AUDIT & GOVERNANCE COMMITTEE

DATE	1 February 2024
REPORT OF	Sharon Wroot, Executive Director, for Place & Resources
SUBJECT	Treasury Management Policy and Strategy Statement 2024-25
STATUS	Open

CONTRIBUTION TO OUR AIMS

Effective treasury management will provide support towards the achievement of Council Plan aims and objectives. Treasury management is an integral part of the Council's finances providing for cash flow management and financing of capital schemes. It therefore underpins all the Council's aims.

EXECUTIVE SUMMARY

The Report presents the restated Treasury Policy Statement and the Treasury Management Strategy Statement (TMSS). The Strategy document is informed by guidance and advice provided by the Council's treasury advisors, Link Treasury Services Ltd.

The Council's high-level policies for borrowing and investments are:

- The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source and the type of borrowing should allow the Council transparency and control over its debt.

- The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

The key forecast prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and Treasury Indicators	31.3.24 Forecast £'m	2024/25 Forecast £'m	2025/26 Forecast £'m	2026/27 Forecast £'m
Capital Expenditure	67.2	125.5	40.2	22.1
Capital Financing Requirement	218.0	246.5	258.0	267.9

Authorised Borrowing Limit	**290.0**	**300.0**	**310.0**	**320.0**
Operational Boundary	**250.0**	**260.0**	**270.0**	**280.0**
External Borrowing	**179.6**	**212.6**	**223.9**	**229.5**
Investments >365 days	**0.0**	**21.0**	**21.0**	**21.0**

RECOMMENDATIONS

That Audit & Governance Committee:

1. Consider the content of the report and makes any recommendations to Cabinet as necessary

- the Treasury Management Policy Statement – Appendix 1
- the Treasury Management Strategy Statement and Prudential Indicators for 2024/25 - Appendix 2
- the MRP Policy Statement – Annex 2 of Appendix 2

REASONS FOR DECISION

The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in Public Services (the CIPFA TM Code) and the Prudential Code require local authorities to approve their Treasury Management Strategy Statement and Prudential Indicators on an annual basis. This Authority requires the Strategy to be approved by full Council.

Full Council holds responsibility for the implementation and regular monitoring of the organisation's treasury management policies and practices, and delegates the execution and administration of treasury management decisions to The Director of Finance, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management.

The Council's treasury management activity is guided by CIPFA's Code of Practice on Treasury Management ("the Code"), The Code recommends that members are informed of treasury management activities at least twice a year with interim updates on performance against Prudential Indicators reported quarterly. We therefore report in full after Quarter 2 and year end with Prudential Indicators being reported additionally after Quarters 1 and 3 in the Commissioning and Resource Report.

1. BACKGROUND AND ISSUES

1.1. CIPFA has defined treasury management as:

The management of the organisation'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.

1.2. The Treasury Management Strategy Statement (TMSS) for 2023/24 was developed in consultation with our treasury management advisors, Link Treasury Services Ltd. This statement also incorporates the Investment Strategy.

1.3 Whilst the Council has appointed advisors to support effective treasury management arrangements, the Council is ultimately responsible for its treasury decisions and activity. No treasury activity is without risk. The successful identification, monitoring and control of risk is therefore an important and integral element of treasury management activities.

1.4 The Council has nominated the Audit & Governance Committee as responsible for ensuring effective scrutiny of the treasury management arrangements.

1.5 Key points to note with specific regard to the Treasury Strategy:

- While there are no wholesale changes to the TMSS for the coming year, performance will continue be impacted by the new interest rate environment we are now operating in. Current forecasts predict that short term rates have now peaked, and the more relevant rates for NELC (longer term gilts) upon which our borrowing costs are based have started to soften. There remains significant risk to the consensus forecast, however. As the Bank of England has been at pains to point out, inflation remains well above its target level and if the current declining trend slows or stalls there is potential for rates to remain at these elevated levels (or even nudge up further) during 2024-25.

- There are significant borrowing requirements generated by the forecast Capital Programme on top of £42m of existing loan maturities. As all new borrowing will come at higher cost going forward, the efficient structuring of this requirement will be a key activity of Treasury in 2024 and beyond.

- In total the Authority will need up to £102.6m of new borrowing assuming the Capital Programme is delivered as forecast over the next three years.

- The Treasury Management Strategy covers the Council's treasury aims and principles. The Council also considers direct 'commercial' investments from time-to-time with the aim of generating financial return. Although reference is made to these types of investments in the TMSS' these transactions are guided and limited by the Capital Strategy document.

2. RISKS AND OPPORTUNITIES

2.1 No Treasury activity is without risk. Specific risks include, but are not limited to, Counterparty Credit Risk (the risk of an investment not being repaid), liquidity risk (the risk that the Authority does not have its funds in the right place, at the right time and in the right amount to make it's payments as they fall due), interest rate risk (the risk that future rate movements have a revenue implication for the Authority) and reputational risk (see Section 4 below).

2.2 The attached Appendices define our approach toward mitigating these risks.

2.3 Treasury is an Authority-wide function, and its environmental sustainability and equalities implications are the same as for the Council itself.

2.4 The Authority will have regard to the environmental and equality activities of its Counterparties (where reported) but

- Prioritises Security, Liquidity and Yield,
- Recognises that as large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and such exposures are small parts of their overall business.
- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification.

2.5 **General Data Protection Regulation 2018** – Relationships with external providers covered by the Treasury management Practices are governed by and operated in accordance with the Act.

3. OTHER OPTIONS CONSIDERED

3.1 These are set out on Page 29 of the Treasury Management Strategy Statement.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

4.1 As you would expect, with large sums of public money involved, any treasury activity carries a high degree of reputational risk. Any losses have not just financial but also significant, ongoing resource implications for the Council.

5. FINANCIAL CONSIDERATIONS

5.1 As set out in the Appendices

6. CHILDREN AND YOUNG PEOPLE IMPLICATIONS

6.1. As an Authority-wide corporate function, the immediate impacts of day-to-day Treasury operations on children and young people are the same as for the Council as a whole. However, certain Treasury decisions, most notably those relating to Long-Term Borrowing transactions, will place a greater burden on young residents, over time, relevant to other demographics.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

7.1 In line with the Authority's declaration of a Climate Emergency, the S151 Officer will aim to assess and monitor, not just Environmental but all, ESG factors when selecting investment options.

7.2 Full assessment is however restricted by the fact that, at the time of writing, there is no consistent rating framework with which to measure and benchmark specific counterparty ESG metrics.

7.3 The UK and EU have both announced their intentions to introduce regulation for ESG ratings providers, which should greatly aid assessment of the associated and relevant risks Counterparties present. Until this market data gap is fully resolved, our approach to managing the risks associated with the Environmental activities of our Counterparties is as follows:-

- As the Ratings Agencies headline ratings on our Counterparties now incorporate ESG risk assessments alongside more traditional financial risk metrics and so provide both a holistic risk measure and a proxy for ESG 'scoring' in the absence of anything more robust

- The Council will continue to prioritise Security, Liquidity and Yield, in that order

- The Council recognises that as large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change considerations are an increasingly important and heavily scrutinised part of their overall business.

- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification.

- The Council notes that bonds issued by Supranational institutions offer strong ESG credentials, combined with the explicit underwriting support of all major developed countries. This results in excellent ratings (typically AA+ - AAA) being applied. As such, the Council actively seeks exposure to these assets (commensurate with its investment horizon) and in doing so, contributes to market liquidity and therefore capital raising abilities of these bodies who then deploy that capital in ESG positive schemes.

CONSULTATION WITH SCRUTINY

8.1 Audit and Governance Committee have been designated the scrutiny body for Treasury.

8. FINANCIAL IMPLICATIONS

9.1 As set out in the appendix.

9. LEGAL IMPLICATIONS

10.1 There are no direct legal implications arising from the recommendations in this report which are not covered in the body of the report. The Council has complied with its statutory obligations arising from the Local Government Act, the Local Government Finance Act and all relevant CIPFA guidance.

10. HUMAN RESOURCES IMPLICATIONS

11.1 There are no immediate HR implications arising from the recommendations contained in this report.

11. WARD IMPLICATIONS

12.1 All wards indirectly affected

12. BACKGROUND PAPERS

13.1 CIPFA Treasury Management Code and Guidance Notes

14. CONTACT OFFICER(S)

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Sharon Wroot,
Executive Director, Place and Resources

APPENDIX 1

The Treasury Management Policy Statement

1. The Council defines its treasury management activities as:

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

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council, and any financial instruments entered into to manage these risks.

3. This Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

4. The Council's high level policies for borrowing, borrowing in advance and investments.

   - The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

   - This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

   - The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

Appendix 2

Treasury Management Strategy Statement 2024/25

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Abbreviations Used In This Report

- **CFR:** capital financing requirement - the Councils annual underlying borrowing need to finance all previous and in-year capital expenditure.
- **CIPFA:** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in the UK for local authority finance and treasury management.
- **DLUHC:** the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England (previously The Ministry for Housing, Communities and Local Government).
- **ESG:** Environmental, Social and Governance, a set of standards measuring a business's impact on the environment, society, and how transparent and accountable it is, considered when making investment decisions
- **Gilts:** gilts are bonds issued by the UK Government to borrow money on the financial markets. The interest (yields) payable on Gilts are usually fixed and so will change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.
- **LOBO:** a loan carrying provision for the lender to periodically amend the interest rate applicable. If the lender chooses to exercise this option, the borrower then receives a secondary option to choose to repay the loan without penalty.
- **MRP:** minimum revenue provision - a statutory annual minimum revenue charge to cover debt repayment which in effect reduces the total outstanding CFR.
- **PWLB:** Public Works Loan Board – a Dept. within H.M. Treasury which provides loans to local authorities to finance capital expenditure.
- **QE:** Quantitative Easing involves a central bank buying assets in the open market to support economic stability.
- **QT:** Quantitative Tightening is the opposite to QE whereby the central bank sells assets back into the market to reduce its holdings once the economy can support such action.
- **S151 Officer:** an Officer appointed under section 151 of the Local Government Act to carry out the duties of 'Responsible Financial Officer' as defined by CIPFA
- **SONIA:** Sterling Overnight Index Average, the 'risk-free' rate for market transactions.
- **TMSS:** the annual Treasury Management Strategy Statement reports that all local authorities are required to submit for approval by full Council before the start of each financial year.

Key Messages:

We continue to mitigate counterparty risk as far as possible, primarily through the use of short-term investments with highly rated counterparties.

We note the Bank of England's view that UK Banks remain well capitalised heading into, what is expected to be, a more volatile economic environment.

Recent rises in interest rates have made our future borrowing more costly but now appear to have peaked. We continue to monitor and reassess our capital spending programmes against the backdrop and will make adjustments as necessary so as to not create unsustainable future revenue pressures.

Section 151 Officer Overview

During 2023/24 our Treasury Management Strategy once again proved robust and, unamended and allowed the Authority sufficient flexibility to successfully manage the combined challenges of widespread inflation and rising rates. The Bank of England's Financial Stability Report (Dec 2023) stated that while the overall risk environment remains challenging, major bank balance sheets remain resilient and aggregate profitability among the major UK financial institutions is expected to remain robust. Even so, monitoring of Counterparty Risk remains a prime focus for the Authority as the weaker economic forecast plays out and lenders' balance sheets are inevitably impacted.

Treasury Risk Appetite

It is my firm view that the priority for Treasury Management at North East Lincolnshire Council is to protect capital rather than to maximise return. This Authority therefore has a low-risk appetite. The avoidance of all risk is however neither appropriate, or possible, yet we will continue to strive for a low-risk balance set against a keen responsibility for public money.

NELC is committed to Security, Liquidity, Yield (SLY) principles in all its Investment Activity (both Treasury and non-treasury). Preservation of Capital will be our foremost focus, with Liquidity an important secondary consideration. Any yield achieved will be reflective of this strategy to prioritise those other factors and the Authority accepts the trade-off accordingly. (See more detail on P16 of this Appendix).

We have a significant forward borrowing requirement necessary to cover both the Capital Programme and maturing debt. Going into 2024/25, this requirement will have to be fulfilled against a rate environment significantly elevated from that to which we have become accustomed to over the last decade or so. The situation is further complicated by financial market lenders choosing not to entertain requests for forward-starting loans from us while our Auditor's Value For Money qualification remains in our Statement of Accounts. Meeting this need, while closely monitoring the continuing appropriateness of our Capital Programme, will therefore be a key focus for all involved during 2024/25.

Sharon Wroot, Section 151 Officer

January 2024

Key Messages:

Approval of an Annual Treasury Management Strategy is a Statutory requirement of the Authority.

The Treasury Team manages the surplus cash and the borrowing activity of the Authority.

Where surplus cash is present the team will invest this with low-risk counterparties for appropriate terms to ensure that the Authority has funds in the right place, in the right size, at the right time, to ensure its payments can be met as they fall due.

Borrowing is taken to fund the Authorities agreed capital expenditure. Care is taken to manage the cost of carry (the difference between what borrowing costs and what it earns prior to being spent) while, also considering interest rate trends.

Introduction

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will match cash expenditure. Part of treasury management's role is to ensure that this cash flow is adequately planned, with cash being available in the right amount, in the right place at the right time for when it is needed. All surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing strong liquidity initially before considering the need for adequate investment return.

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

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity, the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operation manages 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.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, where existing, these activities are classed as non-treasury investments, (arising usually from service related or capital expenditure) and are separate from the day-to-day treasury management activities. The CIPFA revised 2021 Prudential and Treasury Management Codes require all local authorities to prepare an additional report, 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 risks are managed
- the implications for future financial sustainability

The aim of the capital strategy is to ensure that all elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The capital strategy is reported within the 2024/25 Finance and Commissioning Plan.

Key Messages:

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.”

In addition to the Annual Treasury Strategy (agreed prior to the start of the financial year), quarterly updates including 2 full in-year reports are provided to Council to report performance against the Strategy.

Scrutiny of the Authority’s treasury activities is delegated to the Audit & Governance Committee.

Introduction (contd)

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.”

This authority has not engaged in any commercial investments primarily for yield.

Treasury Management Reporting
The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **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).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision, if applicable. In addition, this Council will receive quarterly update reports.

c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

d. **Additional updates on performance against Prudential Indicators (specifically)** as at the end of Q1 and Q3 are provided in the Budget Report update to Cabinet.

Scrutiny
The reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit & Governance Committee (with the exception of d) above).

This report (and the subsequent updates above) fulfil the Authority’s legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and DHULC Guidance.

Key Messages:

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

- **The Treasury Strategy and Treasury Indicators report**
- **A mid-year Treasury report**
- **An annual Treasury Outturn report**

This Strategy seeks to provide the Authority with a suitably low risk, yet flexible, approach to Treasury in a period that may be affected by currently unknown regulatory and political changes.

Should circumstances change significantly, to a point where the Council's Treasury objectives are impacted, a revised Strategy will be presented for approval in-year.

Introduction (contd.)

The Authority borrows and invests substantial sums of money and is therefore exposed to several financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risks are therefore central to the Authority's treasury management strategy.

Treasury Management Strategy for 2024/25
The strategy for 2024/25 covers two main areas:

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- 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.

Capital issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) policy.

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

Revised strategy: In accordance with the DLUHC Guidance, the Authority will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a stressed economic environment, or a large increase in the Authority's capital programme or in the level of its investment balance. It should be noted that no such revisions were required during the Covid-19 period and subsequent inflationary and rising rate cycle.

Key Messages:

Our advisors, Link Asset Services predict rates have now peaked and project a decrease in Bank Rate of one percent to 4.25% by the end of 2024. The rates payable on longer-term borrowing have already priced in much of these forecast reductions so potentially offer a small discount to Bank Rates over the next year – though still at much higher levels than have been available over the last decade.

There is still the significant potential for short-term volatility in gilt rates (upon which our borrowing tends to be priced).

With the help of our advisors and market tools now available to us we will remain well informed as the cycle continues to evolve.

External Context

Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view at the time of writing (Jan 2024).

	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Mar-26	Mar-27
Bank Rate	5.25%	5.25%	4.75%	4.25%	3.75%	3.00%	3.00%
5 yr PWLB	4.50%	4.40%	4.30%	4.20%	4.10%	3.60%	3.50%
10 yr PWLB	4.70%	4.50%	4.40%	4.30%	4.20%	3.80%	3.70%
25 yr PWLB	5.20%	5.10%	4.90%	4.80%	4.60%	4.20%	4.10%
50Yr PWLB	5.00%	4.90%	4.70%	4.60%	4.40%	4.00%	3.90%

Central bankers, including the Bank of England want markets to believe in the higher for longer narrative. In terms of messaging, the Bank repeated in November that "further tightening in monetary policy would be required if there was 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, stating "policy will be "sufficiently restrictive for sufficiently long".

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.

Key Messages:

As of December 2023, we expect the Bank Rate to remain at 5.25% for 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 clearly possible. As the Authority is a net borrower the impact of higher rates is negative overall.

External Context (contd).

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 or tightening in the interest rate outlook in the US may also have an effect.

Significant risks to the forecasts

Downside

- 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, rising gilt yields).
- The Bank of England has acted too quickly, or too far, over recent months in raising Bank Rate bringing about a deeper and longer UK recession than currently anticipated.
- 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

- 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 and pull UK gilt yields up higher than currently forecast.
- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

Overall, we see the balance of risks to the downside but, subject to the influences listed above, we still expect rates to remain elevated compared to recent years during 2024/25 with some small reductions in term rates as the Bank of England's Monetary Policy Committee signals a softer approach if inflation continues to slow in 2024 and beyond. (See P21).

Key Messages:

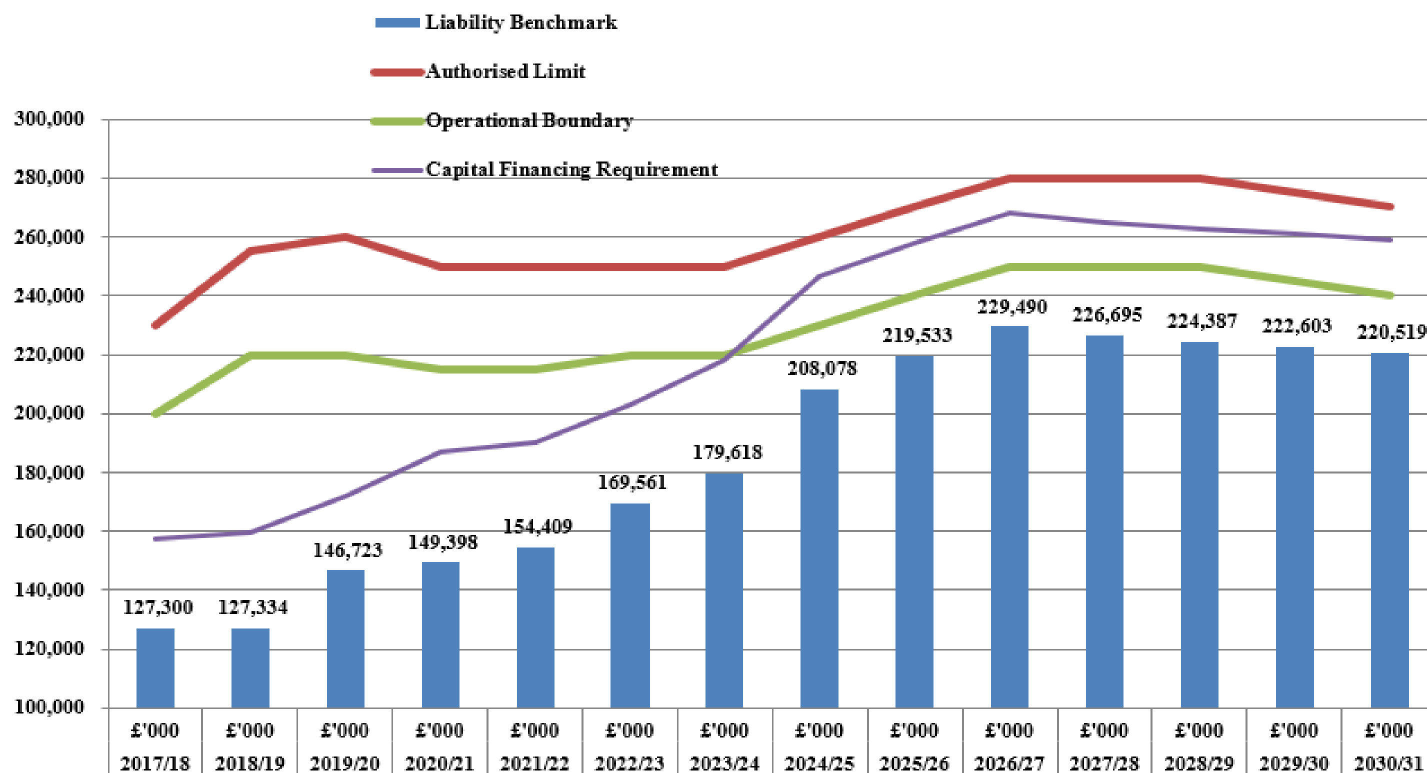
Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed its highest forecast CFR over the next three years.

This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the forecast period.

Local Context

As at 31.12.2023 the Authority had £164.9m of borrowing and £36m of investments (See Annex 1 for breakdown). Forecast changes in borrowing and its relevant limits are shown in the chart below.



The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. The chart above shows that the Authority forecasts that borrowing will peak at around £226m (including all existing borrowing) and so the Council expects to comply with this recommendation during 2024/25 and the 2 subsequent periods. This view takes into account current commitments, existing plans, and the proposals in the draft 2024/25 budget report.

Key Messages:

The Authority has an increasing CFR due to the capital programme and will therefore need to borrow in 2024/25.

Current forecasts suggest new borrowing of up to £103m will be required to deliver the Council's plans over the next 3 years.

In the current interest rate environment, it is considered unlikely that lenders will exercise their options under our Lender Option Borrower Option (LOBO) Loans.

The Authority regularly considers risk mitigation strategies to deal with the long-term uncertainty such arrangements introduce.

Rescheduling of current debt will be considered where prudent and economic to do so.

Borrowing

The Council is currently maintaining an under-borrowed position subject to a minimum investment balance of £10m. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Authority'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, gilt yields and PWLB rates fall back over the next 3 years, as inflation continues to fall through the remainder of 2023 and into 2024.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The S151 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 may be drawn whilst interest rates are lower than they are projected to be in the next few years.

All decisions on borrowing are notified through the reporting timetable set out on P6.

Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely 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 Council can ensure the security of such funds.

Debt rescheduling

Following the rise in rates seen since 2021, rescheduling of current borrowing may be considered whilst early redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate. One example would be LOBO loans, where, if called, our default position is that we would choose to repay without penalty and reschedule to more closely meet risk or cost objectives. If rescheduling were undertaken, it will be reported to Cabinet, at the earliest meeting following its action.

Key Messages:

The Authority continues to utilise its reserves in place of new borrowing to fund its capital programme.

Whilst the Public Works Loan Board (PWLB) remains a lender-of-last-resort to the sector it has added some restrictions on access to business-as-usual borrowing.

Whilst we do not believe these will be a limiting factor for NELC, we continue to view other local Authorities and alternative lenders as active options in meeting our overall borrowing requirement as cost effectively as possible.

If our existing LOBO loans were to be called, then our default position is we would exercise our option to repay without penalty

Borrowing Strategy (contd)

Our Key Objectives:

The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans, should the Authority's long-term plans change, is a secondary objective.

Strategy: the Council will deliver on its Objectives by:

Our default strategic response to the expected (but far from certain) cyclical adjustment to a lower rate environment is to combine regular short-term borrowing transactions with occasional new longer-term borrowing at relatively steady intervals to average out the cost of borrowing whilst delivering short-term savings and seeking to limit the cost of carry.

Currently the Public Works Loan Board (PWLB) Certainty Rate is set at gilts + 80 basis points for borrowing. The PWLB places restrictions on access to borrowing where Authorities are deemed to have previously borrowed 'primarily for yield'. NELC does not have any such arrangements and the restrictions will therefore not be prohibitive for NELC. Recent difficulties at some Local Authorities has provided confirmation that, even in those situations, the PWLB remains the Lender-of-Last-Resort to the sector.

Consideration will also be given to sourcing funding from the following sources, in addition to PWLB :

- Local authorities (primarily shorter dated maturities out to 5 years or so – 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).

LOBO Loans - If our existing LOBO loans were to be called then our default position is we would exercise our option to repay without penalty and structure the replacement borrowing more efficiently in line with the Liability Benchmark (see p32).

Key Messages:

Across is a list of the possible sources and types of borrowing that the Authority will consider in 2024/25. This list is unchanged from 2023/24.

All new long-term borrowing is backed by a Borrowing Decision Notice signed in advance by the S151 Officer. The Notice will cover the reason for the amount, term and source of finance among other relevant risk evaluations.

Our Auditor's Value for Money qualification in our latest Statement of Accounts means certain long-term (market) borrowing options are temporarily closed to us.

Whilst this restriction has some impact on our ability to proactively manage interest rate risk it is important to note that it does not affect the Authority's ultimate ability to raise finance.

Borrowing Strategy (contd)

Source of Borrowing (On Balance Sheet)	Fixed	Variable
PWLB	●	●
Local Authorities	●	●
Banks (UK and overseas [Sterling only] including State-owned banks)	●	●
Pension Funds (excl. East Riding Pension Fund)	●	●
Insurance Companies	●	●
Quasi-Governmental bodies (e.g. Pension Protection Fund, UK Infrastructure Bank and similar)	●	●
Type/Structure of Debt		
Market (long-term incl. Bond issuance)	●	
Market (temporary)	●	●
Market – LOBOs (restructuring of existing arrangements only)	●	●
Green Bonds	●	
Local Temporary	●	●
Local Authority Bonds	●	
Local Authority Bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (Capital Receipts and Revenue Balances)	●	
Commercial Paper	●	
Repurchase Agreements	●	
Medium Term Notes	●	
Finance Leases	●	●

Borrowing Strategy (contd)

Key Messages:

Should the Authority find it necessary to agree with DHLUC a capitalisation directive, which allows exceptional use of borrowing for financing unfunded revenue pressures, any borrowing taken under such an arrangement would have to be obtained from PWLB at an increased margin.

UK Municipal Bonds Agency plc (UKMBNA) was established in 2014 by the Local Gov't Association as an alternative to the PWLB. In 2020 it issued its first two Bonds but only for single entity debt.

Our understanding remains that this is a more complicated source of finance. Any decision to borrow from/via the Agency will therefore require a separate report to full Council.

The Authority has previously raised roughly half its long-term borrowing from the PWLB but continues to closely monitor other sources of finance, such as those listed.

Should the Authority find it necessary to agree with DHLUC a capitalisation directive, which allows exceptional use of borrowing for financing unfunded revenue pressures, any borrowing taken under such an arrangement would have to be obtained from PWLB and would attract an additional 1% cost premium. Our current understanding is this would include all existing planned borrowing until the Direction is satisfied.

Municipal Bond Agency: UK Municipal Bonds Agency plc (UKMBNA) was established in 2014 by the Local Government Association as an alternative to the PWLB. This Authority chose not to invest directly in the start-up capital of the entity, preferring to take a 'wait and see' position.

In 2020 the Agency issued its first two Bonds. However, both were single name issues of a size that could equally have been placed outside of UKMBNA. In December 2020, a third prospective single-issuer offering was pulled. As such, we do not currently consider these transactions offer 'proof of concept'.

Furthermore, the Agency's own 2022 Accounts continue to highlight "material uncertainty that may cast significant doubt on the company's ability to continue as a going concern"

Additionally, our current understanding is that UKMBA will be a more complicated source of finance than other options for two main reasons: borrowing authorities will be required to provide bond investors with a proportionate guarantee to refund their investment in the event that the agency is unable to, for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable.

All this means that the Bond Agency is currently excluded from our Approved Lenders list. Any decision to borrow from/via the Agency will therefore require a separate report to full Council.

Key Messages:

The Council may accrue financial return from investments outside the Treasury Strategy (for example direct property purchases).

Whilst the aim of security of capital and a positive return for such transactions are like Treasury activity, these investments have can have very different characteristics to a typical treasury investment.

As a result, such schemes are placed within the Capital Programme to ensure they are proportional to the level of the Authority's available resources and a separate Capital Strategy governs their approval process.

The Authority currently has no plans to undertake schemes primarily for yield.

Borrowing Strategy (contd)

Borrowing for Commercial or Social Return

The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA define 'investments' as including 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, are covered in the Capital Strategy, (a separate report).

To support frontline services as central Government funding changes over time, Councils must consider how best they might deploy their resources, knowledge and borrowing capacity to replace lost income. The drivers, characteristics, available credit data and risks associated with such transactions will differ from one scheme to another as well as from general treasury activity. Schemes may, for instance, factor in non-financial 'social' returns as well as financial gain. Example activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios where local demand from tenants is not being met by private landlords.

The Authority recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. **The Authority currently has no plans to acquire assets primarily for their yield.** Such schemes would have implications for the Authority's ability to access borrowing and so would require the explicit approval of the S151 Officer.

Common across both 'commercial' transactions and treasury investments is the need for council-wide planning, robust due diligence and formal oversight processes. The Authority's commercial 'risk appetite' would likely be comparable to its Treasury Risk appetite. However, a holistic approach to risk could equally allow more risk to be taken on Commercial Investments given that little risk (and therefore return) is carried on the treasury side. NELC's overall risk appetite along with specific policies and arrangements for non-treasury investments is set out in the Capital Strategy document.

The Authority will compile and maintain a schedule setting out a summary of existing material non-treasury investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure. This schedule is included with the Capital Strategy report.

Key Messages:

In accordance with guidance from the DHLUC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

The key ratings used to monitor counterparties are the Long-Term ratings.

Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2023/24 investment balances have ranged between £15.5m and £48.3m. The peak was around £10m lower than in the previous period as liquidity protection measures and Central Government support programmes during the Covid-19 pandemic were removed. Balances are expected to be in a similar range in 2024/25.

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

Our Key Objectives:

The primary principle governing the Council's investment criteria is the security of its investments, followed by the maintenance of liquidity. An adequate return based on those constrained parameters is our final consideration.

Strategy: the Council will deliver on its Objectives by:

- Maintaining a policy covering the categories of investment types it will invest in, the criteria for choosing investment counterparties with adequate security, and monitoring their security. This is reviewed at least monthly and is set out in the specified and non-specified investment sections below; and

- Setting a Minimum Liquidity level for its investments. This will include determination of the maximum periods for which funds may prudently be committed. These limits form part of the Council's prudential indicators.

The S151 Officer will maintain a counterparty list in compliance with the criteria on Page 17. If changes to the limits shown are deemed necessary, these will be submitted to Council for approval. Separate criteria determine which types of investment instruments are either specified or non-specified in accordance with the Code of Practice (See P22).

Key Messages:

The Table shown lists our Approved Investment Counterparties and Limits.

The limits are derived from an assessment of available reserves and our Advisors general guidance.

The Council has determined that it will only use approved counterparties from the UK and/or from countries with a minimum sovereign credit rating of AA-

The limits shown also apply to Council's own bankers in the ordinary course of business, if that bank's lowest rating falls below 'A-' balances will be maintained for operational purposes only and minimised daily. A non-investment 'operational' limit of £1m will apply in such circumstances.

Investment Strategy (contd.)

Approved Counterparties: The Authority may invest its surplus funds with any of the counterparty types the Table below, subject to the cash limits (per counterparty) and the time limits shown.

Table 2: Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 Years	n/a	n/a
AAA	£3m 5 Years	£5m 20 Years	£5m 20 Years	£2m 5 years	£2m 20 Years
AA+	£3m 5 Years	£5m 10 Years	£5m 10 Years	£2m 5 years	£2m 10 Years
AA	£3m 4 Years	£5m 5 Years	£5m 5 Years	£2m 4 years	£2m 5 Years
AA-	£3m 3 Years	£5m 4 Years	£5m 4 Years	£2m 3 years	£2m 4 Years
A+	£3m 2 Years	£5m 3 Years	£5m 3 Years	£2m 2 years	£2m 3 Years
A	£3m 13 Months	£4m 2 Years	£5m 2 Years	£2m 13 Months	£2m 2 Years
A-	£3m 6 Months	£4m 13 Months	£4m 13 Months	£1m 6 Months	£1m 13 Months
BBB+	£1m 100 Days	£1.5m 6 Months	£1.5m 6 Months	£1m 100 Days	£1m 6 Months
None	n/a	n/a	£5m* 5 Years	£0.1m 5 Years	£1m 100 Days

Pooled Funds (Money Market Funds) – Low Volatility Net Asset Value (LVNAV) or Government Constant Net Asset Value (CNAV) Funds £5m Per Fund but not more than 50% of overall balances in aggregate. Where a right off set-off is documented and backed by a Legal Opinion in the Authority's name, only the net position will qualify as exposure and a maximum term of 5 years will apply.

*Other Local Authorities – per Authority

Key Messages:

The primary principle governing the Council's investment criteria is the security of its investments.

It maintains a policy covering the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and then monitoring their security.

The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

The Council's investment priorities remain security first, liquidity second, then return.

Investment Strategy (contd.)

Risk Appetite Statement

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

Credit Rating: Credit rating information is supplied by Link Treasury Services, our treasury advisors, on all active counterparties that comply with the criteria in Table 2. Investment limits are set by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard & Poor's. However, investment decisions are never made solely based on credit ratings, and other relevant factors including external advice will be considered.

Further operational market information will therefore 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), share price information etc will be applied to compare the relative security of differing investment counterparties.

Banks Unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. If the Authority's current account bank were to be rated BBB' unsecured balances with that bank will be minimised in both monetary size and time invested.

Banks Secured: Covered bonds, reverse repurchase agreements (Repo) and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Repo/Reverse Repo is accepted as a form of securitised lending but should be based on the GMRA 2000 or GMRA 2011 (Global Master Repo Agreement). Should the counterparty not meet our senior unsecured rating then a 102% collateralisation would be required. The acceptable collateral is as follows:

- Index linked Gilts
- Conventional Gilts
- UK Treasury bills
- Delivery By Value (DBV)
- Corporate bonds

Key Messages:

Not all these options suit our immediate requirements but in the current political environment there is a need to retain some flexibility and we continue to evaluate suitability in conjunction with our advisors.

Some options require the Authority to be classed as a 'Professional' counterparty under MiFID II to be able to access them and we have worked with counterparties to ensure relevant access is maintained.

Accounting rules mean that certain financial instruments need to be valued at year end and paper gains/losses at the balance sheet date are charged to the income and expenditure account. Such instruments do not form a material part of our Strategy, however.

Investment Strategy (contd.)

Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Some secured bank investments include the option for the issuer to extend the maturity date (most Covered Floating Rate Notes operate in this fashion). When choosing such investments, the Authority will apply Non-Specified Investment criteria as if the Bond were to run to its final allowable maturity date. (See P22 for more detail)

Government: Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is an insignificant risk of insolvency. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.

Corporates: Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool to spread the risk widely.

Registered Providers: Loans to, and bonds issued by, guaranteed by, or secured on the assets of Registered Providers of Social Housing (Housing Associations). These bodies are tightly regulated by and, as providers of public services, retain the likelihood of receiving government support if needed.

Pooled Funds: These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day/2-day liquidity and very low volatility (LVNAV funds) may be used as an alternative to instant access bank accounts. Pooled funds whose value changes with market prices and/or have a notice period could be used for longer investment periods. Bond, equity and property funds can offer enhanced returns over the longer term but are more volatile in the short term.
These allow diversification into asset classes other than cash without the need to own and manage the underlying investments. Because Property funds have no defined maturity date and can be deemed capital expenditure, the Authority will seek guidance on the status of any fund it may consider using. The performance and continued suitability of any Fund will be monitored regularly.

Key Messages:

Environmental, Social and Governance ("ESG") considerations are important considerations when selecting counterparties however Security of public funds, followed by Liquidity and then return remain our primary drivers in line with CIPFA Guidance.

Investment Strategy (contd.)

ESG Policy –Treasury focuses on managing all categories of risk that may impact, first and foremost, the security of any given investment product. From that perspective Environmental, Social and Governance (ESG) considerations are about understanding what ESG risks a Counterparty is exposed to and what they may mean for the Authority's risk in choosing to make a particular investment.

In line with the Authority's declaration of a Climate Emergency, we will aim to assess and monitor Environmental, Social and Governance factors when selecting new investment options.

Specific assessment is however somewhat restricted by the fact that, at the time of writing, there is no consistent rating framework to measure and benchmark specific counterparty ESG metrics. The UK and EU have announced their intentions to introduce regulation for ESG ratings providers, which should greatly aid assessment of the associated and relevant risks Counterparties present.

Until this assurance data gap is fully resolved, our Policy is as follows:-

- We continue to prioritise Security, Liquidity and Yield (in that order) as required by the Code of Practice. ESG will be a contributory factor in any decision insofar as its dynamics impact those primary considerations.
- As large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change and other ESG considerations are rightly an increasingly important and heavily scrutinised part of their overall business.
- Recognising this, the Ratings Agencies existing headline ratings on our Counterparties now incorporate ESG risk assessments alongside more traditional financial risk metrics and so provide both a holistic risk measure and a proxy for ESG 'scoring' in the absence of anything more robust.
- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification.
- The Council does not have any identified long-term surplus balances with which to consider specific 'impact' or 'sustainable' investments, so Supranational counterparties who offer access to high-quality (typically AAA-rated) ESG exposure will continue to proportionately form part of our investment portfolio where Bonds matching our liquidity requirement can be sourced.

Key Messages:

The Council undertakes its own active horizon-scanning of global and national economic data and trends. This work is supported by advice and reporting from our Advisors, Link Asset Services.

Proactive measures will be taken to reduce risk in the light of specific adverse data or on notification from our Advisors.

Rates are likely to remain elevated, but balances will be kept to a minimum practical level to avoid cost of carry.

The Authority will ensure it has sufficient liquidity across its investment portfolio and a minimum cash balance of £10m will be maintained.

All investments will be denominated in Sterling.

Investment Strategy (contd.)

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

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

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

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

Given our Strategy of minimising balances and maintaining short-duration average liquidity the Council will use The Sterling Overnight Index Average, abbreviated as SONIA, uncompounded as an investment benchmark to assess the performance of its investment portfolio.

Investment returns expectations.
The current forecast shown on Page 8, includes a forecast for potential decreases in Bank Rate in 2024 as inflationary pressures subside. Should inflation remain stubbornly above the Bank of England's target of 2% then rates may well not reduce and could even rise further.

Our Investment average return forecasts for financial year ends (March) are:

- 2024/25 3.50%
- 2025/26 2.75%
- 2026/27 2.50%

Key Messages:

For ease of operation investments are split into two categories.

Specified Investments are lower risk (through counterparty credit and/or duration) and can be made by the Authority's dealers under the TMSS without further reference.

Non-Specified Investments are still approved by the TMSS but, due their intrinsic higher risk, require the prior agreement of the S151 Officer before they can be placed.

Though currently unlikely, should a negative rate environment materialise this will not impact our desire to prioritise Security and Liquidity over Yield. Therefore, negative returns will be recorded as interest 'cost' with the principal sum remaining intact.

Investment Strategy (contd.)

When deteriorating financial market conditions rapidly affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings in real time, but can be seen in other market metrics. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent to which these restrictions are applied will be determined by prevailing financial market conditions. This will cause a reduction in the level of investment income earned but will protect the principal sum invested.

Negative investment rates: During the Covid-19 pandemic, market 'flight to safety' (among other factors) brought about negative returns on some investment products. At the time, bank systems limitations meant negative rates couldn't be applied to all depositors. However, banks have since confirmed to the Bank of England that should similar market conditions present themselves again in future they do now have the capability to introduce negative rates on customers deposits. Given the inflationary factors being seen post-Covid and the associated rate increases in response, negative returns are now unlikely in the short-term. Should a negative rate environment materialise in the future however, we will continue to prioritise Security and Liquidity over Yield. Therefore, negative returns will be taken as interest 'cost' with the principal sum remaining intact provided there is no related Credit Event.

This authority has defined the list of types of investment instruments that the treasury management team are authorised to use.

- **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year (366 days).

The Authority defines "high credit quality" organisations and securities as those having a credit rating of A- or higher that are domiciled in the UK or a foreign country with a sovereign rating of AA+ or higher. For money market funds and other pooled funds "high credit quality" is defined as those having a credit rating of A- or higher.

- **Non-specified investments** are those of lesser credit quality, or for periods of more than one year, and, as a result, are more complex instruments which therefore require greater consideration by the S151 Officer before being authorised for use.

Key Messages:

Even with the limits, systems and in-house and external knowledge we have in place, no treasury activity is without risk.

We therefore set counterparty limits with a link to the authority's reserves, so that no specific loss event would be catastrophic enough to jeopardise the operation of the Authority itself.

Limit for Long-Term Investments are unchanged for 2024/25. Although these limits were, once again, un-utilised during 2023/24 they are retained to allow flexibility for placing offset deposits as part of a LOBO risk mitigation transaction known as 'Defeasement' should an opportunity present itself.

Investment Strategy (contd.)

Non-specified Investments (contd): Any investment not meeting the definition of a specified investment is classed as non-specified. Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, groups and sectors. The Council has determined that it will limit the maximum total exposure to non-specified investments as follows:-

Table 3: Non-Specified Investment Limits (Unchanged)

	Cash limit
Total long-term investments	£21m*
Total investments without credit ratings or rated below A- (excluding other Local Authorities)	£1.5m
Total investments (except pooled funds) with institutions domiciled in foreign countries rated below AA+	£1.5m
Total non-specified investments	£24m

*The Council has used a significant amount of internal borrowing over the last decade to fund its Capital Programme. This has created a capacity for external borrowing within current limits and Prudential Indicators. With current spending envelope challenges it makes sense for the Authority to look at how externalising this borrowing might be used to generate fiscally-derived revenue savings. Any planned use of long-term investments in this way would be subject to a sound business case and usual governance oversight (See Commercial Plan and Capital Strategy for details)

Investment Limits: The Authority's revenue reserves available to cover investment losses are forecast to be £11.1 million on 31st March 2024. In order that no more than half of available Reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits are also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Key Messages:

In addition to limits on individual counterparties the Authority also operates within a number of category-based limits to promote diversification of risk.

Investment Strategy (contd.)

Table 4: Investment Limits (Unchanged)

	Cash limit
For durations less than 366 days in any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£5m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a Tri-party Agent/broker's nominee account	£25m per broker
Foreign countries (Minimum Sovereign rating AA-)	£5m per country
Registered Providers	£2m in total
Unsecured investments with Building Societies	£2m in total
Loans to unrated corporates	£1m in total
Money Market Funds	50% of overall balances

Liquidity Management: The Authority uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecasts.

IFRS 9: As a result of the change in accounting standards for under IFRS 9, this authority 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. MHCLG (now DLUHC) enacted a statutory over-ride from 1.4.18 for a five-year period until 31.3.23 for the adoption of IFRS 9 by Local Authorities. This was subsequently extended to 31.3.2025. The override allows any unrealised capital gains or losses arising from qualifying investments to be held on the balance sheet until 31.3.25: and was intended to allow authorities to initiate an orderly withdrawal of funds if required. In addition, IFRS9 impacts the write-down in the valuation of impaired loans. NELC has no investments or loans that would require different accounting treatment with or without the override.

Key Messages:

A series of targets (both voluntary and centrally required) are used to facilitate budget evaluation and performance measurement.

These targets are generally above the minimum levels set elsewhere in the strategy and are reported on twice yearly.

Given the rises in rates since 2022 we anticipate utilising short-term (<1 year) borrowing to meet our need until the peak in the rate cycle becomes clear to the market and longer-term rates begin to factor in a looser rate environment.

This could be before the official bank rate starts to fall, or even before its actual peak, so close monitoring with the support of our Advisors will be maintained.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

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

	Target
Portfolio average Credit Rating	A

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one-week period, without additional borrowing.

	Target
Total cash available within 1 week.	£10m

Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments. All borrowing due to mature within 12 months is classed as variable, as renewal will be subject to any short-term movement in rates.

	2022/23	2023/24	2025/26	2026/27
Upper limit on variable interest rate exposure	£90m	£90m	£90m	£90m

Given the rises in rates seen in 2023 we plan to continue using short-term borrowing to meet our need rates are past their peak and longer-term rates begin to factor in a lower rate environment. This could be before the official bank rate starts to fall, so close monitoring with the support of our Advisors will be maintained.

Key Messages:

Maintaining a spread of maturities across our borrowing portfolio can help manage cash flow and re-finance risk (the risk that replacement loans are not available or are at higher rates than the maturing loans).

Our investment portfolio does not typically allow longer term investments and in the ordinary course of business deposits over 366 days wouldn't be entertained.

However, one option for redressing our LOBO loan risk requires a long-term matching deposit (funded by new borrowing) and so a limit is included here to cover that transaction should it be deemed of benefit.

Treasury Management Indicators (contd.)

Upper limits on fixed interest rate exposure.

	2023/24	2024/25	2025/26	2026/27
Upper Limit on fixed interest rate exposure (£m)	290	300	310	320

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.

	Upper	Lower
Under 12 months	70%	10%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	30%	0%
10 years and within 20 years	30%	0%
20 years and within 30 years	50%	0%
30 years and more	75%	10%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Note: LOBO option dates are included as potential repayment dates, but variable rate borrowing is excluded.

Principal Sums Invested for Periods Longer than 366 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

	2022/23	2023/24	2024/25	2025/26
Limit on principal invested beyond year end	£21m	£21m	£21m	£21m
Current investments as at 31.12.23 in excess of 1 year	0	0	0	0

Key Messages:

Link Asset Services were appointed as the Authority's Treasury Advisor from January 2021. The contract runs until the end of 2025.

Derivative contracts will not be entered into until Council have confirmed that it has the legal power to do so, and the risks are understood.

The Council recognises that responsibility for treasury management decisions remains with the organisation itself. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

Other Items

There are additional items that the Authority is obliged by CIPFA or DLUHC to include in its Treasury Management Strategy for approval by Full Council.

Policy on Use of Financial Derivatives:
The Authority believes that the legal framework around use of financial derivatives by UK Local Authorities is unconfirmed and that relevant Statute potentially offers asymmetric protection to counterparties.

The Council will therefore not enter into standalone financial derivatives until the legal position becomes clearer, either though further Statute or via Case Law.

Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the benefits and risks they present will be managed in line with the overall treasury risk management strategy.

Treasury management consultants
The Council recognises that there is value in employing external providers of treasury management services to access specialist skills and resources. The Council uses Link Treasury Services, as its external treasury management advisors. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly documented and subjected to regular review.

The Council always recognises that responsibility for treasury management decisions rests with the organisation and will ensure that undue reliance is not placed upon our external providers.

Key Messages:

New borrowing for the financing of capital projects means additional cost for the Authority through higher interest payments.

An appropriate budget for this added cost is incorporated in the Medium-Term Financial Plan 2024/25 – 2026/27.

Our main investment options continue to prioritise Security and Liquidity. This may result in lower returns, but the Authority's primary concern is to protect capital and ensure funds are available to cover payments as they fall due.

Members of the Audit & Governance Committee receive training annually prior to reviewing the Strategy for the following year.

Other Items (contd)

Investment of Money Borrowed in Advance of Need: The Authority may, from time to time, borrow in advance of need, where this is anticipated to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the Authority is aware that it will be exposed to the risk of loss on the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Authority's overall management of its treasury risks.

The Council will not borrow more than or in advance of its needs purely 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 Council can ensure the security of such funds.

The total amount borrowed will not exceed the authorised borrowing limit of £300 million. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link loans with specific items of expenditure.

Financial Implications

The budget for investment income in 2024/25 is £0.428 million. The budget for debt interest paid in 2024/25 is £8.403 million, based on an average debt portfolio of £195 million at an average interest rate of 4.30%. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Benchmarking

This Council will use SONIA uncompounded as an investment benchmark to assess the performance of its investment portfolio and will also evaluate its performance regularly through benchmarking reports provided by both our Treasury Management System (Treasury Live) and our Advisors. Updates will be provided to members at the half-year and outturn.

Training: The CIPFA Code requires that the S151 Officer ensures members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Members of the Audit and Governance Committee are provided with timely training prior to reviewing the Strategy each year. This training is provided by our Advisors under the terms of our contract and a record of attendance is maintained by Democratic Services. The qualification requirements and training needs of treasury management officers are periodically reviewed.

Key Messages:

In arriving at its annual Treasury Management Strategy, the Authority considers the direct relationship between risk and reward on both sides of its balance sheet.

Other Options Considered

The DLUHC Guidance and the CIPFA Code do not prescribe a treasury management strategy for local authorities to adopt. The S151 Officer, having consulted the Portfolio Holder, believes that the proposed strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income may be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income may be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain. There will be an impact on Capital spend funded by borrowing which may have generated additional income itself (through NNDR or rental income etc)

Key Messages:

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice.

To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Prudential Indicators 2024/25

Treasury Management Indicators

To demonstrate that the Authority has fulfilled the objectives it lays out, the Prudential Code requires the following indicators to be set each year and then be reported on quarterly.

Estimates of Capital Expenditure: The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Expenditure and Financing	2023/24 Revised £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Total Expenditure	67.2	125.5	40.2	22.1
Capital Receipts	9.0	12.0	2.0	2.0
Government Grants	33.5	71.7	17.0	0.1
Ring-fenced External Funding	1.9	0.7	0.3	0.0
Borrowing	22.8	41.0	20.9	20.0
Total Financing	67.2	125.5	40.2	22.1

- Figures may not agree exactly to totals due to rounding

Estimates of Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, 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 asset's life, and so charges the economic consumption of capital assets as they are used. (Annex 2)

Capital Financing Requirement	31.03.23 Actual £m	31.03.24 Estimate £m	31.03.25 Estimate £m	31.03.26 Estimate £m	31.03.27 Estimate £m
Total CFR	203.1	218.0	246.5	258.0	267.9

Key Messages:

Although net indebtedness is forecast to increase over the next 3 years. Total debt is expected to remain below the CFR, the Liability Benchmark and both the Operational and Authorised Borrowing Boundaries during the forecast period.

The table shows a peak change in debt levels of £59.9m over the forecast period during which we also have £42.7m of debt maturities. Total new borrowing required will therefore be around £102.6m (subject to spend being in line with forecast)

As borrowing arrangements typically form very long-term commitments the ability, once drawn, to generate revenue savings from this portion of our spend is very limited. This is an important consideration in all borrowing decisions.

Prudential Indicators (contd.)

Gross Debt and the Capital Financing Requirement: In order to ensure that over the medium-term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

£m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt					
Debt at 1 April	154.4	169.6	179.6	208.1	219.5
Actual/Expected change in Debt	15.2	10.0	28.5	10.4	10.0
Other long-term liabilities (OLTL)	0.0	0.0	0.0	0.0	0.0
Expected change in OLTL	0.0	0.0	0.0	0.0	0.0
Actual gross debt at 31 March	169.6	179.6	212.6	223.9	229.5
Capital Financing Requirement	203.1	218.0	246.5	258.0	267.9
Under / (over) borrowing	33.5	38.4	33.9	34.1	38.4

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income. As borrowing arrangements typically form very long-term commitments, once drawn the ability to generate savings from this portion of Council spend is very limited.

Ratio of Financing Costs to Net Revenue Stream	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund	6.92%	8.26%	7.84%	8.96%	9.66%

Key Messages:

A minimum cash balance of £10m will be maintained to ensure forecast liquidity needs are met.

The gap between the red and black lines in the Liability Benchmark chart shown here depicts the additional borrowing need the Authority currently projects – a peak requirement of £102.6m new loans by the end of 2026-27 – including replacement of maturing debt.

Before new long-term borrowing is entered into the Authority will have regard to the Liability Benchmark and its underlying assumptions will be assessed for their continuing prudency, with revisions made where necessary.

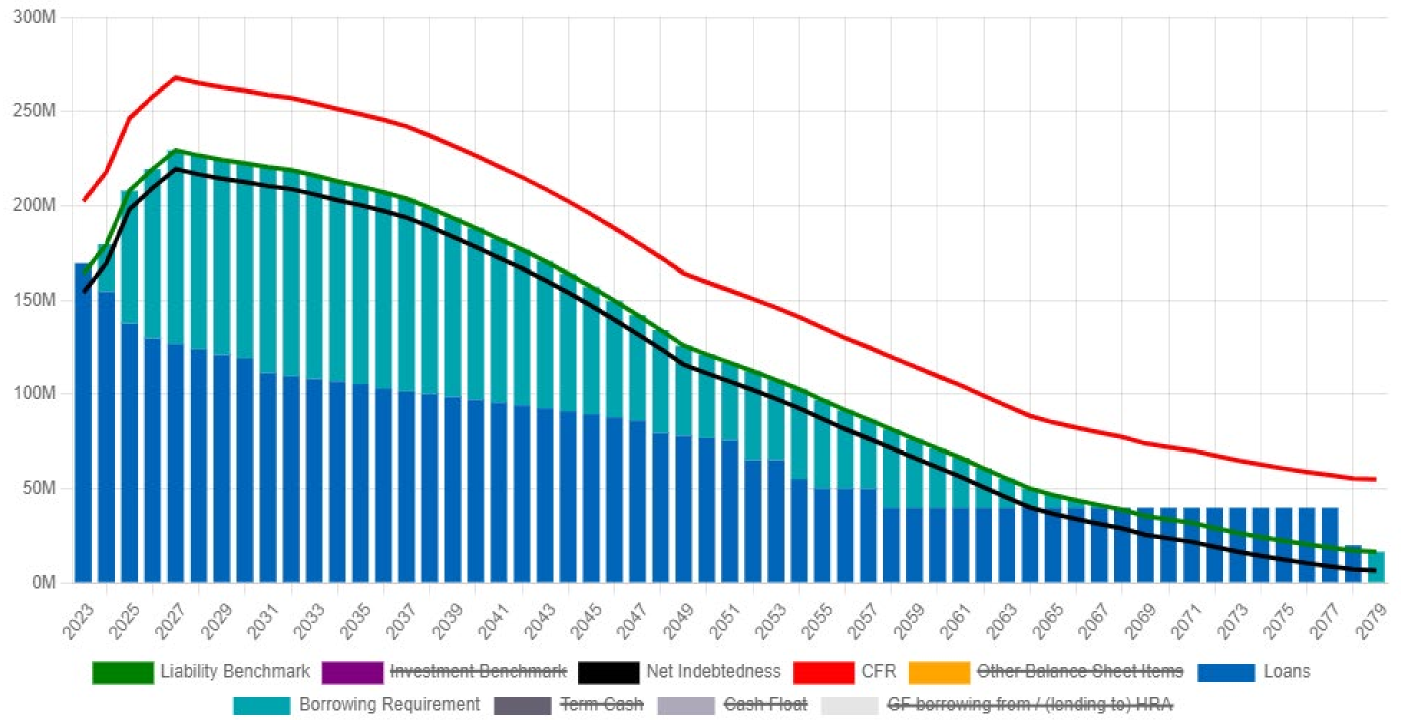
Prudential Indicators (The Liability Benchmark.)

CIPFA require Authorities to have regard to the **Liability Benchmark** tool as a formal Prudential Indicator.

The Benchmark forecasts our need to borrow over a 50-year period. This helps decision making when it comes to the size and term of borrowing to be chosen. The aim being to mitigate cost of carry revenue implications and avoid the trap of defaulting to ultra-long tenors, just because the yield curve tail slopes downward. The curve below represents the expected level of our borrowing and so in the ordinary course of business should closely mirror the Operational Boundary (see p33).

The benchmark assumes:

- future capital expenditure beyond the current programme funded by borrowing of c£5m a year on average
- minimum revenue provision on new capital expenditure based on an annuity profile of c30 years average
- No changes to Reserves beyond the current MTFP period (3 years)



Key Messages:

Borrowing remains below control levels as a result of continued internal borrowing support for the Capital Programme.

Capital Prudential Indicators are included here for formal approval by Full Council

Changes to accounting rules for Operating leases from April 2024 will require additional debt obligations to be reflected in our prudential Indicators and limits have been increased in readiness for this change.

Limit levels do not commit the Authority to any increase in actual borrowing.

Other Prudential Indicators

Authorised Limit for External Debt: This is a key prudential indicator represents a control on the maximum level of borrowing. This is a legal limit beyond which external debt is prohibited and can only be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer term.

The Authorised Limit is a statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Council is asked to approve the following Authorised and Operational limits:

Authorised Limit	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Borrowing	250	260	270	280
Other long-term liabilities	40	40	40	40
Total Debt	290	300	310	320

Operational Boundary for External Debt: This is the limit beyond which external debt is not normally expected to exceed. (i.e. prudent but not worst case). It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases and other liabilities that are not traditional loans but still form part of the Authority's debt.

Operational Limit	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Borrowing	220	230	240	250
Other long-term liabilities	30	30	30	30
Total Debt	250	260	270	280

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition in February 2023.

Key Messages:

The Council has funded its historic Capital Programme through borrowing. The Council received additional support in addition to taking its own steps to ensure liquidity at the onset of the Covid pandemic.

This has resulted in a net indebtedness position of £128.5m as at the period end.

This is a decrease of £2m from end 2022, which is reflected in the current reduced investments balance.

Annex 1- Existing Investment & Debt Portfolio Position

	31.12.2023 Actual Portfolio £m	31.12.2023 Average Rate %
External Borrowing:		
PWLB – Fixed Rate	**75.8**	**3.54**
PWLB – Variable Rate	**0.0**	**N/A**
Local Authorities	**25.1**	**4.73**
Market Loans	**43.0**	**3.09**
LOBO Loans	**21.0**	**4.40**
Total Gross External Debt	**164.9**	**3.71**
Investments:		
Managed in-house		
Short-term investments	36.4	5.20
Long-term investments	0.0	N/A
Total Investments	36.4	
Net Debt	128.5	

Key Messages:

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

The broad aim of the Minimum Revenue Provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

Annex 2 – Annual Minimum Revenue Provision Statement

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Any remaining balance is known as the Capital Financing Requirement (CFR). Although there has been no statutory minimum since 2008, the Authority is required to have regard to the Department for Levelling Up, Housing and Communities' Guidance on Minimum Revenue Provision (the DLUHC Guidance), most recently issued in 2017.

The DLUHC Guidance requires the Authority to approve an Annual MRP Statement each year and also recommends several options for calculating a prudent amount of MRP. **The following statement is the Council's MRP policy** that incorporates options recommended in the Guidance as well as prudent approaches determined locally.

The MRP on the balance of supported debt as at 1st April 2018 is amortised on a straight-line basis at 2% per annum. For unsupported CFR incurred after 31st March 2008, MRP is charged over the expected useful life of the relevant assets, recognising the principal repayment on an annuity interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational.

MRP on purchases of (or predominantly of) freehold land will be charged over a maximum period of 50 years, unless it has structures on it with a life of more than 50 years. In which case, the land will be charged over the remaining life of the building/structures themselves. Similarly, capital expenditure on the purchase or improvement of investment property, which is not normally subject to depreciation, will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 25 years.

For assets acquired by finance leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability. The Council can provide capital loans as part of its capital investment programme. MRP on loans secured against assets will be charged over the life of those assets. MRP on unsecured loans will be charged over the period of the loans.

MRP Overpayments – DLUHC MRP Guidance allows any charges made over the statutory MRP (Voluntary Revenue Provision/overpayments) to be reclaimed in later years if deemed necessary or prudent. The Council's cumulative overpayment (VRP) at 1 April 2023 was £3.477m, It is not proposed that any overpayments will be made in 2024/25.

CFR write down – following the sale of assets in 2023/24, the Council obtained significant capital receipts and plans to use £5.5m of this to write down the CFR, which will reduce the MRP charge for 2024/25 and future years. This is factored into the Council's Medium Term Financial Plan 2024/25 – 2026/27.

Key Messages:

Should the Authority find it necessary to agree with DHLUC a capitalisation directive, which allows exceptional use of borrowing for financing unfunded revenue pressures, any borrowing taken under such an arrangement would be sufficient to cover repayment over 20 years.

Annual Minimum Revenue Provision Statement - Continued

Should the Authority find it necessary to agree with DLUHC a capitalisation directive, which allows exceptional use of borrowing for financing unfunded revenue pressures, the following additional MRP Policy would apply to any borrowing taken under such an arrangement.

- The Council shall charge annual Minimum Revenue Provision using the asset life method with a proxy ‘asset life’ of no more than 20 years, in accordance with the Department’s Statutory Guidance on Minimum Revenue Provision issued by the Secretary of State under section 21(1A) of the Local Government Act 2003.