•

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

Cambridgeshire Police And Crime Commissioner
2024/25

INDEX

1 INTRODUCTION

1.1 Background

The Police and Crime Commissioner ("the Commissioner") is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Commissioner's low risk appetite, providing adequate security and liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Commissioner's capital plans. These capital plans provide a guide to the borrowing need of the Commissioner, essentially the longer term cash flow planning, to ensure that the Commissioner can meet the capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet the Commissioner's risk or cost objectives.

The contribution the treasury management function makes to the Commissioner is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

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

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

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities, including the Commissioner, to prepare a Capital Strategy report, which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

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

1.2.2 Treasury Management reporting

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

Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and covers:

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

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

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

1.2.3 Scrutiny

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

1.2.4 Quarterly reports

In addition to the three major reports detailed above, from the 2024/25 financial year two quarterly reports at the end of June and the end of December are also required. However, these additional reports do not have to be reported to the Commissioner, but do require to be adequately scrutinised. This role is undertaken by the CFO. These reports should specifically comprise of updated Treasury/Prudential Indicators.

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

Capital issues

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

Treasury management issues

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

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

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

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

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

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

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

1.4 Training

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

2 THE CAPITAL PROGRAMME 2024/25 – 2027/28

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

Table 1

£000's		**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
Opening Capital Financing Requirement (CFR)		**24,124**	**30,340**	**65,050**	**98,407**	**95,023**
Capital investment:						
Tangible assets additions		11,863	39,880	39,549	8,266	5,411
Intangible assets additions		-	-	-	-	-
TOTAL CAPITAL EXPENDITURE	(A)	**11,863**	**39,880**	**39,549**	**8,266**	**5,411**
Source of Finance:						
Capital receipts		-	-	-	(6,626)	(3,771)
Government Grants		-	(200)	(200)	(200)	(200)
Sustainability Grant		-	-	(1,900)	-	-
		-	**(200)**	**(2,100)**	**(6,826)**	**(3,971)**
Sums set aside from Revenue:						
Direct revenue contributions		(3,492)	(2,740)	(1,440)	(1,440)	(1,440)
		(3,492)	**(2,740)**	**(1,440)**	**(1,440)**	**(1,440)**
Reserves:						
Tfr from Capital Carry Forward Reserve		(768)	-	-	-	-
Tfr from Other Reserves		(189)	(641)	-	-	-
		(957)	**(641)**	**-**	**-**	**-**
TOTAL FINANCING	(B)	**(4,449)**	**(3,581)**	**(3,540)**	**(8,266)**	**(5,411)**
Net financing need	(A)+(B)	**7,414**	**36,299**	**36,009**	**0**	**0**
Minimum Revenue Provision (MRP)	(C)	**(1,198)**	**(1,589)**	**(2,652)**	**(3,384)**	**(4,118)**
Movement in CFR	(A)+(B)+(C)	**6,216**	**34,710**	**33,357**	**(3,384)**	**(4,118)**
Closing Capital Financing Requirement	(D)	**30,340**	**65,050**	**98,407**	**95,023**	**90,905**
Borrowing represented by:						
Loan Finance		15,539	54,827	87,731	84,111	80,341
Finance Lease		1	-	-	-	-
TOTAL BORROWING	(E)	**15,540**	**54,827**	**87,731**	**84,111**	**80,341**
Under/(Over) borrowing	(D)-(E)	**14,800**	**10,223**	**10,676**	**10,912**	**10,564**

£000's		2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Opening Capital Financing Requirement (CFR)		**24,124**	**30,340**	**65,050**	**98,407**	**95,023**
Capital investment:						
Tangible assets additions		11,863	39,880	39,549	8,266	5,411
Intangible assets additions		-	-	-	-	-
TOTAL CAPITAL EXPENDITURE	(A)	**11,863**	**39,880**	**39,549**	**8,266**	**5,411**
Source of Finance:						
Capital receipts		-	-	-	(6,626)	(3,771)
Government Grants		-	(200)	(200)	(200)	(200)
Sustainability Grant		-	-	(1,900)	-	-
		-	**(200)**	**(2,100)**	**(6,826)**	**(3,971)**
Sums set aside from Revenue:						
Direct revenue contributions		(3,492)	(2,740)	(1,440)	(1,440)	(1,440)
		(3,492)	**(2,740)**	**(1,440)**	**(1,440)**	**(1,440)**
Reserves:						
Tfr from Capital Carry Forward Reserve		(768)	-	-	-	-
Tfr from Other Reserves		(189)	(641)	-	-	-
		(957)	**(641)**	**-**	**-**	**-**
TOTAL FINANCING	(B)	**(4,449)**	**(3,581)**	**(3,540)**	**(8,266)**	**(5,411)**
Net financing need	(A)+(B)	**7,414**	**36,299**	**36,009**	**0**	**0**
Minimum Revenue Provision (MRP)	(C)	**(1,198)**	**(1,589)**	**(2,652)**	**(3,384)**	**(4,118)**
Movement in CFR	(A)+(B)+(C)	**6,216**	**34,710**	**33,357**	**(3,384)**	**(4,118)**
Closing Capital Financing Requirement	(D)	**30,340**	**65,050**	**98,407**	**95,023**	**90,905**
Borrowing represented by:						
Loan Finance		15,539	54,827	87,731	84,111	80,341
Finance Lease		1	-	-	-	-
TOTAL BORROWING	(E)	**15,540**	**54,827**	**87,731**	**84,111**	**80,341**
Under/(Over) borrowing	(D)-(E)	**14,800**	**10,223**	**10,676**	**10,912**	**10,564**

Table 1 shows the movement in Capital Financing Requirement from the unaudited position in the 2022/23 accounts to the end of the Medium-Term Financial Strategy period. This takes account of the capital programme for the same period.

- Total capital expenditure is shown, which for 2024/25 to 2027/28 amounts to £93.1m and includes a major project to replace the Parkside police station and custody provision in South Cambridgeshire, alongside several other large projects.
- Total financing includes the different sources of financing, direct revenue contributions and use of capital reserves.
- The Minimum Revenue Provision is a charge to the revenue budget to reflect a repayment of the capital outlay (see 2.5 for proposed change to MRP and 2.6 for proposed revised policy statement).
- The Net Financing Need is the difference of capital expenditure to the total of financing available; this shows the requirement to borrow to support the current plans.
- Loan Finance represents the overall debt position from borrowing; the oustanding loan balance, deducting principal repayments within year and adding any planned borrowing.
- The table also shows the currently under-borrowed position which is the difference of the Capital Financing Requirement and the current level of Loans and Finance Leases outstanding. A key Prudential Indicator is set on these figures and detailed in section 3 Borrowing.

2.1 Capital expenditure and Financing

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

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

The second prudential indicator is the Commisioner's Capital Financing Requirement (CFR), shown in **Table 1**, but also detailed in Appendix 5.1.2. The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Commissioner's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

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

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Commissioner's borrowing requirement, these types of scheme include a borrowing facility and so the Commissioner is not required to separately borrow for these schemes. The Commissioner currently has £1k (shown in **Table 1**, Finance Lease) of such schemes within the CFR.

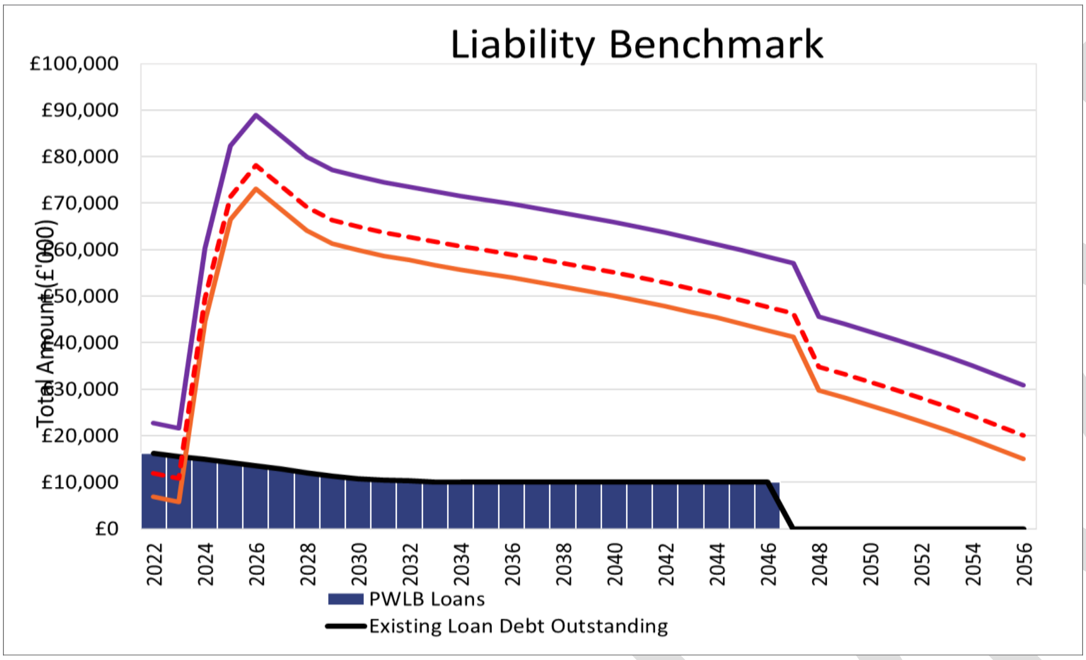
2.3 Liability Benchmark

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

There are four components to the Liability Benchmark:

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

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



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

2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). **Table 2** shows estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Table 2 – Cash available to invest

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

YEAR END RESOURCES £000's		2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General and Earmarked Reserve		20,986	20,150	19,768	18,823	17,407
Capital Receipts Reserve		-	-	-	-	-
TOTAL RESERVES		**20,986**	**20,150**	**19,768**	**18,823**	**17,407**
Provisions		2,089	2,089	2,089	2,089	2,089
TOTAL CORE FUNDS AVAILABLE	(A)	**23,075**	**22,239**	**21,857**	**20,912**	**19,496**
Working Capital:						
Stock		1,291	1,291	1,291	1,291	1,291
Debtors		22,699	22,699	22,699	22,699	22,699
Creditors		(22,090)	(22,090)	(22,090)	(22,090)	(22,090)
		1,900	**1,900**	**1,900**	**1,900**	**1,900**
Under-borrowing		14,800	10,223	10,676	10,912	10,564
TOTAL EXISTING REQUIREMENT	(B)	**16,700**	**12,123**	**12,576**	**12,812**	**12,464**
Cash available to invest	(A)-(B)	**6,375**	**10,116**	**9,281**	**8,100**	**7,032**

2.5 Minimum Revenue Provision (MRP) Policy Review and Proposed Change

MRP is the minimum amount which must be charged to the revenue budget each year, to set aside a provision for repaying external borrowing (loans). This is an annual revenue expense in the budget.

During 2023/24 the current capital plans have been reviewed in terms of affordibility and sustainability and as part of this review the MRP policy has been reviewed in conjunction with CIPFA to ensure a prudent approach is maintained.

Following review of the legislation it is proposed that from 1st April 2024 the annuity method for calculating MRP is applied for all new land and building long term assets only. MRP on all short term assets and the MRP charge to 31/3/24 will remain on the current policy using the asset life method. Both methods are considered to be prudent under the legislation.

The main reasons for proposing the change in approach are:

- both the annuity method and the straight-line method result in an equal total MRP charge over the life of the estate, that will reduce the capital finance requirement to zero. As such, the difference between the two methods is based on reasonable and proportionate evidence-based timing differences in cost profile - based on application of the time value of money.

- The partial application of the annuity method offers some protection against risk, if medium/long term interest rate forecasts significantly change.
- The legislation sets out that the annuity method may be particularly attractive in connection with projects promoting regeneration or administrative efficiencies or schemes where revenues will increase over time. In the example of the new buildings for CSPS and Monks Wood Training Centre – these will involve change such as improved energy efficiency, and some operational and administrative efficiencies. The capital strategy sets out some key principles which it considers, namely agile working, partners, and productivity.
- Any changes to MRP policy cannot be back dated.
- The profile of the annuity method creates greater capital repayment in later years, compared to the straight-line method (equal payments each year). When thinking about long term assets such as buildings, the annuity method is more reflective of the nature of 'loan financing', where in the early part of the loan period predominantly interest is being paid and a smaller proportion of capital. This means the annuity method is more in line with the real cost profile of the asset.

What are the differences between the Asset Life Method and the Annuity Method?

a) The asset life method charge MRP on a straight line basis i.e for an asset costing £40m the charge over a 40 year life span would be £1m per year.

b) The annuity method uses an annuity formula to calculate the charge each year. Key variables with this approach are the life of the asset and an appropriate long term interest rate. Since MRP only relates to the 'principal' element of the loan, the amount of provision made annually gradually increases during the life of the asset. The interest rate used in annuity calculations will be referenced to prevailing average PWLB rates.

Graphical representation comparing MRP charge using annuity method going forward for long term land and building assets v the straight line method

Chart to add

2.6 Minimum Revenue Provision (MRP) Policy Statement (updated)

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

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

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

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

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

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

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

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

Repayments included in finance leases are applied as MRP.

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

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

Cumulative VRP overpayments made to date are zero.

We do not have any overpayments to date or currently planned

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Commissioner. The Treasury Management function ensures that the Commissioner's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity and the Commissioner's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall Treasury Management portfolio as at 31 March 2023 and for the position as at 31 December 2023 are shown below for both borrowing and investments.

Table 3

TREASURY PORTFOLIO				
	31 March 2023		31 December 2023	
Treasury Investments	**£000**	**%**	**£000**	**%**
Banks (UK)	7,220	78%	21,130	81%
Banks (Rest of World)	2,000	22%	0	0%
Local Authorities	0	0%	0	0%
DMADF (H.M. Treasury)	0	0%	0	0%
Money Market Funds	0	0%	4,850	19%
Certificates of Deposit	0	0%	0	0%
Total Managed In-house	**9,220**	**100%**	**25,980**	**100%**
Bond Funds	0	0%	0	0%
Property Funds	0	0%	0	0%
Total Managed Externally	**0**	**0%**	**0**	**0%**
Total Treasury Investments	**9,220**	**100%**	**25,980**	**100%**
Treasury External Borrowing				
Local Authorities	0	0%	0	0%
PWLB	16,153	100%	15,805	100%
Total External Borrowing	**16,153**	**100%**	**15,805**	**100%**
Net Treasury Investments / (Borrowing)	**(6,933)**		**10,175**	

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

Within the prudential indicators there are several key indicators to ensure that the Commissioner's activities are operated within well-defined limits. One of these is that the Commissioner needs to ensure that the gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

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

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

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

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

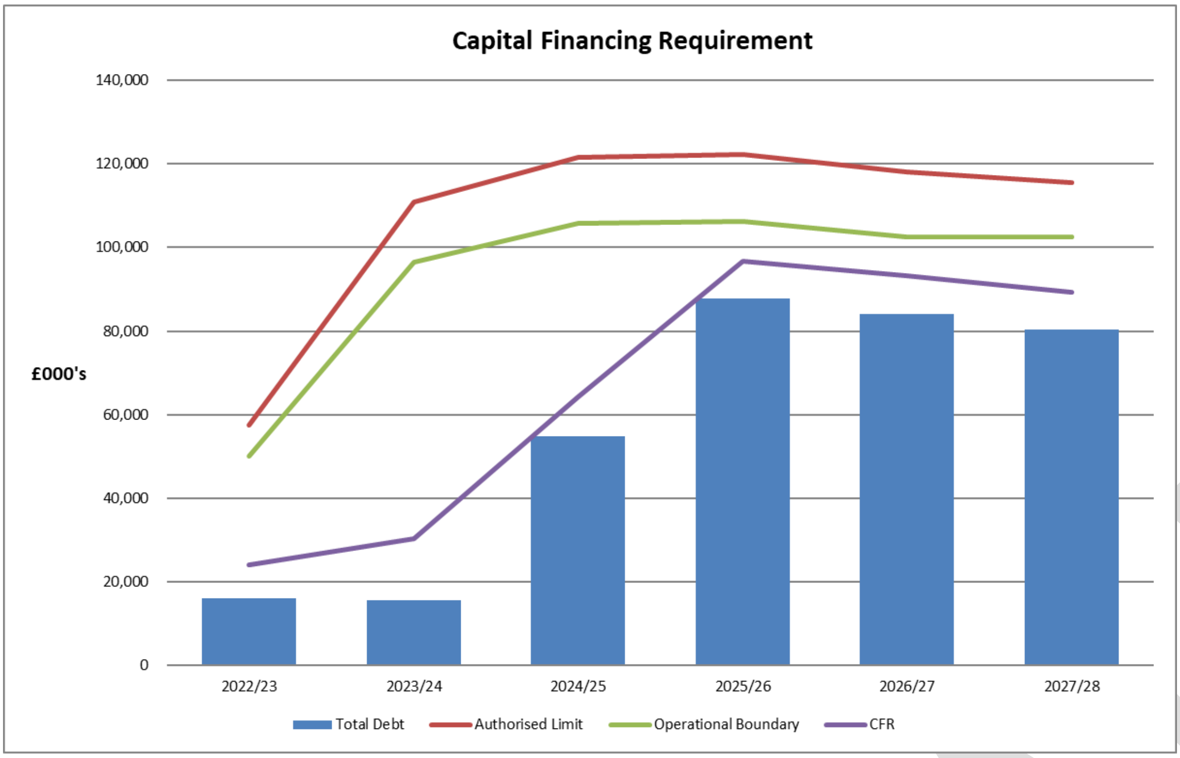
1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all authorities and councils' plans, or those of a specific authority or council, including the Commissioner, although this power has not yet been exercised.
2. The Authorised Limit has been determined to be 15% in excess of the operational boundary.
3. The below highlights the Authorised Limit the Commissioner has approved for 2024/25 and forecasts the changes expected over the period to 2027/28:

Table 4

LIMITS TO BORROWING ACTIVITY £000's	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Financing Requirement (CFR)	30,340	65,050	98,407	95,023	90,905
Operational Margin (10% of CFR)	3,034	6,505	9,841	9,502	9,091
	33,374	**71,555**	**108,248**	**104,526**	**99,996**
Borrowing Capability Factor *	36,299	36,009	0	-	2,271
OPERATIONAL BOUNDARY	**69,673**	**107,564**	**108,248**	**104,526**	**102,267**
AUTHORISED LIMIT (15% above Operational Boundary)	**80,124**	**123,699**	**124,486**	**120,205**	**117,607**

** Net Financing Need (see Table 1) for following year brought forward - this allows for borrowing in readiness for expected capital outlay*

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



3.3 Prospects for Interest Rates

The Commissioner has appointed Link Group as Treasury Advisor and part of their service is to assist the Commissioner to formulate a view on interest rates. Link provided the following forecasts on 7th November 2023. These are forececasts for Bank Rate, average earnings and PWLB certainty rates (gilt yeilds plus 80 basis points).

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Link Group provide context for this forecast, shown in Appendix 5.4, alongside the possible upside and downside risks.

Link Group now expect the Monetary Policy Committee (MPC) will keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. They do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

Gilt yields and PWLB rates. The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of the forecasts, as inflation starts to fall through the remainder of 2023 and into 2024.

3.4 Borrowing strategy

The Commissioner is currently maintaining an under-borrowed position (see **Table 1**). This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Commissioner's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half or 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 Treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates*, then borrowing will be postponed.
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

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

3.5 Policy on borrowing in advance of need

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

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

3.6 Debt rescheduling

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

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

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

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

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

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

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

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

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

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

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

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

2. Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Commissioner will engage with advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

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

4. The Commissioner has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

    - Specified investments are those with a high level of credit quality and subject to a maturity limit of one year.

    - Non-specified investments are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. Once an investment is classed as non-specified, it remains non-specified all the way through to maturity i.e. an 18 month deposit would still be non-specified even if it has only 11 months left until maturity.

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

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

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

4.2 Creditworthiness policy

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

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

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

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

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

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

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

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

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

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

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

Money market funds LVNAV	AAA	100% of available funds	Liquid
Money market funds VNAV	AAA	100% of available funds	Liquid
Ultra-Short Dated Bonds Funds	AAA	100% of available funds	Liquid

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

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

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

4.3 Country and sector limits

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

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

In addition:

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

4.4 Investment strategy

In-house funds - Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate peaking in the first half of 2024 but possibly reducing as early as the latter part of 2024 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations - The current forecast shown in appendix 5.4, includes a forecast for Bank Rate to remain at 5.25% in Q4 2023.

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

2023/24 (remainder)	5.30%
2024/25	4.70%
2025/26	3.20%
2026/27	3.00%
2027/28	3.25%
Later years	3.25%

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

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

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

Maximum principal sums invested > 365 days	2024/25	2025/26	2026/27
Principal sums invested > 365 days	£0	£0	£0

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

4.5 Investment risk benchmarking

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

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

4.6 Environmental, Social & Governance (ESG)

Treasury Management Practice (TMP1) now includes ESG within the framework of investing activity. ESG consideration is defined as the understanding of ESG risks that an entity is exposed to and evaluating how well it manages these risks. The final review of the eligible counterparties will be undertaken at the point of investment. It is not anticipated that investment activity will be restricted by negatively screening institutions nor attempting to invest sustainably with available cash resources. Whilst efforts will be made in this regard it falls outside the scope of ESG consideration under TMP1. The Commissioner places ESG consideration secondary to the investing principles of Security, Liquidity and Yeild (SLY).

4.7 End of year investment report

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

5 APPENDICES

5.1 APPENDIX: Prudential and Treasury Indicators 2024/25 – 2027/28

5.1.1 Capital Expenditure

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

Capital Expenditure		2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Total Capital Expenditure	(A)	**11,863**	**39,880**	**39,549**	**8,266**	**5,411**
Financed by:						
Capital receipts		-	-	-	(6,626)	(3,771)
Revenue contribution		(3,492)	(2,740)	(1,440)	(1,440)	(1,440)
Grants and other contributions		(957)	(841)	(2,100)	(200)	(200)
Finance lease and PFI liabilities		-	-	-	-	-
Total Financing	(B)	**(4,449)**	**(3,581)**	**(3,540)**	**(8,266)**	**(5,411)**
Net financing need for year	(A)-(B)	**7,414**	**36,299**	**36,009**	**0**	**0**

5.1.2 Capital Financing Requirement

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

Capital Financing Requirement	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Opening CFR	24,124	30,340	65,050	98,407	95,023
Capital spend	11,863	39,880	39,549	8,266	5,411
Resources used	(4,449)	(3,581)	(3,540)	(8,266)	(5,411)
MRP & VRP	(1,198)	(1,589)	(2,652)	(3,384)	(4,118)
Closing CFR	**30,340**	**65,050**	**98,407**	**95,023**	**90,905**

5.1.3 Authorised Limit

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

Authorised Limit	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Borrowing	79,924	123,499	124,286	120,005	117,407
Other Long Term Liabilities	200	200	200	200	200
Total Authorised Limit	**80,124**	**123,699**	**124,486**	**120,205**	**117,607**

5.1.4 Operational Boundary

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

Operational Boundary	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
Borrowing	69,573	107,464	108,148	104,426	102,167
Other Long Term Liabilities	100	100	100	100	100
Total Operational Boundary	**69,673**	**107,564**	**108,248**	**104,526**	**102,267**

5.1.5 External Debt

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

Actual External Debt as at 31st March	**2023/24 Estimate**
Borrowing	15,539
Other Long Term Liabilities	1
Total External Debt	**15,540**

5.1.6 Gross Debt and the Capital Financing Requirement

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

Gross Debt and the CFR	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
CFR	30,340	65,050	98,407	95,023	90,905
Gross Borrowing	15,540	54,827	87,731	84,111	80,341
Under/(Over) Borrowing	**14,800**	**10,223**	**10,676**	**10,912**	**10,564**

5.1.7 Liability Benchmark

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

Liability Benchmark	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**
Existing Loan Debt Outstanding	15,539	14,896	14,224	13,522	12,787
Liability Benchmark (Gross Loans Requirement)	10,755	49,557	71,452	78,135	73,613
Under/(Over) Liability Benchmark	**(4,784)**	**34,661**	**57,227**	**64,613**	**60,826**

5.1.8 Ratio of Financing Costs

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

Ratio of Financing Costs		2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Interest cost on existing borrowing		526	498	469	438	406
Interest cost on new borrowing		-	557	2,615	3,495	3,377
Gains/losses on debt rescheduling		-	-	-	-	-
Interest and investment income		(750)	(750)	(750)	(550)	(400)
MRP & VRP		1,198	1,589	2,652	3,384	4,118
Total Financing Costs	(A)	**974**	**1,894**	**4,986**	**6,767**	**7,500**
Net Budget Requirement	(B)	**178,160**	**188,667**	**197,571**	**203,518**	**209,376**
Ratio of financing costs	(A)/(B)	**0.55%**	**1.00%**	**2.52%**	**3.33%**	**3.58%**

5.1.9 Maturity Structure of Borrowing

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

Maturity structure of borrowing:	Actual	Lower Limit	Upper Limit
Under 12 months	4%	0%	100%
12 to 24 months	4%	0%	100%
2 to 5 years	14%	0%	100%
5 to 10 years	13%	0%	100%
Over 10 years	65%	0%	100%

5.1.10 Limit for Principal Sums Invested for Longer Than a Year

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

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

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

5.2 APPENDIX: Interest Rate Forecasts

The PWLB rates below are based on the new margins over gilts announced on 8th January 2024. PWLB forecasts shown below have taken into account the 20-basis point certainty rate reduction effective as of the 1st November 2012.

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

5.3 APPENDIX: Economic Background

The first half of 2023/24 saw:

- Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium, and long-dated gilts remain elevated as inflation continually surprised to the upside.
- CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.1% in September from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose by 7.8% for the period June to August, excluding bonuses).

The registering of 0% GDP for Q3 suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

The fall in the composite Purchasing Managers Index from 48.6 in August to 46.7 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0% q/q rise in real GDP in the period July to September, being followed by a contraction in the next couple of quarters.

The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.

As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

The tightness of the labour market continued to ease, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July 2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

But the cooling in labour market conditions still has not fed through to an easing in wage growth. The headline 3myy rate rose 7.8% for the period June to August, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular annual average total pay growth for the private sector was 7.1% in June to August 2023, for the public sector this was 12.5% and is the highest total pay annual growth rate since comparable records began in 2001. However, this is affected by the NHS and civil service one-off non-consolidated payments made in

June, July, and August 2023. The Bank of England's prediction was for private sector wage growth to fall to 6.9% in September.

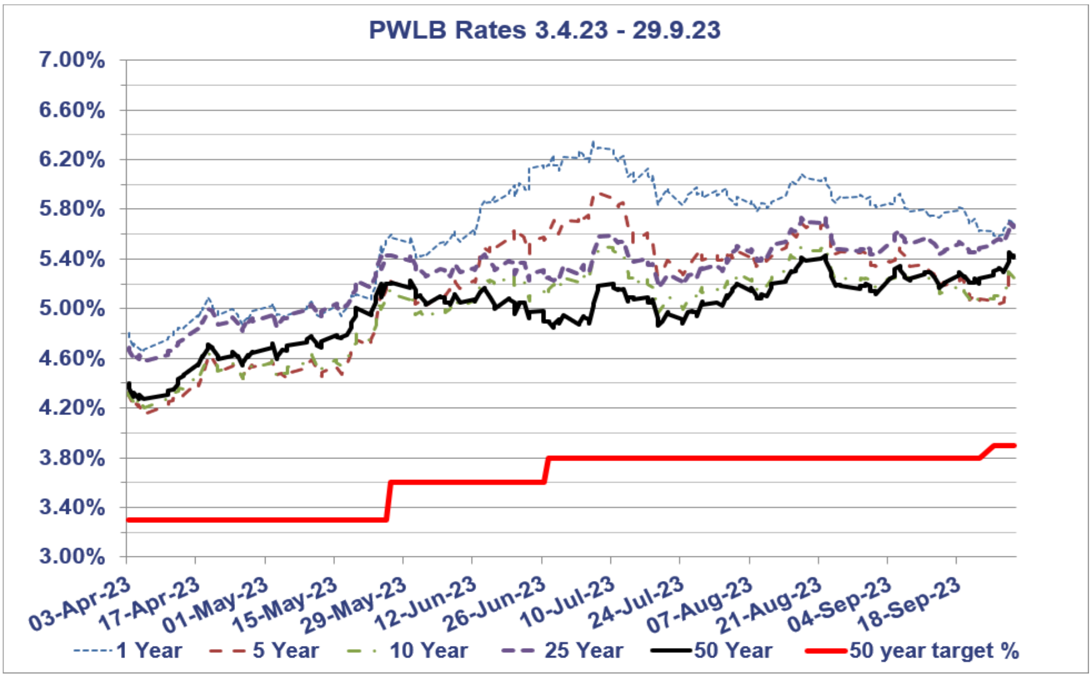
CPI inflation declined from 6.8% in July to 6.7% in August and September, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.1%. That reverses all the rise since March.

In its latest monetary policy meeting on 06 November, the Bank of England left interest rates unchanged at 5.25%. The vote to keep rates on hold was a split vote, 6-3. Some members of the MPC are still concerned about the stickiness of inflation.

Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. In terms of messaging, the Bank once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the Fed, the Bank is keeping the door open to the possibility of further rate hikes. However, it also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time". Indeed, Governor Bailey was at pains in his press conference to drum home to markets that the Bank means business in squeezing inflation out of the economy.

This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates in the future.

In the table below, the rise in gilt yields across the curve as a whole in 2023/24, and therein PWLB rates, is clear to see.



High/Low/Average PWLB Rates for 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.51%	5.73%	5.45%
Date	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
Average	5.62%	5.16%	5.01%	5.29%	5.00%
Spread	1.71%	1.79%	1.31%	1.15%	1.18%

The peak in medium to longer dated rates has generally arisen in August and September and has been primarily driven by continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

The S&P 500 and FTSE 100 have struggled to make much ground through 2023.

CENTRAL BANK CONCERNS

Currently, the Fed has pushed up US rates to a range of 5.25% to 5.5%, whilst the MPC followed by raising Bank Rate to 5.25%. EZ rates have also increased to 4% with further tightening a possibility.

Ultimately, however, from a UK perspective it will not only be inflation data but also employment data that will mostly impact the decision-making process, although any softening in the interest rate outlook in the US may also have an effect (just as, conversely, greater tightening may also).

5.4 APPENDIX: Link Group - Prospects for Interest Rates

The Commissioner has appointed Link Group as its treasury advisor and part of their service is to assist the Commissioner to formulate a view on interest rates. Link provided the following forecasts on 8th January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Our central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

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

On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy, and rent/mortgage payments.

PWLB RATES

Gilt yield curve movements have broadened since our last Newsflash. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy

The overall balance of risks to economic growth in the UK is to the downside.

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

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran, and North Korea, which could lead to increasing safe-haven flows.

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

- Despite the recent tightening to 5.25%, the Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term US treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so.)
- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

Link Group Forecasts

We now expect the MPC will keep Bank Rate at 5.25% for the remainder of 2023 and the first half of 2024 to combat on-going inflationary and wage pressures. We do not think that the MPC will increase Bank Rate above 5.25%, but it is possible.

Gilt yields and PWLB rates

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, as inflation starts to fall through the remainder of 2023 and into 2024.

Our target borrowing rates are set two years forward (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below:

PWLB debt	Current borrowing rate as at 06.11.23 p.m.	Target borrowing rate now (end of Q3 2025)	Target borrowing rate previous (end of Q3 2025)
5 years	5.02%	3.80%	3.90%
10 years	5.15%	3.80%	3.80%
25 years	5.61%	4.20%	4.10%
50 years	5.38%	4.00%	3.90%

Borrowing advice:

Our long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are rounded to the nearest 10bps and set out below. You will note that investment earnings have been revised somewhat higher for all years from 2025/26 as Bank Rate remains higher for longer.

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.70%	4.70%
2025/26	3.20%	3.00%
2026/27	3.00%	2.80%
2027/28	3.25%	3.05%
Years 6 to 10	3.25%	3.05%
Years 10+	3.25%	3.05%

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

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

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

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

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

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

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

The investment policy proposed for the Commissioner is:

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

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

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

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

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

Non-specified investments – not used.

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

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

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

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

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

5.6 APPENDIX: Treasury Management scheme of delegation

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

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

(ii) Commissioner / BCB

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

(iii) Resources Group / Commissioner

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

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

The S151 officer (CFO to Commissioner)

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- ensuring that the Capital Strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the Commissioner;
- ensure that the Commissioner has appropriate legal powers to undertake expenditure on non-financial assets and their financing.

This page is intentionally left blank