Report to:

Overview and Scrutiny Management Committee – 19 September 2025
Cabinet – 22 September 2025

Wards All

Treasury Management – Annual Review Report 2024/25

Report of the Director of Finance and Transformation (S151 Officer)

This item is not exempt
Therefore exempt reasons are not applicable

This is a Non-Key Decision

1. Purpose of the Report and Summary

1.1 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and providing the actual prudential and treasury indicators for 2024/25. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 The scope and content of this report are in line with the requirements of the Treasury Management Code of Practice and the Prudential Code for Capital Finance, and therefore this report is more detailed than standard committee reports.

1.3 This report is accompanied by a **Glossary of Terms** as shown at Appendix 5.

1.4 During 2024/25 the reporting requirements were that Members should receive the following reports:

- An annual treasury strategy in advance of the year (Council 22/2/24).
- A mid-year treasury update report (Cabinet 25/11/24).
- An annual report following the year describing the activity compared to the strategy (this report).

1.5 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn

position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

1.6 The Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Overview and Scrutiny Management Committee before they were reported to full Council or Cabinet. Member training on treasury management issues was last undertaken on 11th October 2023 in order to support Members' scrutiny role.

2. Executive Summary

2.1 During 2024/25 the Council complied with its legislative and regulatory requirements and guidelines of the Prudential Code as laid down in the approved Treasury Management Strategy and Policy Statement, in terms of safeguarding the Council's investments whilst ensuring they remain accessible, liquid and generate a return as required to support the Council's Medium Term Financial Plan.

2.2 The overall return on investments, including dividends, equated to £1.907m which was £1.057m favourable variance against the budgeted level for 2024/25 of £0.850m.

2.3 The table below provides a summary of the investment activity for the year.

Interest/Dividend Receivable Summary	2024/25 Estimate £000 / %	2024/25 Actual £000 / %	Variance £000 / %
Data			
Internal Rate of Interest	4.00	4.94	0.94
Average overall Cash Balance	75,000	54,664	-20,336
HRA Cash Balance	65,000	29,693	-35,307
Summary			
Interest on Investments	3,000	2,706	-294
HRA adjustment	-2,600	-1,470	1,130
Other adjustments (Note 1)	50	-189	-239
Dividend Received	400	860	460
Total	**850**	**1,907**	**1,057**

Note 1 – Other adjustments includes interest on loans to third parties and interest paid to third parties for balances held by the Council on their behalf, i.e. Charities and certain grants where the Council is the Accountable Body and the terms and conditions of the grant require interest to be added to balances held.

2.4 Officers are monitoring forecasts very closely and continue to liaise with the Council's Treasury advisors, MUFG Corporate Markets, in terms of ongoing borrowing assumptions, debt rescheduling and investment opportunities.

2.5 The following tables now reflect the impact of the new leasing accounting standard (IFRS16) from 1 April 2024, where off balance sheet leased assets have now been brought onto the balance sheet. Specifically, IFRS16 has impacted on the following treasury management and prudential indicators:

- Authorised Limit: as this includes borrowing and long-term liabilities (the lease liability)
- Operational Boundary: as this includes borrowing and long-term liabilities (the lease liability)
- Actual external debt at year end: as this includes borrowing and long-term liabilities (the lease liability)
- Capital expenditure: will need to include the right of use asset additions
- Capital Financing Requirement: includes the right of use asset addition less MRP
- Gross debt and the Capital Financing Requirement: gross borrowing will include long-term liabilities (the lease liability), and the CFR will include the right of use asset additions less MRP
- Financing costs to net revenue stream: interest payable element of the lease rental and MRP will be impacted

2.6 The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows (other prudential and treasury indicators can be found at Appendix 1):

Prudential and treasury indicators	2023/24 Actual £000	2024/25 Estimate £000	2024/25 Actual £000
Capital expenditure	151,693	171,152	180,138
IFRS16 Impact	-	-	44,941
Total	151,693	171,152	225,079
Capital Financing Requirement:			
• Non-HRA	772,755	808,019	837,187
• HRA	204,249	204,349	211,336
• Total	977,004	1,012,368	1,048,523
Gross borrowing	**870,556**	**918,113**	**989,381**
External debt	**870,556**	**918,113**	**989,381**
Investments	-	-	-
• Longer than 1 year			
• Under 1 year	14,972	50,000	27,346
• Total	14,972	50,000	27,346
Net borrowing	**855,584**	**868,113**	**962,035**

2.7 The Director of Finance and Transformation also confirms that borrowing was only undertaken for capital purposes and the statutory borrowing limit (the authorised limit) was not breached.

2.8 In conclusion, the investment returns for 2024/25 have performed well against the benchmark target for the year. The security of funds is maintained at all times, and performance and operation has continued to remain within the approved Prudential Indicator limits.

3. Recommendations

3.1 Members note the report, the investment returns achieved during 2024/25 and performance against the prudential and treasury indicators as stated at Appendix 1.

3.2 Members confirm that they remain content with the approved investment strategy for 2025/26 as shown at Appendices 2 to 4.

4. Reasons for Recommendations

4.1 As required by the Treasury Management Strategy Statement 2024/25, approved by Council in February 2024, delegation for considering the Annual Treasury Report is to the Cabinet Executive Committee.

5. Impact on other Executive Committees (including Area Committees)

5.1 This report is an information only report with no impact on other Executive Committees.

6. Background

6.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2009 was adopted by this Council and the Council fully complies with its requirements.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead, a midyear review report (as a minimum) and an annual review report of the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specified named body.

Treasury management in this context is defined as:

> *"The management of the local authority's 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."*

6.2 This report provides a commentary on the Council's Treasury Management activity and Prudential Indicators for the financial year ending 31 March 2025.

6.3 In particular, this report summarises:

- capital activity during the year;
- impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- reporting of the actual prudential and treasury indicators;
- overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances
- summary of interest rate movements in the year;
- detailed debt activity; and
- detailed investment activity.

7. Issues for Consideration

7.1 Reviewing the treasury activities of the Council for 2024/25 compared to the Treasury Management Strategy.

8. The Council's Capital Expenditure and Financing 2024/25

8.1 The Council undertakes capital expenditure on long term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

8.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

General Fund	2023/24 Actual £'000	2024/25 Estimate £'000	2024/25 Actual £'000
Total capital expenditure			
General Capex	97,622	103,368	107,291
IFRS16 Impact	-	-	44,941
Financed in Year	48,441	62,351	76,227
Unfinanced capital expenditure			
Borrowing	49,181	41,017	31,064
Leases (IFRS 16)	-	-	44,941

HRA	2023/24 Actual £'000	2024/25 Estimate £'000	2024/25 Actual £'000
Total capital expenditure	54,071	67,784	72,847
Financed in Year	51,158	59,668	57,744
Unfinanced capital expenditure	**2,913**	**8,116**	**15,103**

9. The Council's Overall Borrowing Need

9.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the 2024/25 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

9.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets), or utilising temporary cash resources within the Council.

9.3 Reducing the CFR – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from

the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

9.4 The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

9.5 The Council's 2024/25 MRP Policy (as required by DLUHC Guidance) was approved by Council as part of the Treasury Management Strategy Report for 2024/25 in February 2024.

9.6 The Council's CFR for the year is shown below, and represents a key prudential indicator. This includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need, the CFR.

CFR: General Fund	31 March 2024 Actual £000	31 March 2025 Estimate £000	31 March 2025 Actual £000
Opening balance	735,357	772,755	772,755
Add unfinanced capital expenditure (as above):			
Borrowing	49,181	41,017	31,064
Leases (IFRS 16)	-	-	44,941
Less MRP/VRP	10,689	4,177	4,177
Less PFI & Finance Lease repayments	1,094	1,576	7,396
Closing balance	**772,755**	**808,019**	**837,187**
CFR: HRA	31 March 2024 Actual £000	31 March 2025 Estimate £000	31 March 2025 Actual £000
Opening balance	250,527	204,249	204,249
Add unfinanced capital expenditure (as above)	2,913	8,116	15,103
Less VRP	49,191	8,016	8,016
Less PFI & Finance Lease repayments	-	-	-
Closing balance	**204,249**	**204,349**	**211,336**

9.7 The borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

9.8 Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only be for a capital purpose, the Council should ensure that it's gross external borrowing does not, except in the short term, exceed the CFR for 2024/25 plus the estimates of any additional CFR from the current (2025/26) and the next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows some flexibility to borrow in advance of its immediate capital needs in 2024/25. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2024 Actual £'000	31 March 2025 Estimate £'000	31 March 2025 Actual £'000
Gross borrowing position:			
General Capex	702,675	751,808	773,758
PFI/Leases	167,881	166,305	215.623
Total	870,556	918,113	989,381
CFR	**977,004**	**1,012,368**	**1,048,523**

9.9 The authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2024/25 the Council has maintained gross borrowing within its authorised limit.

9.10 The operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

9.11 Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2024/25 £'000
Authorised limit	1,087,000
Maximum gross borrowing position	989,381
Operational boundary	989,000
Average gross borrowing position	908,877
Financing costs as a proportion of net revenue stream (General Fund)	5.07%

10. Treasury Position as at 31 March 2025

10.1 The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to

manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2024/25 the Council's treasury position was as follows:

	31 March 2024 Principal £'000	£'000	Rate/ Return %	31 March 2025 Principal £'000	£'000	Rate/ Return %
Fixed rate funding:						
-PWLB	574,675			563,758		
-Market	128,000	702,675		210,000	773,758	
Variable rate funding:						
-PWLB	-			-		
-Market	-	-		-	-	
Total		702,675	3.12%		773,758	3.38%
PFI & Finance Lease		167,881			215,623	
Total Debt		**870,556**			**989,381**	
CFR		**977,004**			**1,048,523**	
Over / (under) borrowing		**(106,448)**			**(59,142)**	
Investments:						
- in house		14,972			27,346	
- with managers		0			0	
Total Investments		**14,972**	**4.89%**		**27,346**	**4.94%**

10.2 The maturity structure of the debt portfolio was as follows (the table below excludes PFI and Finance Lease liabilities):

	31 March 2024 Actual £'000	31 March 2025 Actual £'000
Under 12 months	188,918	195,846
12 months and within 24 months	12,846	79,774
24 months and within 5 years	44,896	57,151
5 years and within 10 years	56,731	41,702
10 years and above	399,284	399,285
Total	**702,675**	**773,758**

10.3 The maturity structure of the investment portfolio was as follows:

	2023/24 Actual £'000	2024/25 Estimate £'000	2024/25 Actual £'000
Investments			
• Under 1 year	14,972	50,000	27,346
• Longer than 1 year	-	-	-

The exposure to fixed and variable rates was as follows (net borrowing position excluding PFI and Finance Leases):

	31 March 2024 Actual £'000	31 March 2025 Actual £'000
Fixed rate (principal)	702,675	773,758
Variable rate (principal)	-	-

11. The Strategy for 2024/25

11.1 During 2024/25, the Council maintained an under-borrowed position, (the table at section 10.1 above refers). This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs. The Council has sought to minimise the taking on of long-term borrowing at elevated levels (>4%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<1 years) as appropriate.

11.2 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short-term rates, then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

12. The Economy and Interest Rates Review

12.1 The following paragraphs are designed to impart a degree of knowledge around factors impacting on the treasury management function at the Council over the last financial year. This environment is constantly changing, no more so than in recent years. Any significant issues that arise between the report being written and the actual committee date will be reported verbally.

UK Economy.

12.2 UK inflation has proved somewhat stubborn throughout 2024/25. Having started the financial year at 2.3% y/y (April), the CPI measure of inflation briefly dipped to 1.7% y/y in September before picking up pace again in the latter months. The latest data shows CPI rising by 2.8% y/y (February), but there is a strong likelihood that figure will increase to at least 3.5% by the Autumn of 2025.

12.3 Against that backdrop, and the continued lack of progress in ending the Russian invasion of Ukraine, as well as the potentially negative implications for global growth as a consequence of the implementation of US tariff policies in April 2025, Bank Rate reductions have been limited. Bank Rate stands at 4.5% as at March 2025, despite the Office for Budget Responsibility reducing its 2025 GDP forecast for the UK economy to only 1% (previously 2% in October).

12.4 Moreover, borrowing has becoming increasingly expensive in 2024/25. Gilt yields rose significantly in the wake of the Chancellor's Autumn Statement, and the loosening of fiscal policy, and have remained elevated ever since, as dampened growth expectations and the minimal budget contingency (<£10bn) have stoked market fears that increased levels of borrowing will need to be funded during 2025.

12.5 The Bank rate remained unchanged at 4.5% in the March meeting by a vote of 8-1, but suggesting further reductions would be gradual. For information the current bank rate is now 4% as at August 2025.

13. Borrowing Rates in 2024/25

13.1 Interest rate forecasts initially suggested gradual reductions in short, medium and longer-term fixed borrowing rates during 2024/25. Bank Rate did peak at 5.25% as anticipated, but the initial expectation of significant rate reductions did not transpire, primarily because inflation concerns remained elevated. Forecasts were too optimistic from a rate reduction perspective, but more recently the forecasts, updated from November 2024 onwards, look more realistic.

13.2 At the start of April 2025, the market now expects Bank Rate to fall to 3.75% by the end of December 2025, pulling down the 5- and 10-year parts of the curve too.

13.3 This should provide an opportunity for greater certainty to be added to the debt portfolio, although a significant fall in inflation will be required to underpin any material movement lower in the longer part of the curve.

13.4 PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

13.5 However, since early 2022, yields have risen dramatically in all the major developed economies. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the Bank of England are being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

13.6 Gilt yields have been volatile through 2024/25. Indeed, the low point for the financial year for many periods was reached in September 2024. Thereafter, and especially following the Autumn Statement, PWLB Certainty rates have remained elevated at between c5% - 6% with the exception of the slightly cheaper shorter dates.

13.7 At the close of 31 March 2025, the 1-year PWLB Certainty rate was 4.82% whilst the 25-year rate was 5.98% and the 50-year rate was 5.67%.

13.8 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)
- HRA Borrowing rate is gilt plus 40 40bps (G+40bps)

13.9 There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves lower.

13.10 As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

PWLB BORROWING RATES 2024/25 for 1 to 50 years

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.77%	4.31%	4.52%	5.08%	4.88%
Date	26/02/2025	17/09/2024	17/09/2024	17/09/2024	17/09/2024
High	5.61%	5.34%	5.71%	6.18%	5.88%
Date	29/05/2024	13/01/2025	13/01/2025	13/01/2025	09/01/2025
Average	5.14%	4.86%	5.07%	5.56%	5.32%
Spread	0.84%	1.03%	1.19%	1.10%	1.00%

14. Borrowing Outturn for 2024/25

Treasury Borrowing

14.1 In order to minimise borrowing costs short term borrowing of £498m was taken during the year to finance temporary cash shortages for periods of up to 12 months, and to support both cash flow predictions for the year and short term capital expenditure. Of the short term borrowing taken, £178m remained outstanding as at 31st March 2025.

14.2 In addition borrowing of £32m was taken from the Local Authority market in the period of 1 to 5 years, and £50m of PWLB borrowing of over 1 year. This supplements the temporary borrowing position in light of higher long term borrowing rates.

14.3 Rescheduling – No debt rescheduling took place in 2024/25.

14.4 Repayment – during 2024/25 the Council repaid £448m of which £123m relates to temporary borrowing outstanding as the end of 2023/24.

14.5 The value of long-term debt at 31st March 2025 was £989m (incl. £216m re PFI/Finance Leases) compared to a capital financing requirement (CFR) at 31st March 2025 of £1,048m.

14.6 During 2024/25 the Council's average long-term borrowings were £736.232m (excl. PFI/Finance Leases) on which interest of £24.935m was paid at an average rate of 3.38%. This compares with average long-term borrowings of £692.855m in 2023/24 on which interest £21.647m was paid at an average rate of 3.12%.

15. Investment Rates 2024/25

15.1 While the Council has taken a prudent approach to investing surplus monies, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Global Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

15.2 The table below represents a summary of the investment rates available for the financial year.

FINANCIAL YEAR TO QUARTER ENDED 31/03/2025						
	Bank Rate	**SONIA**	**1 mth**	**3 mth**	**6 mth**	**12 mth**
High	5.25	5.20	5.21	5.20	5.17	5.08
High Date	02/04/2024	03/05/2024	27/06/2024	17/04/2024	31/05/2024	30/05/2024
Low	4.50	4.45	4.45	4.36	4.28	4.15
Low Date	06/02/2025	12/02/2025	04/03/2025	31/03/2025	31/03/2025	10/02/2025
Average	4.95	4.90	4.88	4.82	4.72	4.54
Spread	0.75	0.75	0.76	0.85	0.89	0.93

16. Investment Outturn for 2024/25

16.1 The Council's Investment Policy is governed by MHCLG investment guidance, which has been implemented in the Annual Investment Strategy approved by the Council on 22/02/2024. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

16.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

16.3 The Council's investments totalled £27.346m at 31st March 2025 (£14.972m at 31st March 2024), all of which is managed internally. Cash balances were managed at a lower level to avoid unnecessary borrowing at higher prevailing interest rates.

16.4 During 2024/25, the Council's investment policy was regularly reviewed to ensure the lending criteria provided the required level of security to reduce the Council's exposure to risk.

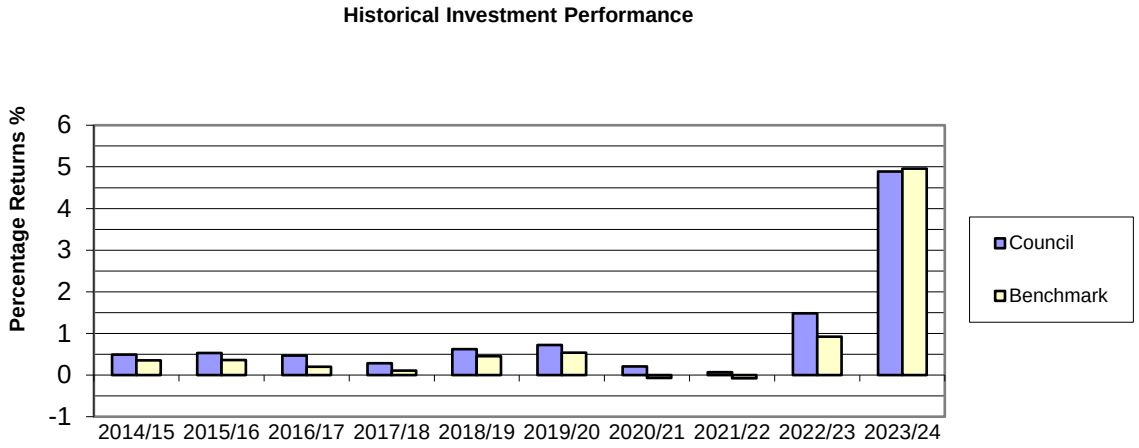
16.5 Any changes to the Council's lending criteria were also reflected in the 2025/26 Treasury Management Policy Statement approved by Council in February 2025. The Investment Strategy for 2025/26 is re-produced at Appendix 2 of this report for information.

Investment Performance 2024/25

16.6 In total the Council's investments generated gross interest of £2.706m in 2024/25 at an average rate of 4.94%. This sum is made up of working balances – short term cash resources required to fund Council everyday activity and expenditure on a rolling basis.

	Interest Earned	Rate of	Benchmark	Difference
	2024/25	Return	Return	
	£'000	%	%	%
Working Balances	2,706	4.94	5.09	0.15
Total Interest	**2,706**	**4.94**	**5.09**	**0.15**

16.7 The graph below shows the investment performance over recent years by the in-house team against the benchmark. The benchmark, which is the generally accepted industry benchmark, is the 365 days backward looking SONIA rate.



16.8 The internally managed funds, maintained at an average balance of £55m during the year, performed reasonably well in the current market, returning 4.95% (4.89% in 2023/24) compared to the benchmark of 5.08% which is the 365 days backward looking SONIA uncompounded rate.

16.9 The Council's cash balances comprise revenue and capital resources and cash flow monies.

16.10 Officers seek to manage proactively the Council's cash and seek returns in excess of the industry standard benchmarks, meeting regularly with representatives of MUFG Corporate Markets to provide advice as necessary. MUFG Corporate Markets have access to market data and are able to provide both advice on investment opportunities as well as an independent assessment of investment performance and they continue to support the Council's investment strategy.

17. Interest earned compared with budget

17.1 The Council's 2024/25 revenue budgets included net interest and dividends of £0.850m for the General Fund. The amount received during 2024/25 by the General Fund was £1.907m, a favourable variance of £1.057m or 124%. The principal factor behind the variance was due to the average cash balances of the HRA reducing therefore attracting a lower proportion of interest earned during the year.

18. Prudential Indicators

18.1 In line with the requirements of the Prudential Code, approved by Council on 22 February 2024, a range of Prudential Indicators for 2024/25 and future years (2025/26 PI's approved by Council on 27 February 2025) were approved, aimed at ensuring the affordability of capital plans and effective treasury management.

18.2 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix 1, with Indicators 1 to 4 relating to the affordability of capital plans and indicators 5 to 9 concerned with the control of treasury management activities.

18.2.1 Affordability of Capital Plans

Estimated capital expenditure and related revenue costs have been revised to reflect the Capital Programme as agreed by Council on the 27 February 2025 and included in the Medium Term Financial Plan 2025/26 to 2027/28. The approved programme was the culmination of an exercise by officers to align the programme to the Councils priorities bearing in mind the limited availability of capital funds.

18.2.2 Treasury Management

External debt was £97m below the approved authorised limit at the end of the financial year 2024/25 and the maturity structure for both borrowing and investments remain within the approved upper and lower limits. Any further borrowing taken, or any debt rescheduling undertaken by the Council in future will be undertaken in light of the maturing structure profile and the profile of prevailing interest rates on offer from the Public Works Loans Board or from market institutions.

19. Options and Risk Assessment

19.1 Although the content and criteria stated in the Treasury Management Strategy are statutory requirements, there are some options available to the Council in how this is managed, in terms of the following:

- Investment Options – alternative investment products, counterparties, limits, and durations.
- Prudential Indicators – alternative limits for certain indicators, i.e. debt maturity profile, interest rate exposure.
- Minimum Revenue Provision – alternative options for the revenue charge.

19.2 The options proposed are based on the Council investing surplus monies with low risk counterparties in line with the Council's low risk appetite. This provides the Council with adequate liquidity and security of funds before considering investment return.

20. Risk Assessment

20.1 The main risks surrounding the Council's Treasury operations, mitigated through the Treasury Management Strategy and Investment Policy, are as follows:

- Prudential Indicator limits are breached – set and approved locally and regularly monitored as part of ongoing Treasury Management activity.

- Investments lost due to the inability of a Bank or Building Society to repay the loan – key criteria as part of the Creditworthiness Policy which ensures investments are made with only high credit quality counterparties for set durations.
- Too cautious an approach to investments could result in lower investment income being achieved – Investment Policy provides flexibility to use other non-specific investment products if it is considered prudent.

21. Consultation

21.1 This report is an information only report with no further consultation required.

22. Comments of the Director of Legal Services & Partnerships (Monitoring Officer)

22.1 It is noted that there are no significant changes to the Council's Treasury Management Strategy proposed. Given the prudent focus upon secure investment of funds, the Strategy is supported.

23. Comments of the S151 Officer

23.1 The Director of Finance and Transformation (s151 Officer) is the author of this report. (TP)

24. Comments of the Assistant Director of HR & OD and Compliance with the Equality Duty

24.1 The content of this report is noted. (SH)

25. Comments of the Overview and Scrutiny

25.1 This report is due to be considered by the Overview and Scrutiny Management Committee at its meeting to be held on 19 September 2025. Any comments or recommendations agreed by the Committee will be submitted to Cabinet for consideration. (Ref. Sc8914 (FH))

26. Comments of the Portfolio Holder

26.1 It reflects the Council's compliance with statutory guidance and to continue the Treasury Strategy with regard to minimising borrowing, and consequentially, investments.

I also support the proposal to maintain the Council's narrow lending list focussing only on UK Bank deposits and local authorities. (PF0069)

David Bell
Director of Finance and Transformation (S151 Officer)

Officer Contact:	**Mike Armstrong**
Telephone No:	(61) 3282
Officer Interests:	None
Background documents:	Borrowing and investment records CIPFA Code of Practice on Treasury Management Treasury Management Policy Statement (Council 22 February 2024)

Treasury Management – Annual Report 2024-25

Implications Matrix

I have informed and sought advice from HR, Legal, Finance, Overview and Scrutiny and the Climate Change Advisor and any other key stakeholders i.e. Portfolio Holder, relevant Ward Members etc prior to submitting this report for official comments	Yes
I have considered whether this report requests a decision that is outside the Budget and Policy Framework approved by Council	Yes
Value for money considerations have been accounted for within the report	Yes
The report is approved by the relevant City Manager	Yes
I have included any procurement/commercial issues/implications within the report	n/a
I have considered the potential media interest in this report and liaised with the Media Team to ensure that they are briefed to respond to media interest.	Yes
I have included any equalities and diversity implications within the report and where necessary I have completed an Equalities Impact Assessment and the outcomes are included within the report	Yes – see comments from the HR City Manager. Other equality and diversity implications are considered within individual programmes where appropriate.
Any Health and Safety implications are included within the report	n/a
Any human rights implications are included within the report	There are no human rights implications in this report.
I have included any community safety implications and paid regard to Section 17 of the Crime and Disorder Act within the report	n/a
I have liaised with the Climate Change Advisor and any environmental and climate change issues/sustainability implications are included within the report	n/a
I have included information about how this report contributes to the City Plan/ Area priorities within the report	n/a

Prudential Indicators 2024-25 Appendix 1

As at 31 March 2025

1. Affordability of Capital Plans

(a) Indicator 1 – Capital Expenditure

This details the Council's capital spending outturn position against forecast. This estimate is based on reporting decisions agreed previously in the Capital Programme report; there is no subjectivity to this indicator.

	2024/25	2024/25
	£'000	£'000
	Estimate	Actual
General Fund:		
CapEx	103,368	107,291
IRS16 Impact	-	44,941
HRA	67,784	72,847
Total	171,152	225,079

(b) Indicator 2 – Ratio of Financing Costs to Net Revenue Stream

Shows the revenue costs (the capital financing costs less investment income earned) associated with funding previous and future capital spending, as a percentage of total revenue spending. Again, as in the previous indicator the estimates that populate this table have been agreed by Committee, either through the Revenue Budget setting report or in the Medium-Term Financial Plan (MTFP) and are not subjective.

	2024/25	2024/25
	%	%
	Estimate	Actual
General Fund	4.8	5.07
HRA	42.0	12.27

(c) Indicator 3 – Capital Financing Requirement

The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose i.e. that element of previous and proposed capital spending which has been/ will be funded from borrowing. In order to ensure borrowing is maintained within sustainable limits, the Prudential Code requires that net external borrowing does not exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing

requirement for the current and next two financial years. The Director of Finance and Transformation can confirm that this requirement was met.

	2024/25	2024/25
	£'000	£'000
	Estimate	Actual
General Fund	808,019	837,187
HRA	204,349	211,336
Total	1,012,368	1,048,523
Borrowing	918,113	989,381

Long Term Borrowing at the end of 2024-25 was £59m below (£106m below at 2023/24) the capital financing requirement.

(d) Indicator 4 – Incremental impact of Capital Investment Decisions on Council Tax and Housing Rents

"The local authority will

(i) forecast the total budgetary requirements for the authority based on no changes to the capital programme

(ii) forecast the total budgetary requirements for the authority with the changes proposed to the capital programme included in the calculation

(iii) take the difference between (i) and (ii) and calculate the addition or reduction to the council tax that would result.

The rules are the same for the Housing revenue account but show the effect on weekly rents.

The indicator seeks to demonstrate the additional costs, funded from the Council Tax and Housing Rents, of the Council's capital spending.

	2024/25	2024/25
	£	£
	Estimate	Actual
General Fund	5.85	2.45
HRA	1.35	0.44

2. Treasury Management

(a) Indicator 5 – Authorised Limit for External Debt

Authorised limit for external debt = authorised limit for borrowing + authorised limit for other long term liabilities.

With regard to external debt the Council is required to identify limits consistent with the Revenue Budget and Capital Programme. The Authorised Limit is based on a prudent, but not worse case scenario, with additional headroom to allow for unusual cash movements. The authorised limit will be the statutory limit determined under Section 3 (1) of the Local Government Act 2003.

The indicator is calculated by taking the results from indicator six, Operational boundary for external debt, plus the amount of capital spend forecast to be financed from grants and capital receipts. This would cover the unlikely event of contractually committed spend not being financed from grants or receipts as planned and having to be financed from borrowing.

	2024/25 Estimate	**2024/25 Actual**
	£'000	**£'000**
Operational debt indicator (indicator 6)	961,036	989,381
Possible additional capital spend financed from borrowing (grants/receipts not received)	88,275	97,259
Total Amount	1,049,311	1,086,640
Rounded for indicator	1,049,000	1,087,000

Actual external debt stands at £989m as at 31st March 2025, which is within the Authorised Limit for 2024/25.

(b) Indicator 6 – Operational Boundary for External Debt

Operational boundary for external debt = operational boundary for borrowing + operational boundary for other long term liabilities.

The Operational Boundary for external debt is based on the same estimates which underpin the Authorised Limit but does not include the additional headroom included within the Authorised Limit. The Operational Boundary provides an important tool for in year monitoring.

The code goes on to say "It will probably not be significant if the operational boundary is breached temporarily on occasions due to variations in cashflow. However, a sustained or regular trend above the operational boundary would be significant and should lead to further investigation and action as appropriate"

The Operational Limit for external debt estimate is calculated as the current amount of debt, plus additional borrowing, plus ten per cent of the year's net revenue budget for cash flow purposes in the event of expenditure being higher than income at points during the year.

	2024/25	**2024/25**
	Estimate	**Actual**
	£'000	**£'000**
Debt	702,675	773,758
Other Liabilities	166,751	215,623
10% Net budget requirement	42,477	-
Additional Borrowing	49,133	-
Calculated Operational Limit	961,036	989,381
Rounded for indicator	961,000	989,000

Actual external debt stands at £989m at 31st March 2025, which is in line with the Operational Limit for 2024/25.

(c) Indicator 7 – Fixed and Variable Rate Exposure

The indicator seeks to ensure that the Council limits its exposure to the risk of interest rate changes and the consequent impact on the investment income and interest payments on loans, by restricting the proportion of variable rate borrowing.

	2024/25 Actual	**2024/25 Estimate**
	%	%
Fixed Rate – Upper Limit	100	90
Fixed Rate – Lower Limit		25
Variable Rate – Upper Limit	0	75
Variable Rate – Lower Limit		10

* Following repayment of the LOBO loans the Council no longer has any variable rate debt.

These limits will be reviewed as part of the Mid-Year Update Report 2024/25.

The Fixed Rate upper limit will be reviewed as part of the Mid-Year Update Report.

(d) Indicator 8 – Upper and Lower Limits for the maturity structure of borrowings

The indicator also seeks to ensure the Council controls its exposure to the risk of interest rate changes by limiting the proportion of debt maturing in any single period. Ordinarily debt is replaced on maturity and therefore it is important that the Council is

not forced to replace a large proportion of loans at a time of relatively high interest rates.

	Actual as at 31/03/25	**Upper Limit**	**Lower Limit**
	%	%	%
Less than 12 Months	24.83	35	0
12 months and within 24 months	10.38	25	0
24 months and within 5 years	7.43	50	0
5 years and within 10 years	5.42	75	0
10 years and above	51.94	90	25

(e) Indicator 9 – Upper limit for maturity structure of investments

Under the Prudential Regime Councils are free to invest for periods of greater than 1 year. This indicator sets restrictions on the proportion of investments committed for longer periods in order to limit the risks associated with being unable to meet unexpected cash flows and/or being able to take advantage of future increases in interest rates.

	Actual as at 31/3/25	**Upper Limit**
	%	%
Under 12 Months	100	100
12 months and within 24 months	-	25
24 months and within 3 years	-	20
3 years and within 4 years	-	15
4 years and within 5 years	-	10
5 years and above	-	10

Appendix 2

Annual Investment Strategy 2024/25

1. Introduction

1.1 The Council defines its treasury management activities as:

'**The management of the local authority's 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 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 organisation, and any financial instruments entered into to manage those risks.

1.3 The 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.

Investment Policy

1.4 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.

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

1.6 In accordance with guidance from DLUHC and CIPFA, and in order to minimise the risk to investments, the Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

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

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

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

1.7 The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

1.8 The intention of the strategy is to provide security of investment and minimisation of risk.

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

- The strategy guidelines for choosing and placing investments;
- The principles to be used to determine the maximum periods for which funds can be committed;
- Specified investments that the Council will use. These are high security (i.e. high credit rating, although this is defined by the Council, and no guidelines are given), and high liquidity investments in sterling and with a maturity of no more than a year.

1.10 The investment instruments identified for use in the financial year 2023-24 are set out at Appendix 2 under the 'Specified' and 'Non-Specified' Investments categories. Organisations to which the Council will lend and associated counterparty limits are detailed at Appendix 3.

1.11 The Council will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

Creditworthiness Policy

1.12 The Council applies the creditworthiness service provided by MUFG Corporate Markets. This service employs sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

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

1.13 This modelling approach combines credit ratings, and any assigned Watches and Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads. The end product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

- Blue 1 year (only applies to nationalised or semi-nationalised UK banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

1.14 The MUFG Corporate Markets creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings. The Council is satisfied with the level of security this provides for its investments. It is also a service which the Council would not be able to replicate using in house resources.

1.15 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

1.16 All credit ratings will be monitored on a weekly basis. The Council is alerted to changes to ratings of all three agencies through its use of the MUFG Corporate Markets creditworthiness service.

- If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- In addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by MUFG Corporate Markets. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

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

1.18 If financial institutions are upgraded in rating and therefore meet the Council's criteria as defined, then committee approval will be sought prior to inclusion on the counterparty list.

Country Limits

1.19 The Council has determined that it will only use approved counterparties from the UK only.

Investment Counterparty Selection Criteria

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

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

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

1.22 Credit rating information is supplied by MUFG Corporate Markets, the Council's treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to a counterparty at the minimum Council criteria will be considered for suspension from use, with all others being reviewed in light of market conditions.

1.23 On occasions ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest.

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

- Banks 1 – a good credit quality – the Council will only use banks which are UK banks and hold a minimum Fitch rating of:
  - Short term – F1
  - Long term – A-

- Banks 2 – part nationalised UK bank – Royal Bank of Scotland ring fenced operations. This bank can be included if it continues to be part nationalised or it meets the rating in Banks 1 above.

- Banks 3 – The Council's own banker (Natwest Bank) for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.

- Bank subsidiary and treasury operation – The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.

- Building societies – The Council will use all societies which meet the ratings for banks as outlined above.

- Money Market Funds – AAA rating.

- Enhanced Money Market Funds – AAA rating.

- UK Government (DMADF)

- Local authorities.

Group Considerations

1.25 Due care will be taken will be taken to consider the group exposure of the Council's investments. In addition limits in place above will apply to a group of companies.

Use of Additional Information other than Credit Ratings

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

Time and Monetary Limits Applying to Investments

1.27 The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover specified and non-specified investments). The Counterparty limits have increased in recognition of the need for further scope to invest and the opportunity for greater returns on investments.

	Fitch Long Term Rating (minimum)	***Fitch Short Term Rating (minimum)***	***Money Limit***	***Time Limit***
Banks 1 category high quality	AA-	F1+	£30 million	1 yr
Banks 1 category medium quality	A	F1	£20 million	1 yr
Banks 1 category lower quality	A-	F1	£10 million	1 yr
Banks 2 category – part nationalised – high quality	AA-	F1+	£40 million	1 yr
Banks 2 category – part nationalised – medium quality	A	F1	£25 million	1 yr
Banks 2 category – part nationalised – low quality	A-	F1	£15 million	1 yr
Limit 3 category – Council's banker (not meeting Banks 1)	N/A	N/A	£5 million	1 day
UK Government (DMADF)	N/A	N/A	Unlimited	6 mths
Local authorities	N/A	N/A	£15 million	1 yr
Money Market Funds	AAA		£15 million	liquid

1.28 The proposed criteria for Specified and Non-Specified investments are shown in Appendix 3.

Appendix 3

Credit and Counterparty Risk Management – Specified and Non-Specified Investments and Limits (Treasury Management Practice (TMP1))

1. Specified and Non-Specified Investments

1.1 Specified investments are investments denominated in sterling, do not exceed 364 days in term, do not involve the acquisition of share or loan capital, are made with the UK Government or a local authority, or with a body or investment scheme meeting the minimum 'high' credit quality criteria where applicable. Non-specified investments are anything that does not satisfy the specified investment criteria, i.e. investments with a maturity of greater than 1 year.

1.2 Importantly the acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as 'non-specified investments'. As a result no such investment instruments, such as equities, are included within this Appendix.

Specified Investments

	Minimum 'High' Credit Criteria	Use
Term deposits – banks	Short-term F1, Long-term A-	In-house
Term deposits – building societies	Short-term F1, Long-term A-	In-house
Term deposits – local authorities	--	In-house
Term deposits – UK part nationalised banks	Short-term F1, Long-term A-	In-house
UK Government support to the banking sector	UK Sovereign Rating	In-house
Debt Management Agency Deposit Facility (DMADF)– UK Government	UK Sovereign Rating	In-house
Money Market Funds	AAA	In-house

1.3 Accounting treatment of investments – the accounting treatment may differ from the underlying cash transactions arising from investment decisions made by the Council. To ensure that the Council is protected from any adverse revenue impact, which may arise from these differences, Treasury Officers in consultation with MUFG Corporate Markets will review the accounting implications of any new transactions before they are undertaken.

Non-specified Investments

Maturities of ANY period (not applicable for 2024-25 Investment Strategy)

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits with unrated counterparties	Market Capitalisation above £500m	In-house	Nil - no longer applicable	Nil – no longer applicable

Maturities in excess of 1 year (not applicable for 2023-24 Investment Strategy)

	Minimum Credit Criteria	Use	Max % of total investments	Max. maturity period
Term deposits – banks	Short-term F1, Long-term A+	In-house	Nil - no longer applicable	Nil - no longer applicable
Term deposits – local authorities	--	In-house	Nil - no longer applicable	Nil - no longer applicable

Appendix 4

Approved Organisations for on-lending of Surplus Funds

Note – the organisations listed below currently meet the specified criteria as per the Investment Policy of the above report, section 1.28 refers.

UK Banks (Maximum Investment Period of up to 1 year)

	Approved Investment Limit (max)	**Proposed Investment Limit (max)**	**Current Investment Limit ****
Santander UK plc	£30 million	£30 million	£20 million
Barclays Bank plc	£30 million	£30 million	£20 million
Standard Chartered	£30 million	£30 million	£20 million
Clydesdale Bank (trading as Yorkshire Bank)	£30 million	£30 million	Nil
HSBC Bank plc	£30 million	£30 million	£30 million
Lloyds Banking Group inc: * Lloyds TSB Bank plc Bank of Scotland plc	£40 million	£40 million	£25 million
Royal Bank of Scotland Group inc: * Royal Bank of Scotland NatWest Bank plc Ulster Bank Ltd	£40 million	£40 million	£25 million

Note * - The higher limits are based on Lloyds and RBS being part-nationalised therefore carrying additional UK Government security.
Note **: The current investment limits above reflect the action taken as per the creditworthiness criteria included in the Investment Policy stated at paragraph 1.28 in the above report.

UK Building Societies (Maximum Investment Period of up to 1 year)

	Approved Investment Limit (max)	Proposed Investment Limit (max)	Current Investment Limit **
Nationwide Building Society	£30 million	£30 million	£20 million
Coventry Building Society	£30 million	£30 million	£10 million
Leeds Building Society	£30 million	£30 million	£10 million
Skipton Building Society	£30 million	£30 million	£10 million
Yorkshire Building Society	£30 million	£30 million	£10 million

Other (Maximum Investment Period of up to 1 year)

	Approved Investment Limit (max)	Proposed Investment Limit (max)	Current Investment Limit
Any Local Authority	£15 million (each)	£15 million (each)	£15 million (each)
Debt Management Agency Deposit Facility (DMADF) ***	Unlimited	Unlimited	Unlimited
Money Market Funds	£15 million (each)	£15 million (each)	£15 million (each)

Note *** - The unlimited investment limit for the DMADF is based on the current uncertainties within the banking sector, and if further bank failures occur, this account would provide for the security of the Council's cash surpluses.

Appendix 5

GLOSSARY OF TERMS

Base Rate	Minimum lending rate of a bank or financial institution in the UK determined by the Bank of England.
Basis Point	1/100th of 1%, i.e. 0.01%.
Call Account	Deposits/investments placed with a bank or other financial institutions which are available immediately, i.e. no advance notice is required.
Capital Expenditure	Expenditure on the acquisition of fixed assets which has a long term value to the Council (e.g. the purchase of land, erection of buildings), or expenditure that adds to the value of these assets and not just maintains their existing value.
Capital Financing Requirement (CFR)	The total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. This is the cumulative total of the Council's borrowing need.
Capital Grants	Monies provided to local authorities, usually from Government departments, for capital expenditure only.
Capital Receipts	These are proceeds from the sale of capital assets such as land or property. These receipts can be used to fund the capital programme but are not available to support the Revenue Budget.
Counterparty	Another (or the other) party to an agreement or other market contract (e.g. lender or borrower). In the Council's case this generally relates to a bank or building society.
Credit Default Swap	This provides protection (insurance) to a financial institution following a loan or investment against any potential default, i.e. protection against non-repayment of loan or investment.
Credit Outlook	A formal indication by a credit rating agency that it anticipates a change in a particular credit rating of a bank or other financial institution at some time in the foreseeable future.
Credit Rating	An assessment of the creditworthiness of a bank or other financial institution, made by a credit rating agency, i.e. Fitch, Moody's and Standard & Poor's.
Credit Rating Agency	Independent organisations that assess the credit quality of corporate and government debt. The main agencies are Moody's, Standard & Poor's and Fitch.
Credit Watch	Attached to a bank or other financial institution in which a downgrading or upgrading of the credit rating could be imminent.
Creditworthiness	A measure of the ability and the willingness of a bank or other financial institution to honour their financial obligations.

Debt Cap	A limit set on the council housing borrowing requirement for each local authority.
Debt Rescheduling	Refinancing of current debt/loans to generate revenue savings if rates are favourable.
Investment Instrument	Investment options available to local authorities, i.e. fixed term deposits, notice accounts.
Liquidity	The ability to convert an asset (investment) easily into cash quickly without affecting the asset's price or value.
Maturity	The end date of a loan, borrowing, investment or other form of capital financing.
Minimum Revenue Provision (MRP)	Local authorities are required each year to set aside some of their revenues as provision for debt repayment. The provision (revenue charge) is in respect of capital expenditure financed by borrowing.
Money Market	Consists of financial institutions (e.g. banks and building societies) and dealers in money and credit.
Money Market Fund	A well rated, highly diversified pooled investment vehicle whose assets mainly comprise of short term instruments.
Non-Specified Investments	Anything that does not satisfy the specific investment criteria, i.e. investments with a term of greater than 1 year.
Notice Account	Deposits/investments placed with a bank or other financial institutions which are available at notice, i.e. 15/30 day notice to withdraw is required.
PFI	Private Finance Initiative – a Government initiative in which private sector companies usually design, build and operate a public facility for a set period of time, often 25 years.
Prudential and Treasury Indicators *(see below for description of each indicator)*	As required by The Prudential Code, requires local authorities to self regulate the affordability, prudence and sustainability of their capital plans, by setting estimates and limits, and publishing actuals, for a range of indicators.
Prudential Borrowing	Permissible borrowing within defined affordable limits.
Prudential Code (CIPFA)	Local Authorities determine their own programmes of capital investment in fixed assets that are central to the delivery of quality local public services. The Prudential Code has been developed as a professional code of practice to support them in taking these decisions. The Prudential Code underpins the overall system of capital finance. 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.
PWLB	Public Works Loans Board – a statutory body operating within the Debt Management Office of the HM Treasury and is

	responsible for lending money to local authorities and other prescribed bodies.
Risk Appetite	The level of risk Local Authorities wish to take in the lending of surplus monies. The Council operates a low risk appetite, i.e. only investing with low risk counterparties, where the security and liquidity of cash are more important than yield (return).
Specified Investments	Investments that are made in sterling, do not exceed 364 days in term, do not involve the acquisition of share or loan capital, are made with the UK Government or a local authority, or with a financial institution and meet the minimum credit criteria.
Treasury Management Code of Practice (CIPFA)	Provides Local Authorities with standards and guidance to support and underpin their overall Treasury Management activities.
Yield (Return)	The return on an investor's capital investment. The higher the yield the higher the risk of the capital invested.

Prudential and Treasury Indicators	
Affordability of Capital Plans:	
Indicator 1 – Capital Expenditure	This details the Council's approved capital spending plans for the next 3 years and reports on the outturn from the previous financial year. These estimates are reporting decisions agreed previously in the Capital Programme report, and therefore there is no subjectivity to this indicator.
Indicator 2 - Ratio of Financing Costs to Net Review Stream	This shows the revenue costs (the capital financing costs less investment income earned) as a percentage of the total revenue budget. There is a separate calculation for the General Fund and the HRA. Again, these estimates have been agreed by Committee through the Revenue Budget setting report or in the Medium Term Financial Strategy.
Indicator 3 – Capital Financing Requirement (CFR)	The CFR measures the Council's overall borrowing requirement for capital purposes, i.e. that element of previous and proposed capital spending which has been/will be funded from borrowing. The Prudential Code requires that net external borrowing does not exceed the CFR.
Indicator 4 – Incremental Impact of Capital Investment Decisions on Council Tax and Housing Rents	This indicator seeks to demonstrate the additional costs, to be funded from the Council Tax and Housing Rent of the Council's capital spending plans, i.e. the capital plans to be funded from borrowing. These estimates are in line with the General Fund and HRA Revenue Budget setting reports.
Treasury Management	

Indicator 5 – Authorised Limit for External Debt	The Council is required to set external borrowing limits consistent with the Revenue Budget and Capital Programme. The Authorised Limit is based on a prudent limit, with additional headroom to allow for unusual cash movements.
Indicator 6 – Operational Boundary for External Debt	The Operational Boundary is based on the same estimates as the Authorised Limit, but does not include any additional headroom. The Operational Boundary is the current debt plus additional planned borrowing, plus 10% of next years revenue budget for cash flow purposes.
Indicator 7 – Fixed and Variable Interest Rate Exposure	This indicator seeks to ensure that the Council limits its exposure to the risk of interest rate changes and the subsequent impact of such changes on the interest payments on loans (a revenue expense), by restricting the proportion of variable rate borrowing.
Indicator 8 – Upper and Lower Limits for the maturity structure of borrowings	This indicator also seeks to ensure the Council controls its exposure to the risk of interest rate changes by limiting the proportion of debt due to be repaid in any one year. Debt is ordinarily replaced on maturity and therefore it is important that the Council is not forced to replace a large proportion of loans at a time of relatively high interest rates (aimed at mitigating any potential impact on the revenue budget).
Indicator 9 – Upper Limit for the maturity structure of Investments	Under the Prudential Code councils are free to invest for periods of greater than 1 year. This indicator sets restrictions on the proportion of investments committed for longer periods in order to limit the risks associated with being unable to meet unexpected cash flows and/or being able to take advantage of future increases in interest rates.