DFP/24/06
Corporate Infrastructure & Regulatory Services Scrutiny Committee
25 January 2024

TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2024/25

Report of the Director of Finance and Public Value

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

1) Recommendation

That the Committee be asked to:

Consider whether it wishes to draw to the attention of the Cabinet any observations on the proposals contained within the Treasury Management and Investment Strategy.

2) Introduction

2.1 In December 2021, the Chartered Institute of Public Finance and Accountancy (CIPFA) published a revised Code of Practice for Treasury Management and a revised Prudential Code. As a result, a revised Treasury Management Policy Statement together with a revised statement of 'Treasury Management Practices' (TMPs) was agreed by the Council in February 2022. No changes are proposed to these policies for 2023/24.

2.2 The policy requires the Council to consider a treasury strategy report, setting out the strategy and plans to be followed in the coming year, as part of the budget process. The Treasury Management Strategy for 2024/25 is set out at Appendix 1.

3) Treasury Management Strategy

3.1 The Treasury Management and Investment Strategy sets out the Minimum Revenue Provision (MRP) policy, capital expenditure funding, prudential indicators, the current treasury position, debt and investments; prospects for interest rates; the borrowing strategy; and the investment strategy.

3.2 The key issues for 2024/25 are set out in the Treasury Management and Investment Strategy Overview section. These include:

a) The pressure on the Council's cash resources while the Authority awaits the conclusion of discussions with the Department for Education in relation to the Safety Valve Intervention Programme in relation to Special Education Needs and Disability (SEND), which may result in a further requirement for external

borrowing. No assumptions have been made about the outcome of discussions with the Department for Education in setting the 2024/25 Treasury Management Strategy. However, a successful outcome to the discussions is likely to improve the cash position. Further reports will be provided to Cabinet is due course reviewing the position and the requirement for external borrowing.

b) The expectation that new external borrowing of £50 million will be required both to fund the 2024/25 capital programme, and to replace previous internal borrowing to ensure that the Council maintains sufficient cash balances. It should be noted that the Council repaid external debt of £46.5 million during 2022/23, so a large part of the new external borrowing required would be a refinancing of the external debt repaid, but at lower interest rates.

3.3 In general, the investment strategy remains broadly similar to that for 2022/23, with no changes, for example, to the approved counterparty criteria. The level of cash balances available for investment is likely to be lower than in past years.

3.4 With effect from 1 April 2023 it is proposed to change the policy for calculating MRP on the residual balance of capital borrowing incurred since 1 April 2008 and for future capital investment, to be consistent with the method used for historic debt pre-April 2008. This will continue to be charged over the life of the asset, but on an annuity basis rather than on a straight-line basis as has been the practice. This change reflects the same principle of aligning with a trend of asset deterioration and the time value of money, so this will apply consistently to MRP on assets financed by either internal or external borrowing.

4) Conclusion

4.1 The Treasury Management and Investment Strategy will be considered by Cabinet along with the draft budget for 2024/25 on 9 February, and will become part of the budget to be approved by Council at its budget meeting on 15 February.

4.2 The Committee is invited to make observations on these proposals prior to their consideration by the Cabinet on 9 February.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

Contact for enquiries:
Name: Mark Gayler
Telephone: 01392 383621
Address: Room 196 County Hall

Appendix 1

Treasury Management Strategy 2024/25 – 2027/28 and Prudential Indicators 2024/25 - 2028/29

Introduction

The County Council has adopted the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Services. A revised Code of Practice was published by CIPFA in December 2021 and requires the Council to approve a Treasury Management Policy Statement together with a statement of its 'Treasury Management Practices' (TMPs). No changes are proposed to these policies for 2024/25.

The policy requires the Authority to consider a treasury strategy report, setting out the strategy and plans to be followed in the coming year, as part of the budget process.

The Treasury Management Strategy sets out the Authority's policies in relation to:

- the management of the Authority's cashflows, its banking, money market and capital market transactions;
- borrowing and investment strategies;
- monitoring of the level of debt and funding of the capital programme.

The Treasury Management Strategy should be read in conjunction with the Capital Strategy.

The County Council is required to monitor its overall level of debt in line with the national Code of Practice drawn up by CIPFA. Part of this Code requires consideration of a set of "prudential indicators" in order to form a judgement about the affordable, prudent and sustainable level of debt.

The prudential indicators, treasury management strategy and the annual investment strategy have been reviewed in line with the Capital Programme 2024/25 – 2028/29, and the Capital Strategy.

This Treasury Management Strategy document sets out:

- Minimum revenue provision (MRP) for repayment of capital borrowing;
- Capital expenditure funding;
- Prudential indicators on the impact of capital financing and monitoring of the level and make-up of debt;
- The current treasury position, debt and investments;
- Prospects for interest rates;
- The borrowing strategy; and
- The investment strategy.

Treasury Management Strategy Overview

The Treasury Management and Investment Strategy sets out the MRP policy, capital expenditure funding, prudential indicators, the current treasury position, debt and investments, prospects for interest rates, the borrowing strategy and the investment strategy.

External Borrowing

Since 2009 the Authority has followed a policy of containing the capital programme, taking out no new external borrowing and repaying debt whenever this can be done without incurring a financial penalty. New capital expenditure has been limited to investment that is financed from sources other than external borrowing. To meet the need for capital expenditure, the highest priority schemes across the Authority have been funded from corporate capital receipts, external grants and contributions, and internal borrowing over the capital programme timescale.

The ability to fund the capital programme from internal borrowing is dependent on the availability of cash balances to fund the borrowing. The 2024/25 Treasury Management Strategy is being set against a backdrop of reducing cash balances, the most significant reason for this being the continuing expenditure in excess of grant funding on Special Educational Needs and Disability (SEND), charged to an unusable reserve. The deficit on the unusable reserve is forecast to be in the region of £165 million by 31 March 2024.

While discussions around the Safety Valve Intervention programme continue with the Department of Education and aim to secure a significant level of funding towards the accumulated deficit, these discussions have yet to be concluded. Therefore this Treasury Management Strategy makes no assumption about additional funding being provided.

£46.5 million of the Authority's cash balance was used to repay external debt during 2023/24. While it is likely that new external debt will be required to replace the debt repaid, the loans repaid were at interest rates higher than the rates likely to be payable on new loans based on the forecast level of rates over the next 18-24 months, resulting in a net saving to the Authority's capital financing costs. It was decided to repay the loans, with short term borrowing being taken out, with the intention of reviewing the need to refinance on a longer term basis during 2024/25.

The liability benchmark shown in table 6 and the following graph within the prudential indicators section of the Treasury Management Strategy show that the benchmark requirement for external debt from 2024/25 until around 2030 is higher than the current level of external debt. This indicates that external borrowing will be required to fund the 2024/25 capital programme. In addition it is forecast that further external borrowing will be required to reduce the accumulated level of internal borrowing in order to ensure the Authority retains adequate cash balances.

The current expectation is that interest rates will start to fall during the second half of 2024 and continue to reduce during 2025. Therefore the timing of the requirement for new external borrowing will be kept under review with the intention that loans will only be accessed as and when they are required and on best available terms to keep borrowing costs as low as possible.

Target Rates for Investment

For the 2024/25 financial year it has been assumed that the average interest rate earned on lending to banks and building societies will be **5.0%** p.a. The target rate takes into account the likelihood that the Bank of England will start to reduce the base rate from the current level of 5.25% during the second half of 2024. The budgeted level of investment income for the year also takes into account a reduced level of cash balances available for investment.

The yield from investment in the CCLA Property Fund is assumed to be **4%**. It is not proposed to make use of short-dated bond funds and multi-asset income funds during 2024/25, due to the lower levels of cash likely to be available for investment and the higher risk associated with such funds. Therefore, these types of funds are not factored into the budget for investment income.

Minimum Revenue Provision

Minimum Revenue Provision (MRP) is a charge to the Authority's revenue account to make provision for the repayment of the Authority's external debt and internal borrowing incurred to finance capital investment. The Authority has a statutory obligation to make a prudent annual MRP charge to the revenue account for this purpose.

The Authority's MRP strategy is to charge all elements based on the period of benefit of the capital investment i.e. over the life of the asset.

In 2018/19 the Authority changed its method of calculating MRP applicable to its historic capital debt incurred up to 1 April 2008. At that time the method was changed from a straight-line basis to annuity basis. The change was made to implement a fairer charge as it reflects the fact that, on average, asset deterioration is slower in the earlier years of the asset life and increases in later years. It also reflects the time value of money.

Using the annuity method, MRP is calculated by apportioning the balance of relevant debt over the estimated life of the asset. An appropriate annuity rate needs to be selected. The percentage chosen corresponded with the Bank of England Monetary Policy Committee's inflation target rate in 2018/19 of 2.1%. MRP will increase by this percentage each year in respect of this element of borrowing included in the calculation.

With effect from 1 April 2023 it is proposed to change the policy for calculating MRP on the residual balance of capital borrowing incurred since 1 April 2008 and for future capital investment, to be consistent with the method used for historic debt pre-April 2008. This will continue to be charged over the life of the asset, but on an annuity basis rather than on a straight-line basis as has been the practice. This change reflects the same principle of aligning with a trend of asset deterioration and the time value of money, so this will apply consistently to MRP on assets financed by either internal or external borrowing. It is proposed to use an inflation forecast rate of 2.5% as the annuity rate to be applied from 1 April 2023. In respect of the Schools Vehicle and Equipment Loans Pool, MRP is derived as equal to the loan repayment.

We will not provide for MRP in circumstances where the relevant expenditure is intended to be financed from external contingent income, where it has not yet been received but

where we conclude that it is more probable than not that the income will be collected, for example when forward funding S106 contributions.

Capital financing costs are also affected by PFI/PPP contracts and finance leases coming 'on Balance Sheet'. The MRP policy for PFI/PPP contracts will remain unchanged, with MRP being charged over the period of benefit of the capital investment i.e. over the life of the asset.

The main Prudential Indicator to measure the acceptable level of borrowing remains the ratio of financing costs to total revenue stream. The figures for MRP shown in table 6 reflect the adoption of this strategy.

Capital Expenditure

Table 1 below summarises the Capital Programme and liabilities from capital projects that will appear on the balance sheet in future years. The Capital Programme has been tested for value for money via option appraisal and for prudence, affordability and sustainability by looking at the impact that the proposed Capital Programme has on the revenue budget and through the Prudential Indicators.

Table 1 – Capital Expenditure

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Total Capital Expenditure	**155,231**	**111,012**	**75,864**	**74,211**	**68,081**
Funded by:					
Gross borrowing	13,560	25,471	2,980	100	100
Other capital resources	141,671	85,541	72,884	74,111	67,981
Total capital programme funding	**155,231**	**111,012**	**75,864**	**74,211**	**68,081**

Prudential Indicators

Capital Financing Requirement

The Capital Financing Requirement represents the Authority’s underlying debt position. It shows the previous and future spend for capital purposes that has been or will be financed by borrowing or entering into other long-term liabilities. Other long-term liabilities include contracts under the Private Finance Initiative (PFI).

The Capital Financing Requirement and debt limits will be higher than the Authority’s external debt, as they will be partly met by internal borrowing from the Authority’s internal cash resources. This reduces the cost of the required borrowing, but the Authority also needs to ensure that a prudent level of cash is retained.

The forecast Capital Finance Requirement for 2024/25 and the following four years are shown in table 2 below.

Table 2 – Capital Financing Requirement

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Underlying borrowing requirement	593,374	607,343	598,081	585,586	572,822
Other long-term liabilities	124,175	119,117	114,637	109,443	104,305
Capital financing requirement	**717,549**	**726,460**	**712,718**	**695,029**	**677,127**

Limits to Debt

The Authorised Limit represents the level at which the Authority is able to borrow and enter into other long-term liabilities. Additional borrowing beyond this level is prohibited unless the limit is revised by the Council. Table 3 details the recommended Authorised Limits for 2024/25 – 2028/29.

Table 3 – Authorised Limits

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Authorised Limits:					
Borrowing	777,554	681,334	667,391	654,038	640,907
Other long-term liabilities	124,175	119,117	114,637	109,443	104,305
Authorised limit for external debt	**901,729**	**800,451**	**782,028**	**763,481**	**745,212**

The Operational Boundary is based on the anticipated level of external debt needed during the year. Variations in cash flow may lead to occasional, short term breaches of the Operational Boundary that are acceptable. Sustained breaches would be an indication that there may be a danger of exceeding the Authorised Limits. Table 4 details the recommended Operational Boundaries for 2024/25 and following years.

Table 4 - Operational Limits

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Operational Limits:					
Borrowing	652,554	656,334	642,391	629,038	615,907
Other long-term liabilities	124,175	119,117	114,637	109,443	104,305
Operational limit for external debt	**776,729**	**775,451**	**757,028**	**738,481**	**720,212**

The forecast opening balance for long term External Borrowing at 1 April 2024 is £461.35 million.

The Authority also needs to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement. Table 5 details the Capital

Financing Requirement against the total gross debt plus other long-term liabilities. The level of under borrowing reflects the use of internal borrowing from the Authority's internal cash resources.

Table 5 – Underlying Borrowing Requirement to Gross Debt

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Capital financing requirement	717,550	726,460	712,718	695,029	677,126
Gross borrowing and other long-term liabilities	585,525	594,756	556,446	545,472	535,554
Under/ (over) borrowing	**132,024**	**131,704**	**156,272**	**149,557**	**141,573**

The debt management strategy and borrowing limits for the period 2024/25 to 2028/29 have been set to ensure that over the medium-term net borrowing will only be for capital purposes.

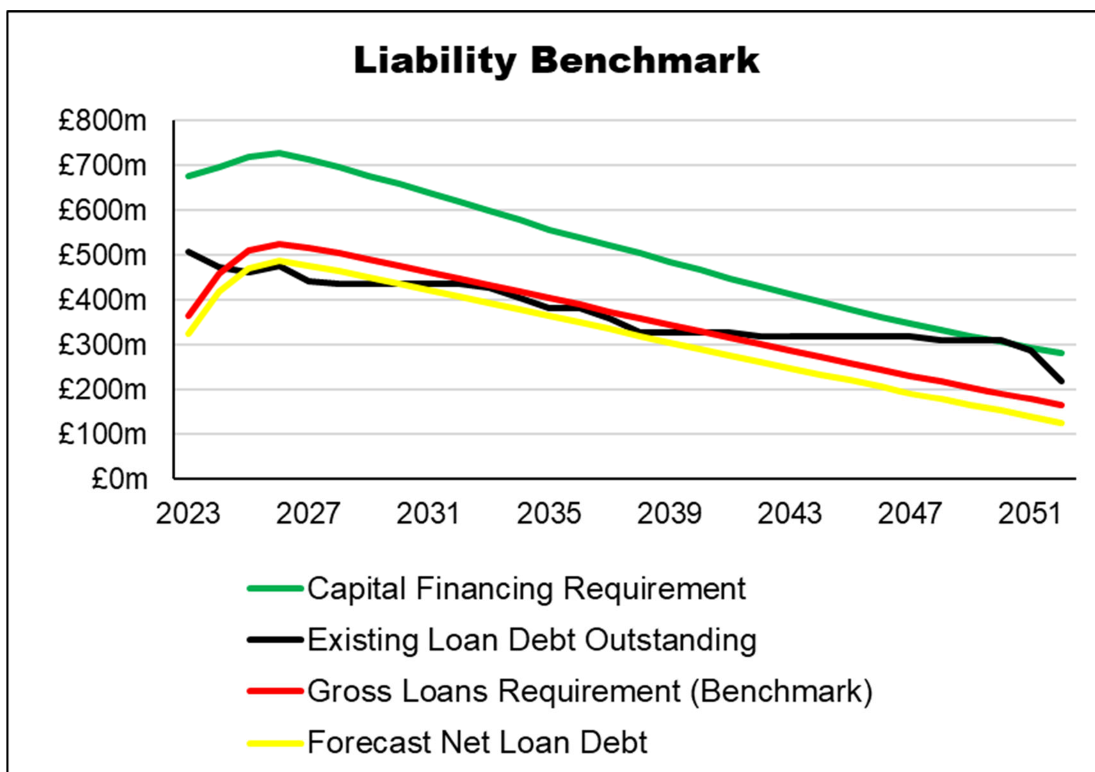
Liability Benchmark

To compare the Authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This takes the capital financing requirement, and the forecast level of reserves and balances, and assumes that cash and investment balances should be kept to a minimum level of £40 million at each year end to maintain sufficient liquidity but minimise credit risk. This is illustrated in Table 6 below, and in the following chart.

Table 6 – Liability Benchmark

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Capital financing requirement	717,549	726,460	712,718	695,029	677,127
Less: total reserves and provisions	(246,229)	(240,161)	(236,223)	(229,838)	(225,476)
Plus: minimum liquidity requirement	40,000	40,000	40,000	40,000	40,000
Liability Benchmark	**511,320**	**526,299**	**516,495**	**505,191**	**491,651**
External Debt Maturity Profile	461,349	476,349	442,520	436,739	436,739
Net Requirement for additional External Debt	**49,971**	**49,950**	**73,975**	**68,452**	**54,912**

Appendix 1



The increase in the gross loans requirement at the beginning of the period shown is a result of the reduction in the Authority's reserves and balances available for internal borrowing and the early repayment of loans in 2023/24.

For periods beyond the current extent of the Authority's capital programme, there is no further planned capital expenditure and the budgeted MRP for the repayment of debt therefore reduces the gross loans requirement resulting in the downward trajectory shown in the graph from 2026 onwards.

Ratio of Financing Cost to Net Revenue Stream

Table 7 below shows the relationship between Capital Financing Costs and the Net Revenue Stream for 2024/25 and future years. Financing cost is affected by Minimum Revenue Provision (MRP), interest receivable and payable, and reductions in other long term liabilities.

Table 7 – Ratio of Financing Costs to Net Revenue Stream

	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	2028/29 Estimate £'000
Minimum revenue provision	10,872	11,502	12,242	12,595	12,864
Interest payable	23,192	23,192	23,912	21,402	21,261
Recharges and other adjustments	752	731	710	707	719
Interest receivable	(3,650)	(2,600)	(1,950)	(1,950)	(1,950)
Capital financing cost (excluding other long-term liabilities)	31,166	32,825	34,914	32,754	32,894
Capital financing costs of other long-term liabilities	13,262	12,427	12,523	12,723	12,259
Capital financing costs including other long-term liabilities	44,428	45,252	47,437	45,477	45,153
Estimated net revenue stream	**639,438**	**705,259**	**733,305**	**755,221**	**755,221**
Ratio of financing costs (excluding other long term liabilities) to net revenue stream	**4.87%**	**4.65%**	**4.76%**	**4.34%**	**4.36%**
Ratio of financing costs (including other long-term liabilities) to net revenue stream	6.95%	6.42%	6.47%	6.02%	5.98%

Treasury Management Prudential Indicators

Where external borrowing is required it can either be at fixed or variable rates of interest, and can be taken out for periods from a year to 50 years. The use of prudential indicators seeks to reduce the risks associated with fixed and variable interest rate loans and with borrowing for different loan periods.

Borrowing at fixed rates of interest for long periods can give the opportunity to lock into low rates and provide stability, but means that there is a risk of missing possible opportunities to borrow at even lower rates in the medium term. Variable rate borrowing can be advantageous when rates are falling, but also means that there is a risk of volatility and a vulnerability to unexpected rate rises.

Borrowing for short periods or having large amounts of debt maturing (and having to be re-borrowed) in one year increases the risk of being forced to borrow when rates are high.

The Authority's policy has been to borrow at fixed rates of interest when rates are considered attractive. However, in recent years no new external borrowing has been undertaken, and the maturity range of the Authority's longer-term borrowing has therefore reduced. A lower limit for long dated loans is therefore no longer appropriate.

The proposed Prudential Indicators for 2024/25 and beyond are set out in Table 8, with the current proportion of external debt as at 31 December 2023 against each heading.

Table 8 – Treasury Management Prudential Indicators

Prudential Indicators	Upper Limit %	Lower Limit %	Current %
Limits on borrowing at fixed interest rates	100	70	100
Limits on borrowing at variable interest rates	30	0	0
Percentage of Fixed Rate Debt maturing in:			
Under 12 months	20	0	2.7
12 Months to within 24 months	25	0	0
24 Months to within 5 Years	30	0	8.3
5 years and within 10 Years	35	0	9.4
10 years and within 20 years	45	0	15.2
20 years and within 30 years	55	0	34.3
30 years and within 40 years	65	0	30.1
40 years and within 50 years	75	0	0

Monitoring the Indicators

It is important to monitor performance against forward looking indicators and the requirement that borrowing should only be for capital purposes. The total level of borrowing will be monitored daily against both the operational boundary and the authorised limit. If monitoring indicates that the authorised limit will be breached, a report will be brought to the Cabinet outlining what action would be necessary to prevent borrowing exceeding the limit and the impact on the revenue budget of breaching the limit. It will be for the Cabinet to make recommendations to the County Council to raise the limit if it is felt appropriate to do so.

The indicators for capital expenditure, capital financing requirement, capital financing costs and the treasury management indicators will be monitored monthly. Any significant variations against these indicators will be reported to the Cabinet.

Analysis of Long Term Debt

The following Table 9 shows the County Council's fixed and variable rate debt as at 31 March 2023 and 31 December 2023 (current).

The interest rates shown do not include debt management costs or premiums /discounts on past debt rescheduling.

Over the last financial year the Authority's external debt has reduced by £46.5 million. Three of the Authority's money market loans were repaid in advance of their maturity date. Each of these loans were Lender Option Borrower Option (LOBO) loans with the lender having the option to increase the interest rate on the loan or to transfer the loan to another lender. By exercising their option, the lender provided the Authority with the opportunity to repay the loan without premium, rather than accept the revised terms.

Table 9 – Analysis of Long Term Debt

	Actual 31.03.23 £'m	Interest Rate %	Current 31.12.23 £'m	Interest Rate %
Fixed Rate Debt				
PWLB	436.35	4.99	436.35	4.99
Money Market	71.50	5.83	25.00	5.60
Variable Debt				
PWLB	0.00		0.00	
Money Market	0.00		0.00	
Total Long Term Debt	**507.85**	**5.11**	**461.35**	**5.03**

In order to fund the loan repayments, short term borrowing from other local authorities was required. The intention was to repay the short term borrowing as current investments mature, and to review whether new long term borrowing is required in the light of future cashflow forecasts. The short term borrowing is shown in table 10 below:

Table 10 – Analysis of Short Term Borrowing

	Current 31.12.23 £'m	Interest Rate %	Forecast 31.03.24 £'m	Interest Rate %
Fixed Rate Debt				
Local Authorities	29.00	5.70	13.00	5.70
Total Short Term Borrowing	**29.00**	**5.70**	**13.00**	**5.70**

The short term borrowing held at 31 March 2024 all matures by the end of 2024.

Schedule of Investments

The following schedule shows the Authority’s fixed and variable rate investments as at 31 March 2023 and as at 31 December 2023 (current).

Appendix 1

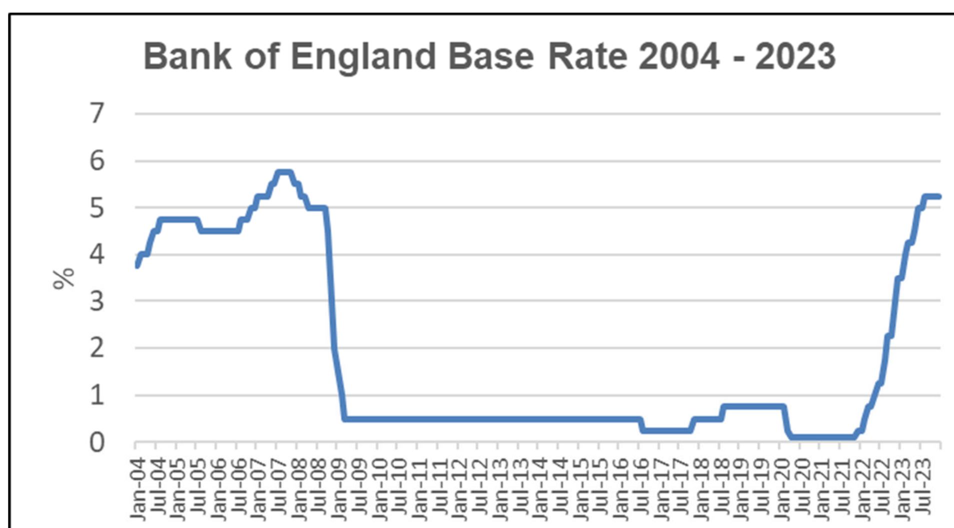
Table 11 – Schedule of Investments

	Actual 31.03.23 £'m	Interest Rate %	Current 31.12.23 £'m	Interest Rate %
Bank, Building Society and MMF Deposits				
Fixed Rates				
Term Deposits maturing in less than 365 days	96.00	2.95	60.00	4.80
Term Deposits maturing in over 365 days	20.00	2.43	10.00	4.30
Callable Deposits				
Variable Rate				
Call Accounts	0.00		0.24	5.14
Notice Accounts	10.00	4.43	0.00	
Money Market Funds	46.48	4.07	0.00	
Property Fund	10.00	3.66	10.00	4.01
All Investments	**182.48**	**3.30**	**80.24**	**4.64**

The Authority's cash balance available for investment varies on a daily basis during the year, with peaks when Government grants and Council Tax precepts are received, which then taper down as expenditure is incurred. The cash balance as at 31 December 2023 is significantly lower than at the start of the year. It was anticipated that the cash balance would reduce by 31 March 2024, as a result of:

- The growing deficit on the provision for Special Educational Needs (SEND).
- Expenditure of balances carried forward from 2023/24.
- Use of reserves during 2023/24.
- Expenditure funded by capital grants received in the previous financial year.

The recent investment performance of the Authority's cash has improved as a result of rising interest rates, as the Bank of England has sought to contain inflation. The Bank of England has raised base rates from 0.25% at the beginning of 2022 to 5.25% in August 2023, the highest level for 15 years. This has had an impact on the rates available for investment, which have gradually increased over the period since December 2021. The following graph shows the trend in the base rate over the last 20 years.



The average rate achieved on investments has therefore improved during the year as Term deposits carried forward from earlier periods have matured and been reinvested at higher rates, where cashflow has allowed.

Prospects for Interest Rates

Forecasting future interest rate movements even one year ahead is always difficult, exacerbated by the current economic environment and recent volatility in rates. The factors affecting interest rate movements are clearly outside the Authority's control. Whilst short term rates are influenced by the Bank of England's Base Rate, long term rates are determined by other factors, e.g. the market in Gilts. Rates from overseas banks will be influenced by their national economic circumstances. The Authority retains an external treasury advisor, Link Asset Services, who forecast future rates several years forward. Similar information is received from a number of other sources.

Having taken interest rates to their highest level in 15 years in August 2023, the Bank of England's Monetary Policy Committee (MPC) kept Bank Rate unchanged for a third consecutive time at its December meeting. With the market anticipating cuts in rates during 2024, the MPC decided that it was too early to conclude that services inflation or pay growth were firmly on a downward path.

Nevertheless current market expectations, following this meeting and the previously released weaker than anticipated employment and growth figures, are for an initial cut in interest rates in Summer 2024, followed by further cuts in rates during the Autumn.

The following table includes Link's and Capital Economics' forecast movements in the base rate and Link's forecast of PWLB (Public Works Loans Board) rates.

Table 12 – Base Rate Forecasts and PWLB Rates

Base Rate Forecasts	**Dec (actual) 2023**	**March 2024**	**June 2024**	**Sep 2024**	**Dec 2024**	**March 2025**	**June 2025**	**Sep 2025**
Link Asset Services	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.25%
Capital Economics	5.25%	5.25%	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%

PWLB Rates	**Dec (actual) 2023**	**March 2024**	**June 2024**	**Sep 2024**	**Dec 2024**	**March 2025**	**June 2025**	**Sep 2025**
Link Asset Services forecast								
10 Year	4.73%	5.00%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%
25 Year	5.27%	5.30%	5.10%	4.90%	4.70%	4.50%	4.30%	4.20%
50 Year	5.05%	5.10%	4.90%	4.70%	4.50%	4.30%	4.10%	4.00%

(Correct as at 4 January 2024)

When budgeting for interest payments and receipts a prudent approach has been adopted to ensure that, as far as is possible, both budgets will be achieved.

Borrowing Strategy 2024/25 – 2028/29

The overall aims of the Authority's borrowing strategy are to achieve:

- Borrowing at the lowest rates possible in the most appropriate periods;
- The minimum borrowing costs and expenses; and
- A reduction in the average interest rate of the debt portfolio.

Since 2009 the Authority has followed a policy of containing the capital programme, taking out no new external borrowing and repaying debt whenever this can be done without incurring a financial penalty. With the repayment of £46.5 million of LOBO loans during 2023 the Authority's external borrowing level has reduced by £148 million since 2008/09, resulting in reduced Capital Financing Charges.

During the period since 2009, all borrowing required to fund the capital programme has been through internal borrowing, i.e. the Authority has borrowed from its cash balances to fund the capital programme.

The ability to fund capital expenditure through internal borrowing depends on the availability of cash balances to fund it. The Authority's cash balances comprise the general reserve balance, earmarked revenue reserves, accumulated capital receipts, unspent capital grants, revenue balances carried forward from previous years and other balances.

As set out under the schedule of investments, the cash balance has reduced significantly over the last two years, with the key factor being the continued expenditure in excess of grant funding on Special Educational Needs and Disability (SEND), charged to an unusable reserve.

The Authority continues to await the outcome of the Safety Valve Intervention programme with the Department for Education in relation to the deficit position on Special Educational Needs and Disabilities (SEND). At the end of 2022/23 the Dedicated Schools Grant High Needs Block reported a cumulative deficit of £125.4 million which was carried forward as a deficit reserve as per government requirement. When combined with the current year forecast the deficit is expected to be around £165 million by the end of 2023/24. Should any funding be provided by the Department of Education towards the deficit, then the forecast position on the level of the Authority's cash balances will improve.

However, agreement has yet to be reached, and this Treasury Management Strategy therefore excludes any assumption that funding will be received towards the current deficit.

The capital programme for 2024/25 requires borrowing of £13.56 million.Table 5 in the Prudential Indicators section shows that together with the £46.5 million reduction in external debt during 2023/24, this would take the total internal borrowing up to £132 million. However, with the current level of the Authority's cash balances, it will not be possible to afford this level of internal borrowing.

The liability benchmark included within the prudential indicators is designed to demonstrate whether and when new external borrowing will be required, based on the Authority's current capital programme and the call upon the Authority's cash balances. Table 6 and the following graph included within the prudential indicators section of the

Treasury Management Strategy show that in order to retain the **minimum** level of cash balances, excluding any assumption on funding being received towards the SEND deficit, the benchmark requirement for new external debt for 2024/25, including the funding of the capital programme for 2024/25, is £50 million. This would indicate that the £13.56 million borrowing required to fund the 2024/25 capital programme will need to be external borrowing, and a further £36.5 million of current internal borrowing will need to be converted to external debt in order to ensure that the Authority's cash balances remain healthy.

The Authority is still awaiting an agreement on the Safety Valve proposals to resolve the SEND deficit. A successful outcome to the discussions with the Department for Education is likely to improve the cash position. Further reports will be provided to Cabinet is due course reviewing the position and the requirement for external borrowing.

In April 2022, the Cabinet agreed to support proposals for the creation of the Plymouth and South Devon Freeport. The Business Case included the requirement for the Authority to externally borrow up to £15 million for the capital works needed. The borrowing will not be required until 2025/26, and the additional external borrowing will be ringfenced to the Freeport. All the associated capital financing costs will be funded by the excess business rate income derived from the scheme.

The current expectation is that interest rates will begin to reduce during 2024. Therefore the requirement for new external borrowing will be kept under review with the intention that loans will only be accessed as and when they are required and financed on best available terms.

In previous years the Authority has looked for opportunities to reduce external debt. An additional £46.5 million was repaid in 2023/24, as the Authority was presented with the opportunity to repay two loans with interest rates of 5.99%, and one at 5.6% without incurring a premium. The new external borrowing that is required, as set out above, will be at lower rates than the loans repaid. Given the current level of cash balances and the requirement for new external borrowing, it would not be beneficial to make premature repayment of any of the remaining current external debt.

The earliest date on which any of the Authority's current long term external debt matures is 31 March 2027, when the Authority is due to repay a PWLB loan of £33.8 million, with a further £5.8 million to be repaid later in 2027. The cash position will need to be monitored carefully to determine whether it will be possible for these loans to be repaid, without taking out new external borrowing to re-finance the debt.

The following table 13 sets out the expected profile of external debt, based on the approved borrowing for the South Devon Freeport, the forecast new borrowing required as set out above and the loans maturing from 2027 onwards.

Table 13 – Current Forecast External Debt Profile

	Opening Balance £'m	New Borrowing £'m	Debt Repayment £'m	Closing Balance £'m
2024/25	461.35	50.00		511.35
2025/26	511.35			511.35
2026/27	511.35	15.00	(33.83)	492.52
2027/28	492.52		(5.78)	486.74
2028/29	486.74		(4.78)	481.96

Active treasury management and the maintenance of levels of liquidity aim to ensure that no short term borrowing is required to fund cashflow. Cash positions are monitored daily and modelled over the financial year to ensure that anticipated liquidity levels are forecast accurately. Given the current level of interest rates, if short-term borrowing is required to aid cashflow, this will be targeted at an average rate of **5.25%**.

Investment Strategy 2024/25 – 2027/28

The Authority continues to adopt a prudent approach to its investments. The majority of investments will be "Specified Investments" as defined by the Department for Levelling Up, Housing and Communities (DLUHC). For such investments, only a small number of selected UK banks and building societies, money market funds and overseas banks in highly rated countries are being used, subject to strict criteria and the prudent management of deposits with them. The lending policy is kept under constant review with reference to strict criteria for inclusion in the counterparty list. In addition, non-specified investments are included in the strategy, including the potential to invest in property funds, short-dated bond funds and multi-asset income funds.

The Treasury Management Strategy will continue to ensure a prudent and secure approach.

The full County Council is required under the guidance in the CIPFA Treasury Management Code of Practice to approve an Annual Investment Strategy.

The overall aims of the Authority's investment strategy continue to be to:

- Limit the risk to the loss of capital (security);
- Ensure that funds are always available to meet cash flow requirements (liquidity);
- Maximise investment returns (yield), consistent with the first two aims; and
- Review new investment instruments as they come to the Local Authority market, and to assess whether they could be a useful part of our investment process.

The overriding objective will be to invest prudently, with priority being given to security and liquidity before yield.

Under the Markets in Financial Instruments (MiFID II) directive, local authorities are classed as retail clients by the Financial Conduct Authority (FCA). This has implications for the range of investments that are available to local authorities. While bank and building society deposits are generally unaffected by the regulations, some banks have determined that they will only take term deposits from professional clients, and a range of alternative forms of investments are only available to professional clients. However, if the local authority meets criteria set by the FCA, then it can apply to the financial institutions with which it wishes to invest to request that the institution concerned "opts up" the local authority to elective professional client status. The Authority has made applications and been opted up to elective professional client status where required.

Those counterparties who have confirmed that they will treat the Authority as a professional client under the MiFID II regulations are set out in Table 14 below.

Table 14 – Counterparties that have "opted up" the Authority to elective professional client status

Counterparty	Counterparty Type
Standard Chartered	UK Bank
Commomwealth Bank of Australia	Overseas Bank
CCLA	Property Fund
Aberdeen Standard	Money Market Fund
Insight	Money Market Fund

In addition, brokers Tradition, Tullett Prebon and Imperial Treasury, and our treasury advisors, Link Asset Services, have opted up the Authority to professional client status. The majority of bank and building society deposits are unaffected by the MiFID II regulations.

Subject to the MiFID II regulations, a variety of investment instruments are available to the Local Authority market. In addition to the notice accounts and fixed term deposits available from UK and overseas banks, it is also possible for the Authority to invest, for example, in UK Government Gilts, bond funds and property funds. These alternative instruments would either require the Authority to tie up its cash for significantly longer periods, thus reducing liquidity, or would carry a risk of loss of capital if markets go down. The County Council has considered these alternatives and concluded that investment in a range of different funds should be permitted within the Treasury Management Strategy.

The Investment Strategy will be split between "Specified Investments", which meet criteria specified in guidance issued by DLUHC, and a range of longer term "Non-specified Investments".

Specified Investments

Specified Investments will be those that meet the criteria in the DLUHC Guidance, i.e. the investment:

- is sterling denominated;
- has a maximum maturity of 1 year;

- meets the “high credit quality” as determined by the Authority or is made with the UK Government or is made with a local authority in England, Wales, Scotland or Northern Ireland or a parish or community council; and
- the making of which is not defined as capital expenditure under section 25(1)(d) in SI 2003 No 3146 (i.e. the investment is not loan capital or share capital in a body corporate).

Specified Investments will include bank and building society deposits. Security is achieved by the creation of an ‘Approved List of Counterparties’. These are the banks, building societies, money market funds and other public bodies with whom we are prepared to deposit funds. In preparing the list, criteria will be used not only to determine who is on the list, but also to set limits as to how much money can be placed with them, and how long that money can be placed for.

Banks are expected to have a high credit rating. The Authority uses the ratings issued by all three of the major credit rating agencies, Fitch, Moody’s, and Standard & Poor’s, made available to the Authority through its external Treasury Advisors. These are monitored daily.

The lowest rating published by any of the agencies is used to decide whether an institution is eligible for inclusion. Where the counterparty is only rated by two of the major ratings agencies the lowest rating published by either of the two is used. This rating also determines the maximum amount which can be loaned to an individual counterparty. Overseas banks that meet the criteria are included from countries with an ‘AAA’ Sovereign rating.

The duration of all deposits with financial institutions will be managed prudently, taking account of the latest advice from the Authority’s external advisors.

Money Market Funds have a portfolio comprised of short-term (less than one year) securities representing high-quality, liquid debt and monetary instruments. Many money market funds are now regarded as a more secure form of investment than bank deposits, as they diversify their investments across a range of financial institutions to spread the risk, and will therefore be used where appropriate.

Money Market Funds must have an ‘AAA’ rating to be included on the counterparty list. They may be CNAV (Constant Net Asset Value), LVNAV (Low Volatility Net Asset Value) or VNAV (Variable Net Asset Value). Yields and prices will be monitored on a daily basis to ensure that there is minimal risk of loss of capital.

Other public sector bodies are principally arms of Government, or other local authorities, and although not rated are deemed suitable counterparties because of their inherent low risk.

The ‘Approved List of Counterparties’ specifies individual institutions and is formally reviewed at least monthly. Notification of credit rating downgrades (or other market intelligence) is acted upon immediately, resulting in any further lending being suspended.

Table 15 below summarises the current ‘Approved List’ criteria.

Appendix 1

Table 15 – Specified Investments Counterparty Approved List Criteria

Counterparty Type		Fitch	Moody's	Standard & Poor's	Credit Limit
UK Banks					
	not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
	not below	A- & F1	A3 & P-1	A- & A-1	£30 million
UK Building Societies					
	not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
	not below	A- & F1	A3 & P-1	A- & A-1	£30 million
Overseas Banks					
	Sovereign Rating of	AAA	Aaa	AAA	
	and not below	AA- & F1+	Aa3 & P-1	AA- & A-1+	£50 million
	and not below	A- & F1	A3 & P-1	A- & A-1	£30 million
UK Public Bodies					
Central Government					
	– Debt Management Office				Unlimited
Local Government					
	– County Councils				£10 million
	– Metropolitan Authorities				£10 million
	– London Boroughs				£10 million
	– English Unitaries				£10 million
	– Scottish Authorities				£10 million
	– English Districts				£5 million
	– Welsh Authorities				£5 million
Fire & Police Authorities					£5 million
Money Market Funds		AAA	Aaa	AAA	£30 million

Where the short term rating of a counterparty is one notch below the stated criteria, but the counterparty meets the long term rating criteria, they may still be used subject to the advice of our external advisors (Link Asset Services) who will take into account a range of other metrics in arriving at their advice.

The counterparty limits shown in the table also apply at a banking group level. This ensures that the Authority is not exposed to the risk of having maximum sums invested in multiple institutions owned by a group that encounters financial difficulties.

The credit ratings shown in the table for banks and building societies allow for greater sensitivity in recognising counterparty risk. Liquidity in investments is the second key factor in determining our strategy. Funds may be earmarked for specific purposes or may be general balances, and this will be a consideration in determining the period over which the investment will be made.

The Council has a policy of ensuring that at least 15% of deposits will be realisable within one month.

The Authority will look to invest in specified investments for a range of durations up to one year to ensure sufficient liquidity for cashflow purposes. Our treasury advisors, Link Asset Services, provide advice on the recommended maximum length of deposit for each of the counterparties that the Authority uses, and their recommendations will be taken into account when determining the length of time that any deposit is placed for.

Non-Specified Investments

Non-specified investments are those that do not meet the criteria described above, but are intended to be a longer term investment, generating a higher yield, but with a slightly higher degree of risk.

The limit on non-specified investments will be set at no more than 25% of the total treasury investments at any time or £40m whichever is the lower.

The Authority has previously decided that investment in a commercial property fund would be a prudent way to diversify risk and achieve a higher yield, as it would benefit from forecast growth in GDP. The CCLA Property Fund is therefore included as an approved counterparty, and an initial investment of £10 million was made in 2015. The counterparty limit for the Fund (as set out below) is £30 million, and further investments may be made up to that limit, subject to the approval of the Cabinet Member for Finance.

In addition, short-dated bond funds and multi-asset income funds are permitted. However, given the reduced level of cash and the requirement for liquidity it is unlikely that they would be used during 2024/25. Short dated bond funds will invest in high quality short dated government or corporate bonds. Multi-asset income funds will invest in a wider range of investments designed to produce a higher income yield, but will have a higher level of risk. If used, funds would be targeted where the total return is likely to be higher than the income yield, to reduce the risk of capital loss should the investment need to be realised.

The Authority's policy has been to only use funds that are subject to a statutory override to IFRS9. Under the IFRS9 accounting standard unrealised gains and losses arising from funds previously measured as Available for Sale would be classified as Fair Value through Profit and Loss and taken to the Comprehensive Income and Expenditure Account in the year they arise. As a result, any capital loss would impact on the yield gained from the investment.

Currently, Parliament has put in a statutory override for investments that fall under the following definitions:

- A money market fund;
- A collective investment scheme as defined in section 235 (1) of the Financial Services and Markets Act 2000;
- An investment scheme approved by the Treasury under section 11(1) of the Trustee Investments Act 1961 (local authority schemes)

The regulation (override) makes it clear that the revenue account should not be charged in respect of that fair value gain or loss and instead that amount should be charged to an account established, charged and used solely for the purpose of recognising fair value gains and losses in accordance with this regulation.

The statutory override originally applied from 1st April 2018 to 31st March 2023, but has been extended to 31st March 2025. This has reduced the risk to the Authority of capital losses impacting on investment income, as any capital loss would only impact on the Authority at the point that the investment is realised, or after the statutory override ends in March 2025.

Non-specified investments can also include bank and building society deposits of over a year, in line with the criteria set out in the section on Specified Investments.

Table 16 below summarises the 'Approved List' criteria for non-specified investments.

Table 16 – Non-Specified Investments Counterparty Approved List Criteria

Counterparty Type	Credit Limit
CCLA Property Fund	£30 million
Short-dated bond funds	£20 million
Multi-asset income funds	£20 million
Bank and Building Society Deposits over 1 year (meeting credit rating criteria as per Specified Investments)	£30 million

Where a bank or building society is considered for an investment of over one year, the credit limit will be applied to the total investments with that institution, including specified and non-specified investments, i.e. deposits above and below one year.

Interest Rate Targets

For the 2024/25 financial year it has been assumed that the average interest rate earned on lending to banks and building societies will be **5.0%** p.a. The target rate takes into account the current level of the Bank of England's base rate, but also reflects the expectation that rates are likely to reduce in the second half of 2024.

The yield from investment in the CCLA Property Fund is assumed to be **4%**. As set out above, it is not proposed to make use of short-dated bond funds and multi-asset income funds during 2024/25, so these types of funds are not factored into the budget for investment income.

The targets we have set for 2024/25 are considered to be achievable.

The expectation is that interest rates are likely to decrease further during 2025, once inflation is under control. Our Medium Term Financial Plan forecasts have been based on the average rates for lending to banks and building societies being 4.0% in 2025/26 and 3% thereafter. However, these will be reviewed in the light of updated interest rate forecasts and changes to the rates on offer from the Authority's counterparties over the MTFP period.

Performance Targets

The primary targets of the Treasury Management Strategy are to minimise interest payments and maximise interest receipts over the long term whilst achieving annual budgets, without taking undue risk. Where there are comparative statistics available for individual aspects of the Strategy these will be used to monitor performance. The Authority will continue to review best practice at other authorities and work with its treasury advisors (Link Asset Services) to assess performance.

Investments that are not part of treasury management

The revised Treasury Management Code also requires the authority to report on investments in financial assets and property that are not part of treasury management activity. This includes commercial investments, which are made primarily to achieve a financial return, and service investments which are made to support the provision of services to the community.

Commercial Investments

The Authority's policy is not to make commercial investments outside of its treasury management activity for mainly financial reasons. All capital investments outside of treasury management activities are held explicitly for the purposes of operational services, including regeneration, and are monitored through existing control frameworks.

This will be important if at any stage the Authority decides to take out new external borrowing to fund its capital programme. The Government has been concerned for some time about the risk involved in local authorities taking out external debt to fund investments in commercial property to generate income. In November 2020, they announced a change in the PWLB's lending terms. This introduced a prohibition to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. Given the Authority's policy, this should have no impact on our treasury management strategy.

Service Investments

The following table sets out the Authority's current financial investments held for purposes related to the provision of services to the local community, at the values included in the Statement of Accounts as at 31 March 2023. These investments are not held with the primary intention of gaining a financial return.

Table 16 - Service Investments

	Fair Value as at 31 March 2023 £'000
Norse South West Limited	85
Exeter Science Park Limited	885
Skypark	2,150
Total	**3,120**

Appendix 1

Norse South West Ltd -	Norse South West Ltd (NSW) commenced on 1st May 2022. The company took on the services previously provided by NPS (SW) Ltd which became inactive on 30th April 2022. The NSW joint venture is structured into five delivery groups; Design, Estates and Asset Management, Facilities (including cleaning), Maintenance and Minor Works and Catering. Ownership remains 80% Norse Commercial Services Ltd (whose ultimate controlling party is Norfolk County Council) and 20% Devon County Council (2 x £1 shares, so minimal risk). Risk management, decision-making and performance management is reviewed quarterly by the Liaison Board which includes two Directors representing DCC. Day to day management of the service level agreement between DCC and NSW is the responsibility of the Transformation and Business Support service. Performance reports will be made to Cabinet, and to the Corporate Infrastructure and Regulatory Services Scrutiny Committee as appropriate.
Exeter Science Park Ltd -	The Authority purchased shares in Exeter Science Park Ltd at a cost of £1.965 million. The value of the shares has subsequently been revised to a value of £885,000, which is included as a financial asset in the Authority's Statement of Accounts. The investment aims to stimulate economic development to the East of Exeter through the creation of a high-tech business park. The Authority along with the University of Exeter is also a guarantor to a loan from the Local Enterprise Partnership Growing Places Fund. Risk management, decision-making and performance management responsibility is shared between the Economy, Enterprise and Skills team and Finance Services. Performance reports will be made to Cabinet, and to the Corporate Infrastructure and Regulatory Services Scrutiny Committee as appropriate.
Skypark -	The investment in Skypark is made in the form of a series of loans, which are held as a long-term debtor in the Statement of Accounts. The investment is to stimulate economic development to the East of Exeter through the creation of a high-tech business park. Risk management, decision-making and performance management responsibility is shared between the Economy, Enterprise and Skills team and Finance Services. Performance reports will be made to Cabinet, and to the Corporate Infrastructure and Regulatory Services Scrutiny Committee as appropriate.
Further investments -	Any further financial investments will be subject to the approval of Cabinet. Reports to Cabinet will be required to set out the investment objectives, investment criteria, and the risk management, decision-making, reporting, performance measurement and management arrangements.