: CIPFA encourages the use of an indicator which limits the Councils exposure to interest rate movements. Compliance with this indicator may lead to the Council being required to borrow, or invest, on a long-term fixed rate basis to limit its exposure to interest rate changes over the next year.

The Council's loans are currently predominantly short term, and the Council does not consider that it is affordable to lock in current rates on a long term basis. It therefore does not believe that it is appropriate to set a limit on the amount of short-term borrowing that can be undertaken at the present time as this could force the Council to borrow long term at an unaffordable rate.

The Council does aim to structure debt in the medium term to manage the revenue impact of a 1% change in interest rates.

The impact of a 1% fall in interest rates will be positive for the Council as short-term borrowing is expected to far exceed short term investments in the medium term. It is thus not seen as necessary to set a limit on the impact of a 1% fall in rates.

The use of this indicator will be kept under review going forward.

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

Maturity Structure	**Upper**	**Lower**
Under 12 months	100%	0%
12 months and within 24 months	100%	0%
24 months and within 5 years	100%	0%
5 years and within 10 years	100%	0%

10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

The Council has set these limits at a broad level to avoid overly onerous restrictions on future borrowing decisions. At the present time 91% of the Councils loans mature in under 12 months. The Council plans to further diversify the maturity of its debt as interest rates are expected to fall further reducing the cost of long-term debt. The Council wishes to have the full flexibility as to when this debt will mature. This indicator will continue to be reviewed in future.

6.6 **Principal Sums Invested for Periods Longer than a Year**: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Principal Sums Invested	**2023-24**	**2024-25**	**2025-26**
Limit on principal invested beyond year end at any one time	£30m	£30m	£20m

7 RELATED MATTERS

7.1 The CIPFA Code requires the Council to include the following in its treasury management strategy.

7.2 **Policy on Use of Financial Derivatives**: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk, and to reduce costs or increase income at the expense of greater risk. The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e., those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures, and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the

Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

7.3 **Markets in Financial Instruments Directive**: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers, and fund managers, allowing it access to a greater range of services but with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Executive Head of Finance believes this to be the most appropriate status.

7.4 **Investment Training**: The investment training needs of the Council's treasury management staff are assessed on a continuous basis, discussed as part of the staff development reviews, and reviewed as the responsibilities of individual members of staff change.

Staff regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA.

7.5 **Financial Implications - Investments:** The budget for investment income in 2025-26 is £1.0m, based on an average investment portfolio of £30m at an average interest rate of 3.5%. Performance of investments against budget will be reviewed on an ongoing basis and as part of our quarterly budget monitoring process.

7.6 **Financial Implications - Borrowing:** The budget for interest costs in relation to borrowing in 2025-26 is £6.4m (not including IFRIC 4 lease accounting interest). This is determined by taking the expected borrowing for the year multiplied by the expected interest rate for short-term borrowing for the same period.

7.7 **Other Options Considered:** The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Executive Head of Finance continues to believe that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	**2024-25**	**2025-26**
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Invest in a wider range of counterparties and/or for longer times	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is may not be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default;

		however long-term interest costs may be less certain

Appendix A: Arlingclose Economic and Interest Rate Forecast – December 2024

Underlying assumptions:

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

Forecast:

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

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

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

Appendix B: Existing Investment and Debt Position – December 2024

	31/12/2024 Actual Portfolio £m	31/12/2024 Average Rate
External borrowing:		
PWLB	20.0	5.0%
Local authorities	112.0	5.1%
Building societies	5.0	4.7%
Northern Ireland Housing Executive	8.0	5.3%
Other long-term liabilities:	1.0	1.3%
Total gross external debt:	**146.0**	**5.1%**
Treasury investments:		
Bank accounts	0.1	4.6%
Money market funds	8.1	4.8%
Local authorities	5.0	5.2%
Strategic pooled funds	15.4	6.0%
Total treasury investments	**28.5**	**6.0%**
Net debt	**117.3**	**4.8%**

ANNUAL NON-TREASURY INVESTEMENT STRATEGY 2025-26

1 INTRODUCTION

1.1 The Council invests its money for three broad purposes:

- because it has surplus cash because of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

1.2 This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

1.3 The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Council interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Council's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

2 TREASURY MANAGEMENT INVESTMENTS

2.1 The Council typically receives its income in cash (e.g., from taxes and grants) before it pays for its expenditure in cash (e.g., through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £20m and £60m during the 2025/26 financial year.

2.2 **Contribution:** The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

3 SERVICE IMPROVEMENTS: LOANS

3.1 **Contribution:** The Council lends money to its subsidiary (Rushmoor Homes Limited) and local businesses to support local public services and stimulate local economic growth. The Council is a funding partner of Farnborough International Limited. The loans have enabled the development of the Farnborough International exhibition and conference centre. Expanding the exhibition and conferencing capabilities in Farnborough brings increased economic capacity to the Borough. The Council established a Wholly Owned Company (WOC) subsidiary, Rushmoor Homes Limited (RHL), in April 2020. The Council will lend to RHL at a commercial rate to enable procurement of property.

3.2 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. To limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Loans for service purposes

Category of Borrower	2023-24 Actual £m	2024-25 Forecast £m	2025-26 Estimate £m
Local businesses	6.5	6.5	6.5
Subsidiaries & partnerships	1.5	1.5	1.5
Total	8.0	8.0	8.0

3.3 Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council’s statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

3.4 **Risk assessment:** The Council assesses the risk of loss before entering into lending agreements and whilst holding service loans by assessing the counterparty’s resilience, the service users’ needs that the loan is designed to help meet and how these will evolve over-time. During the life of the loan any change in original assumptions will be monitored. The Council will use external advisors if felt appropriate by the Executive Head of Finance. All loans will be subject to contract agreed by the Corporate Manager – Legal Services. All loans must be approved by Full Council and will be monitored by the Executive Head of Finance.

3.5 **FIL loan:** The Council has two loan agreements with FIL. The first loan repayments are due in June 2026 with a final repayment in June 2028.

4 COMERCIAL INVESTMENTS: PROPERTY

4.1 **Contribution:** The Council has investments in local and regional commercial and residential property with the intention of making a profit that will be spent on local public services.

4.2 In November 2020 the Public Works and Loan Board (PWLB) issued new lending terms (subsequently clarified in August 2021) making it conditional that Local Authorities have no intention to buy investment assets primarily for yield in the current and follow two financial years. The Council will not be acquiring any further investment assets primarily for yield.

Property held for investment purposes.

Property by Type	**31-Mar-24 Actual**		
	Purchase Cost £m	Gains / (Losses) £m	Value in Accounts £m
Industrial units	51.8	9.7	61.5
Offices	36.6	-3.9	32.6
Retail	42.1	-8.1	34.0
Caravan Park	0.3	3.1	3.5
Petrol Stations	2.3	0.5	2.8
Waste Recycling	1.0	0.4	1.4
Mixed Use	0.2	0.1	0.3
Other	0.2	0.1	0.3
Total	**134.4**	**2.0**	**136.4**

4.3 **Security:** In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

4.4 Where value in accounts is at or above purchase cost: A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment.

4.5 Should the 2024/25 and 2025/26 year-end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to Full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

4.6 Where value in accounts is below purchase cost: The fair value of the Council's investment property portfolio is no longer sufficient to provide security against loss, and the Council will therefore take mitigating actions to protect the capital invested. These actions include:

- Quarterly review of the portfolio
- Consideration of advice from the Council's commercial property advisers by the Council's Property Investment Advisory Group (PIAG). Currently is agreed that the best course of action is to hold the majority of the assets as values will increase over the long term and most assets within the portfolio are considered sound with strong covenants/dependable income streams. Assets identified for disposal will be taken forward to market.

4.7 **Risk assessment:** The Council assesses the risk of loss before entering and whilst holding property investments by:

- Assessment of the relevant market sector(s) including the level of competition, barriers to entry/exit, future market prospects
- Assessment of exposure to particular market segments to ensure adequate diversification
- Use of external advisors if considered appropriate by the Executive Head of Finance
- Continual monitoring of risk across the whole portfolio and specific assets

4.8 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert into liquid asset at short notice and will be subject to market conditions in terms of timescales involved. However, to ensure that invested sums could be accessed when they are needed the portfolio will be regularly reviewed and prioritised to ensure that commercial property could be sold as a going concern as soon as possible.

5 LOAN COMMITMENTS AND FINANCIAL GUARANTEES

5.1 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council, for completeness, the Council has no financial guarantees or loan commitments.

6 PROPORTIONALITY

6.1 The Council has become increasingly dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives and/or place making role of the Council is dependent on achieving the expected net profit from investments over the lifecycle of the Medium Term Financial Strategy. The Head of Service responsible for the Council's property and estates functions would review the cause of any shortfall and identify any actions needed to ensure the income shortfall is mitigated or remidied.

6.2 With the introduction of the revised PWLB lending terms, the Council has no intention to purchase investment assets primarily for yield in the current and following two financial years. With no further expenditure planned on investment assets primarily for yield the proportion of investment to Gross service expenditure will fluctuate because of changes in investment income from existing holdings and changes in Gross service expenditure.

Proportionality of Investments

Investment income as a proportion of gross service cost	2023-24 Actual	2024-25 Forecast	2025-26 Budget	2026-27 Budget	2027-28 Budget	2028-29 Budget
Investment income £m	10.2	11.1	11.4	11.5	11.3	11.1
Gross service expenditure £m	34.1	35.1	34.2	34.6	35.3	36.0
Proportion	30.0%	31.6%	33.5%	33.2%	31.9%	30.9%

7 BORROWING IN ADVANCE OF NEED

7.1 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed.

7.2 The Council may, in supporting the delivery of the Council's Capital Programme, borrow in advance of need where it is expected to demonstrate the best longer-term value for money position. 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 (ie: the cost of holding does not outweigh the benefits of early borrowing) and that the Council can ensure the security of such funds.

7.3 The Council is aware that it will be exposed to the risk of loss of the borrowed sums, and potential interest rate changes. These risks will be managed as part of the Council's overall management of its treasury risks and will be reported through the standard reporting method.

8 CAPACITY, SKILLS AND CULTURE

8.1 **Elected members and statutory officers:** The Council recognises that those elected Members and statutory officers involved in the investment decision making process must have appropriate capacity, skills and information to enable them to:

- take informed decisions as to whether to enter into a specific investment;
- to assess individual investments in the context of the strategic objectives and risk profile of the Council; and
- to enable them to understand how new decisions have changed the overall risk exposure of the Council.

The Council will ensure that the relevant officers and the Members of Cabinet have appropriate skills, providing training and advisor support where there is a skills gap.

8.2 **Agents:** Lambert Smith Hampton Investment Management (LSHIM) were appointed as the Council's external investment advisor during 2019/20. LSHIM manage property investment portfolios for institutions, local authorities, and private family offices. The LSHIM investment team are all RICS qualified and have significant combined commercial experience. The assigned investment team can call on the wider expertise and resource of the parent company (Lambert Smith Hampton-LSH) that have offices throughout the UK. The Council also engages a number of other agents to manage specific properties.

8.3 **Commercial deals:** The Council will ensure that the Cabinet, officers and agents negotiating commercial deals are aware of the core principles of the prudential framework and of the regulatory regime within which local authorities operate.

8.4 **Corporate governance:** Any non-treasury management (i.e. property, service loans etc) investment decisions will be scrutinised by Executive Leadership Team and Cabinet before final approval. The Overview and Scrutiny committee review all decisions made by the Cabinet. Although after the event the Committee can make any recommendations to the Council if it sees fit.

9 INVESTMENT INDICATORS

9.1 The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure because of its investment decisions.

9.2 **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans.

Total Investment Exposure £m	**31-Mar-24 Actual**	**31-Mar-25 Forecast**	**31-Mar-26 Forecast**
Treasury Management Investments	41.0	21.0	21.0
Service Improvement: Loans	8.0	8.0	8.0
Commercial Investments: Property	134.4	131.1	122.5
Total	**183.4**	**160.1**	**151.5**
Commitments to lend	-	-	-
Guarantees issued on loans	-	-	-
Total exposure	**183.4**	**160.1**	**151.5**

9.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate assets with liabilities, this guidance is difficult to comply with. However, the following investments could be described as funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Investments funded by borrowing £m	**31-Mar-24 Actual**	**31-Mar-25 Forecast**	**31-Mar-26 Forecast**
Service Improvement: Loans	8.0	8.0	8.0
Commercial Investments: Property	92.2	88.9	80.3
Total	**100.2**	**96.9**	**88.3**

9.4 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investments net rate of return	**2023-2024 Actual**	**2024-25 Forecast**	**2025-2026 Budget**
Treasury Management Investments	6.3%	3.6%	3.9%
Service Improvement: Loans	4.0%	4.0%	4.0%
Commercial Investments: Property	8.3%	7.1%	6.5%
All Investments	7.7%	6.5%	6.0%

9.5 Short term interest rates are also expected to be lower in the MTFS and returns seen in strategic pooled funds are not expected to be maintained. The MTFS is also forecasting a reduction in net income, this is being addressed in the MTFS budget strategy.

MINIMUM REVENUE PROVISION STATEMENT 2024-25

1. Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Council to have regard to the former Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in 2024.
2. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is aligned with that over which the capital expenditure provides benefits.
3. The MHCLG Guidance requires the Council to approve an Annual MRP Statement each year and provides several options for calculating a prudent amount of MRP but does not preclude the use of other appropriate methods. The following statement incorporates options recommended in the Guidance.
4. MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition.
5. For capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB certainty rate for annuity loans in the year of expenditure, for a loan term equal to the asset life, and forecast rates for future years, starting in the year after the asset becomes operational or in the year following expenditure was incurred up to a maximum of 50 years.
6. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
7. For assets acquired by finance lease or private finance initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.
8. Where former operating leases have been brought onto the balance sheet due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the MRP charges will be adjusted so

that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.

9. For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.

10. For capital expenditure on loans to third parties which were made primarily for service purposes, the Authority will make nil MRP except as detailed below for expected credit losses. Instead, the Authority will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.

11. For capital loans made on or after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.

12. For capital loans made before 7th May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

13. Proceeds from the sale of capital assets are classed as capital receipts and are typically used to finance new capital expenditure. Where the Authority decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

    - Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.
    - Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.
    - Capital receipts arising from other assets which form an identified part of the Authority's MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.
    - Any other capital receipts applied to repay debt will be used to reduce MRP in 10 equal instalments starting in the year after receipt is applied.

10. For capital expenditure on loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.

11. Capital expenditure incurred during 2025/26 will not be subject to a MRP charge until 2026/27 or later.

12. Based on the Authority's latest estimate of its CFR on 31st March 2025, the budget for MRP has been set as follows:

	31.03.2025 Estimated CFR £m	**2025/26 Estimated MRP £**
Capital expenditure after 31.03.2008	172.57	2.094
Leases and Private Finance Initiative	0.093	0.023
Capital loans to third parties	2.978	0.016
Total General Fund	175.64	2.133

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