



TREASURY MANAGEMENT AND INVESTMENT STRATEGIES 2025/26

1 PURPOSE OF REPORT

- 1.1 This report presents the Treasury Management and Investment Strategies to the Audit & Governance Committee prior to their inclusion in the 2025/26 budget report to Council in February 2025.

2 LINKS TO COUNCIL'S PRIORITIES AND OBJECTIVES

- 2.1 Sound treasury management is an enabler, underpinning all of the Council's activity.

3 RECOMMENDATION

- 3.1 It is proposed that the Committee **RESOLVES**

To approve the Treasury Management and Investment Strategies for 2025/26 for inclusion in the 2025/26 budget report to Council.

4 INTRODUCTION

- 4.1 The Council must comply with the Code of Practice - Treasury Management in the Public Services, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). As part of this Code the Council is required to approve an annual Treasury Management and Investment Strategy for the forthcoming financial year.
- 4.2 The Treasury Management and Investment Strategies provide the framework within which decisions are taken on the Council's borrowing and investment activities.

5 TREASURY MANAGEMENT STRATEGY

- 5.1 The Treasury Management Strategy focuses on the Council's borrowing activities and financing of the capital programme. It includes the prudential indicators that the Council is required to report on.

5.2 There are no changes to policy direction proposed for 2025/26. The only changes to the Treasury Management Strategy are to provide updated dates, facts and figures.

5.3 Sections highlighted in yellow remain in draft pending finalisation of the budget setting process but these do not prevent the Committee from agreeing the policy directions within the strategy. Finalised numbers will be within the 2025/26 budget report.

6 INVESTMENT STRATEGY

6.1 The Investment Strategy focuses on the Council's investing activities, determining the considerations for making investments and providing rules on which types of investment are acceptable and the limits on each type of investment.

6.2 There are no changes to policy direction proposed for 2025/26. The only changes to the Treasury Management Strategy are to provide updated dates, facts and figures.

7 OPTIONS

7.1 Option 1: Do nothing. This is not recommended as whilst ultimately the Strategies would be presented to Council as part of the 2025/26 budget report for approval it is best practice for them to be reviewed by the Committee prior to Council.

7.2 Option 2: Review and approve the Strategies to give Council assurance that more detailed review of them has been undertaken by the appropriate forum.

7.3 The preferred option is option 2.

8 FINANCIAL IMPLICATIONS

8.1 There are no financial implications arising from this report.

9 LEGAL IMPLICATIONS

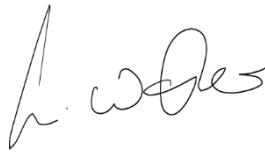
9.1 There are no legal implications arising from this report.

10 HUMAN RESOURCES IMPLICATIONS

10.1 There are no human resources implications arising from this report.

11 EQUALITY AND DIVERSITY IMPLICATIONS

11.1 The Equality Impact Assessment (EIA) indicates that the proposals in this report will not have a disproportionately adverse impact on any people with a particular characteristic.



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Background Papers:

None.

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Treasury Management and Investment Strategies 2025/26

Produced by: Assistant Director, Finance & Procurement (s151 officer)
Subject to Annual Review

Approved by:

- Audit Committee: January 2025
- Cabinet & Council: February 2025

Treasury Management Strategy

Definition of Treasury Management

1 Treasury management is:

“The management of the local authority’s borrowing, investments and cash flows, including 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 includes the following Treasury Management clauses within its Constitution, as recommended by the Code of Practice:

The Council will create and maintain, as the cornerstones for effective treasury management:

- A treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities.
- Suitable treasury management practices (TMP’s) setting out how the organisation will seek to achieve those policies and objectives, prescribing how it will manage and control those activities.
- Will receive reports on its treasury management policies, practices and activities, including as a minimum an annual strategy and plan in advance of the year, in-year quarterly reports and an annual report after its close, in the form prescribed in its TMP’s.
- Delegates responsibility for the and administration of treasury management decisions to the Section 151 officer, who will act in accordance with the Council’s policy statement and TMP’s and CIPFA’s Standard of Professional Practice on Treasury Management.
- Nominates the Audit & Governance Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

Treasury Management Strategy for 2025/26

3 The Strategy has been formulated after considering the advice of the Council’s consultants, Link Treasury Services (Link). All activity envisaged by the Strategy will be in accordance with the Treasury Management Policy Statement.

Balanced budget requirement

4 It is a statutory requirement under the Local Government Finance Act 1992, for the Council to produce a balanced budget. This means that the Council is required to ensure the affordability of existing and new projects, both revenue and capital, within the projected income of the Council for the foreseeable future.

Economic uncertainty, and interest rates

5 Economic uncertainty currently exists caused by a number of factors, including prospects for growth and maintaining inflation. This will impact on interest rates decision by the Bank of England. All of these have the potential to have a material impact on the long term financial position of the Council.

6 The Council’s treasury management advisers Link Asset services forecast that the base rate will reduce to 4.50 by March 2025 and reduce to a low of 3.75% by end of March 2026. This is shown in the first row of the table below:

Link Group Interest Rate View 11.11.24													
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

- 7 The Council adheres to strict investment criteria. As it remains difficult to predict longer-term rates accurately, the interest rates used to forecast investment income for the Council’s budget process remain prudent. The Council may also be restricted in where it can invest funds. Officers will continue to seek the best return possible whilst always complying with the Council’s policies and procedures and without compromising security and liquidity.

Current debt position and requirements for 2025/26

- 8 A summary of external debt that is expected to be outstanding as at 31 March 2025 is as follows:

Table 12.1 External debt outstanding	
Source	Total at 31/03/25 £000's
Public Works Loan Board – General Fund	4,500
Public Works Loan Board – Housing Revenue Account	21,000
Total	25,500

- 9 The Council made early repayments of some of General Fund and HRA Loans in September 2022 to take advantage of discounts which were available, giving us a net saving of just over £3.4m. The Council’s General Fund borrowing now consists of a single fixed rate loan at interest rate of **1.08%** per annum (in relation to the Knightswick). The Council’s HRA borrowing consists of fixed rate loans at interest rates ranging from **3.05%** to **3.43%** per annum. If remaining loans are to be repaid prematurely, they attract either a premium or discount depending on the relationship between the interest rate of the loan and market rates and the unexpired period at the time of repayment. Currently as interest rates are high, premature repayment of all loans would incur a total discount of approximately **£1.475m** but this is not advised when taking into consideration the Council’s liquidity requirements.

- 10 The proposed programme of capital expenditure due to be approved by Council in February 2025 is currently anticipated to trigger a requirement for new borrowing in 2025/26 of approximately **£1.5m**. The Policy Framework and Budget Setting Report will provide confirmation of the prudential position for future years, based on current estimates.

Internal borrowing is the use of the Council’s own temporary investments for capital expenditure and is when the Capital Financing Requirement (CFR) exceeds the level of external borrowing. This position is known as “under-borrowed”. At the end of 2025/26 for the General Fund this is expected to be **£11.322m** due partly to capital expenditure on the Knightswick Shopping Centre and associated public realm works. As cash balances are relatively high and interest earned on investments is lower than the rate at which the Council can take out loans, borrowing internally is an efficient use of resources that also lowers the overall cost of funding for the projects. By the end of 2025/26 the HRA will be under-borrowed by approximately **£4.366m**. The position fluctuates from year to year depending on various factors such as the level of capital expenditure, and a prudential indicator in the Capital Strategy (“Gross Debt and the Capital Financing Requirement”) monitors and reports on this position.

Capital Prudential Indicators

11 Capital Expenditure

The Authority’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.

Table 10.2 Capital expenditure	2023/24	2024/25	2025/26	2026/27	2027/28
	£000's	£000's	£000's	£000's	£000's
General Fund (GF)	795	7,071	2,589	2,870	1,755
Housing Revenue Account (HRA)	5,088	4,713	2,488	2,791	2,009
Total	5,883	11,784	5,077	5,661	3,764

12 Affordability Prudential Indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances.

Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs), against the net revenue stream.

Table 10.7(a) Ratio of financing costs to net revenue stream	2023/24	2024/25	2025/26	2026/27	2027/28
	%	%	%	%	%
GF	-7	-5	0	1	4
HRA	55	31	31	30	29

Borrowing Strategy

- 13 The uncertainty over future interest rates increases the risk associated with treasury activity. As a result, the Council will take a fairly cautious approach to its Treasury Management Strategy.
- 14 If a need to borrow should arise, The Section 151 Officer, under delegated powers, will take the most appropriate form of borrowing depending on identified risks and the prevailing interest rates at the time. It is likely that shorter-term fixed rates may provide lower cost opportunities in the short to medium term.
- 15 Borrowing can only be undertaken for the purposes of capital expenditure, and not for day-to-day revenue expenditure. Any new borrowing would result in additional annual interest charges to either the General Fund or Housing Revenue Account, as well as the need to set aside sums from those funds for future repayment of the principal amount borrowed. In effect, borrowing does not finance capital expenditure, instead it merely provides the cash to enable the expenditure to take place. Therefore, the financial impact on the longer-term budget positions for both the General Fund on the Medium-Term Financial Forecast (MTFF) and the Housing Revenue Account on the HRA Business Plan, must be taken into careful consideration in all borrowing decisions. As shown within the MTFF and HRA Business Plan the General Fund has annual funding gaps to be closed, and the HRA also faces challenges, such as the lasting impact of changes in central government policies including imposed 4-year rent reductions, as detailed within previous HRA budget setting reports.
- 16 On 9 October 2019 the PWLB increased their margin over gilt yields by 100 basis points to 180 basis points on loans to local authorities, making borrowing from the Government more expensive. However, on 25 November 2020 the Government reversed this. The PWLB allows local authorities to register for a preferential "certainty rate" for borrowing, which is currently

0.20% below the standard rate or **0.80%** above gilt rates. The lower Housing Revenue Account (HRA) PWLB rated started on 15 June 2023 for those authorities with an HRA (Standard rate minus 60bps). Registering for this preferential rate does not commit an authority to undertake any borrowing, it simply allows it to access the preferential rate should the need arise.

17 The weighted average maturity of the Council's General Fund **£4.5m** debt is at five years. This has changed significantly due to the early repayments of three loans totalling **£5.25m** in September 2022 leaving one loan with principle repayments each year for the next five years, currently with no requirement to refinance.

18 The Housing Revenue Account debt of **£36.5m** taken out in March 2012 as part of the HRA self-financing changes is set to mature at different times between 2025/26 and 2035/36 with **£7m** repaid in 2021-22, **£2.5m** repaid early in September 2022 and **£6.0m** repaid in June 2024. A borrowing cap of **£37.5m** was placed on the Council at the same time, which effectively left the ability to borrow a further **£1m** above the **£36.5m**. The autumn 2018 budget removed the borrowing cap so that local authorities would be allowed to undertake additional borrowing to enable investment in building new homes. However, as stated above, any additional borrowing would still have to be affordable within the 30-year HRA Business Plan and be subject to a full assessment of the financial viability of any scheme.

Borrowing in advance of need

19 The Council has some flexibility to borrow funds in advance for use in future years. The Section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints and where there is a clear business case for doing so. Furthermore, councils must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. They must also consider carefully whether they can demonstrate value for money in borrowing in advance of need and can ensure the security of such funds.

20 DLUHC guidance has determined that the setting of constraints for any borrowing in advance of need is considered good practice. The Section 151 Officer does not currently anticipate any need to borrow in advance of need, but if circumstances change then borrowing in advance will be made within the constraints that:

- It will be limited to no more than £3m of the expected increase in borrowing need (CFR) over the three-year planning period; and
- The Council would not look to borrow more than 18 months in advance of need.

21 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. Any surplus funds arising from borrowing in advance of need will be invested in accordance with the Council's Investment Strategy.

Treasury management indicators

22 The Council is required to calculate several Treasury Management Indicators as part of the Treasury Management Code of Practice. The indicators are reported in the following paragraphs.

Borrowing maturity structure

23 The Prudential Code for Capital Finance in Local Authorities requires the Council to set upper and lower limits for the maturity structure of fixed rate borrowing. These limits are designed to help the Council minimise its exposure to large fixed rate sums falling due for refinancing. The proposed limits, expressed as percentages of total projected fixed rate borrowing, are as follows:

Table 12.2 Maturity structure of fixed rate borrowing

Maturity	General Fund		Housing Revenue Account	
	Upper limit	Lower limit	Upper limit	Lower limit
	%	%	%	%
Within 1 year	50	0	50	0
Within 2 years	50	0	50	0
Within 5 years	60	0	60	0
Within 10 years	80	0	80	0
After 10 years	100	0	100	0

Borrowing – limits of fixed and variable rate exposure

24 The Prudential Code also requires the Council to set upper limits for fixed and variable interest rate exposure. These indicators identify the maximum limits for both fixed and variable interest rates based upon the Council’s debt position net of investments. The proposed limits are as follows:

Table 12.3 Upper limits of Fixed and Variable exposures

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	£m	£m	£m	£m	£m	£m
Upper Limit - Fixed Rates	38	36	35	34	28	27
Upper Limit - Variable Rates	(14)	(8)	(6)	(8)	(6)	(4)

Borrowing - interest rate sensitivity

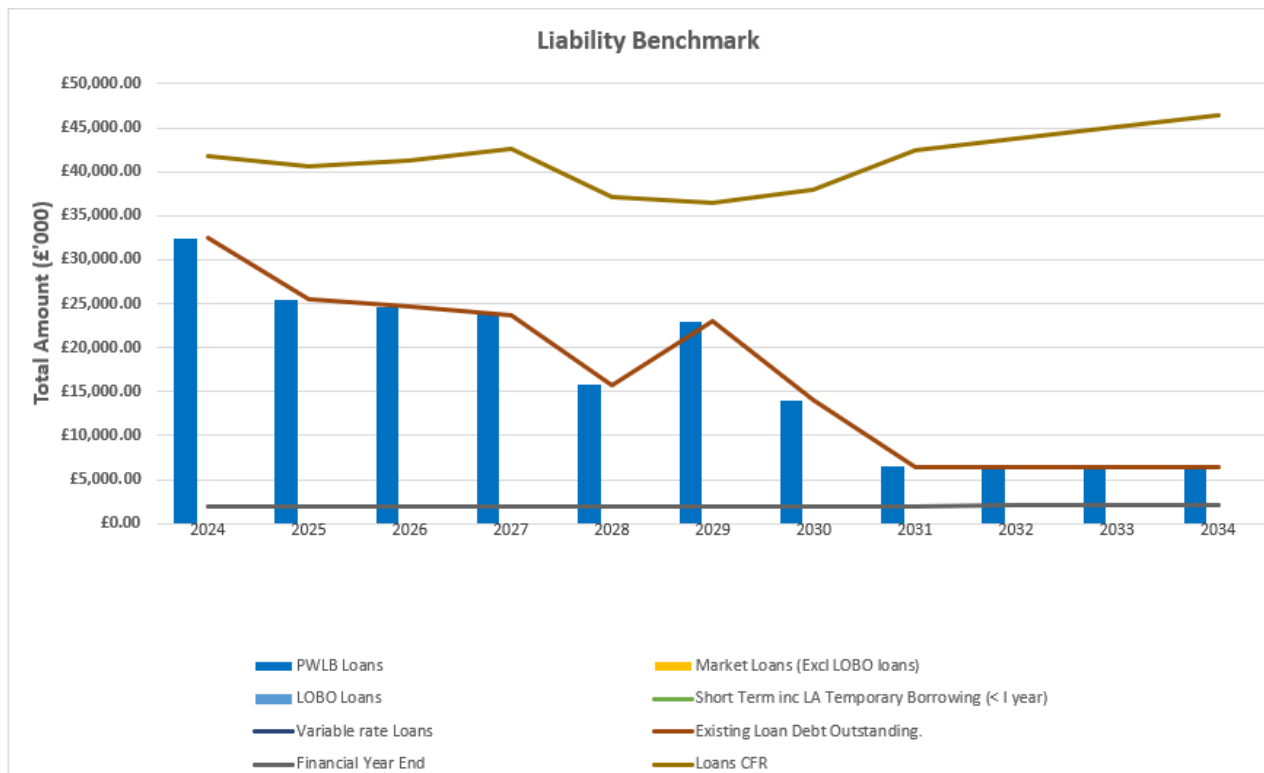
25 Any borrowing decisions will need to take account of any changes in interest rates. There are two possible scenarios:

- a sharp rise in rates – if this is considered possible, any fixed interest borrowing will be taken while interest rates are relatively low.
- a sharp fall in rates – if this is expected, any borrowing will be postponed (waiting for borrowings to become cheaper) and rescheduling from fixed to variable rate funding will be considered.

Liability Benchmark

26 The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow. The format presented is as prescribed within the code of practice.

The Liability Benchmark establishes whether the Council is likely to be a long-term borrower or long-term investor in the future, to help shape its strategic focus and decision making. The benchmark is shown in the chart below which also shows that the Council does not need to externally borrow in the near future. The benchmark will be updated quarterly taking into account the actual in the year to date and the forecast for the remainder of the financial year as well as any updates made to future years.



Debt management objectives

27

A summary of the Council's debt management objectives for 2025/26 is therefore as follows:

- to borrow, if necessary, in order to finance cash flows arising from capital expenditure in accordance with the Prudential Code;
- to reduce, if possible, the amount of long-term borrowing without incurring net losses for early redemption.
- to manage the debt maturity profile in order to avoid a high level of repayments in any one year.
- to borrow at the best interest rates achievable in relation to estimated future rates.
- to monitor and review the level of any variable interest rate loans, in order to take advantage of interest rate movements;
- if possible, to reschedule debt in order to take advantage of potential savings as interest rates change;
- to avoid as far as possible, excessive overdrawn bank balances by achieving a balanced daily cash position, unless market borrowing proves favourable by comparison;
- to ensure that overall borrowing is within the authorised limit for external debt and that this is monitored on a regular basis.

Investment Strategy

Investment guidance

- 1 This Council's investment policy has regard to the following:
 - DLUHC's Guidance on Local Government Investments ("Guidance")
 - CIPFA's Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes ("CIPFA TM Code")
 - CIPFA Treasury Management Guidance Notes 2021

Investment principles

- 2 The primary policy objective of the Council's treasury management and investment activities is the security of funds, and to avoid exposing public funds to inappropriate and unquantified risk. The Council's investment priorities are:
 - Firstly – the **security** of capital (protecting the capital sum invested from loss) and
 - Secondly – the **liquidity** of its investments (keeping sufficient money readily available for expenditure when needed).

Provided that proper levels of security and liquidity are achieved, it may then (but only then) be reasonable to seek the highest **yield** consistent with those priorities. All investments will be in sterling.

- 3 Under the guidance investments made by local authorities are classified into two main categories:
 - Investments held for treasury management purposes
 - Other investments

All of the Council's temporary investments are held for treasury management purposes and the interest received contributes to the General Fund budget, as shown in the table below. Investments are not split between General Fund and Housing Revenue Account (HRA) but held as one portfolio with a proportion of the overall interest received applied to the HRA, calculated on the levels of HRA reserves and balances. For 2025/26 this amount is forecast to be **£23k**.

Table 13.1 General Fund Investment Income						
	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	£000's	£000's	£000's	£000's	£000's	£000's
Forecast Investment Income	1,562	946	801	812	749	694

- 4 The guidance maintains that the borrowing of monies purely to invest or lend on and make a return is unlawful and this Council will not engage in such activity.

Financial investments

- 5 Under the guidance financial investments fall into three categories:
 - **Specified investments** - are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.
 - **Loans** – for example to local enterprises, charities etc. The Council has none.
 - **Non-specified investments** – are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.
 - Specified investment instruments identified for use in the financial year are listed in table 13.2. Non-specified Investments are any other type of investment, i.e. not defined as specified above, are listed in tables 13.3 and 13.4.

Non-financial investments

- 6 Non-financial investments are assets an organisation holds primarily or partially to generate a profit, essentially for commercial activities. The Council does not currently hold non-financial investments, but may consider doing so, if they support the priorities of the Council as detailed in the Corporate Plan, after taking expert external advice and a thorough appraisal by officers, scrutiny by the appropriate committee and approval by Council. The Council would have to carefully assess whether such assets retain sufficient value to provide security of investment, and if they do not, the Strategy must provide details of the mitigating actions taken to protect the capital.

Liquidity

- 7 Based on its cash flow forecasts, the Council anticipates its fund balances in the financial year 2025/26 to range between **£19m** and **£39m**.

Risk assessment and risk appetite

- 8 As the Council's primary policy objective of treasury management is to avoid exposing public funds to inappropriate and unquantified risk, the Council has a very cautious approach to investing, reflected in the internal guidance which ensures the following:
- 1 a very high average credit weighting for the portfolio, typically AA
 - 2 a diversified portfolio
 - 3 a weighted average maturity of approximately 250 days
 - 4 strict stepped limits on lower-rated, but still high grade (A-rated) investments of up to **£3m**.
 - 5 Officers monitor market information including financial updates from the Council's treasury adviser on a daily and weekly basis, to keep as well-informed as possible to make the best decisions. The internal guidance can be amended by the S151 Officer, with advice from treasury officers, at very short notice. This is for flexibility and to adapt to changing circumstances in the current time of economic uncertainty, firstly to protect the security of the Council's temporary investments and secondly to achieve liquidity and yield.

Credit ratings

- 9 Credit quality of counterparties (issuers and issues) and investment schemes will be determined mainly by reference to credit ratings published by Fitch, Moody's and Standard & Poors. In compliance with CIPFA recommendations and the CIPFA Treasury Management Code, the rating criteria use the lowest common denominator method of selecting counterparties and applying limits. Tables 13.2 to 13.4 also set out the Council's minimum credit ratings that it considers appropriate for each category of investment.
- 10 The sovereign rating for the UK is AA. All three agencies have the UK on negative outlook. Investments are placed with institutions with high long-term credit ratings (minimum A-) or in money market funds with the highest possible rating (AAA or equivalent). The Council has a policy of diversification to prevent over-reliance on a small number of counterparties and Money Market Funds are used to provide a broad spread of underlying holdings.

Monitoring of credit ratings

- 11 All credit ratings will be monitored on a regular basis, including when investments are made. The Council's treasury adviser, Link Treasury Services, also alert the Council to changes in ratings as they occur.
- 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.
 - If a counterparty/investment scheme is upgraded so that it fulfils the Council's criteria, the s151 Officer will have the discretion to include it on the lending list.

Amendments to the 2025/26 Investment Strategy

12 There is no amendments in 2025/26

Table 13.2 Specified Investments for the Financial Year 2025/26			
Investment	Counterparty limit	Security / Minimum Credit Rating	Maximum period of investment
Debt Management Agency Deposit Facility (DMADF) (this facility is at present available for investments up to 6 months)	No limit	The Debt Management Office is an agency of the UK Government	6 months (DMO imposed time limit)
Treasury Bills issued by the UK Government (currently maximum 6-month duration)	No limit	The Debt Management Office is an agency of the UK Government	364 days
Term Deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)	The lesser of £5m or 33% of total investments	High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated)	364 days
Term Deposits with institutions	The lesser of £5m or 33% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Money Market Funds (i.e. a collective investment scheme as defined in SI 2004 No 534) CNAV, LVNAV and VNAV These funds do not have a maturity date	The lesser of £5m or 33% of total investments	Fitch, Moody's or Standard and Poors AAA (Minimum of two ratings)	n/a (repayable on demand)
Current accounts, notice accounts or term deposits with credit-rated deposit takers (banks and building societies)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days (Call deposits repayable on demand)
Forward deals with credit rated banks and building societies < 1 year (i.e. negotiated deal period plus period of deposit)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Certificates of Deposit issued by institutions	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Covered bonds (maximum 364-day period includes borrower extension option)	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days
Reverse repurchase agreements "repos" (a form of secured lending with enhanced security)	The lesser of £4m or 25% of total investments	long-term AA-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	364 days

Table 13.3 - Non-specified Investments for the financial year 2025/26			
Investment	Counterparty limit	Security / Minimum Credit Rating	Maximum period of investment
Term deposits with the UK Government or with UK local authorities (i.e. local authorities as defined under section 23 of the 2003 Act)	The lesser of £5m or 25% of total investments	High quality as either directly invested or via agencies of UK Government. (Although local authorities are not specifically credit rated)	2 years
Current accounts, notice accounts or term deposits with credit-rated deposit takers (banks and building societies)	The lesser of £4m or 25% of total investments	long-term A-, short-term F1 (lowest common denominator Fitch, Moody's & S&P)	2 years
Property Funds	The lesser of £4m or 25% of total investments	Unrated	n/a
Bond funds	The lesser of £4m or 25% of total investments	Unrated	n/a
Multi-Asset funds	The lesser of £4m or 25% of total investments	Unrated	n/a
Equity Funds	The lesser of £4m or 25% of total investments	Unrated	n/a

- All Specified Investments listed above must be sterling denominated.
- All investments are managed in-house.
- No shares or loan capital is held by the Council
- None of the investments are classified as capital expenditure

Country, group and sector limits

- 13 The Council selects counterparties according to credit quality as well as the additional information in paragraph 16 below. Group and sector limits do not form part of the formal Investment Strategy, but are used within the temporary, stricter investment guidance described in paragraph 18.

Whilst there are no specific limitations on which countries the Council can or will invest in, consideration will be given to Environmental, Social and Governance (ESG) issues. For example, the Council will avoid investing in institutions based in or strongly linked to countries with questionable human rights practices. As always, any investments made will be with institutions meeting the required credit ratings.

Money Market Funds

- 14 As has been the practice for several years, the Council continues to place a high proportion of its investments in Money Market Funds. By March 2019 the valuation method for the Council's Money Market Funds changed from constant net asset value to low volatility net asset value. Constant net asset value funds aim to preserve a stable value (such as £1) per share at which investors either subscribe or redeem, but under money market fund regulations they are being replaced with low volatility net assets funds where the underlying investments may have to be priced at market value, so potentially investors could get back slightly more or less than the £1 invested, although this is very unlikely with AAA-rated funds. The Council has assessed the implications, but it is not expected that there will be any significant impact on the value of investments.

Markets in Financial Instruments Directive (MiFID)

15 From 3rd January 2018 changes in legislation required the Council to opt up to professional status (rather than the default status of a retail client) with several of its counterparties to continue using a range of secure and diversified investments and not be limited solely to simple bank deposits. Organisations classified as professional have a good understanding of financial products but do not have the same protection as retail clients or ordinary consumers.

Use of additional information other than credit ratings

- 16 Additional requirements under the Code of Practice now 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 equity prices, Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Bail-in legislation

- 17 To avoid a Government bailout (i.e. where Governments inject monetary support into institutions to keep them solvent) that occurred during the financial crisis, bail-in legislation is now fully implemented in the UK. In future large investors or creditors may contribute to the rescue of failing banks rather than taxpayers, as some or all their deposits are converted into equity which could be worth less than the original investment. Consequently, the potential risk of depositing with banks may have increased, however this is reflected in the credit ratings.

Internal stricter guidance

- 18 The Council continues to use temporary stricter internal investment guidance than that laid out in the Investment Strategy, such as lower counterparty limits. These will remain in place for as long as they are required and are reviewed regularly, considering information and advice supplied by Link. Changes to the internal guidance are approved by the Strategic Director (Resources).

Use of derivative instruments

- 19 Local authorities can use any hedging tools such as derivatives, but only for the management of risk and the prudent management of financial affairs. When an authority intends to use derivative instruments the policy for their use must be clearly detailed in the annual Treasury Management Strategy. The Council does not currently use derivatives, but should this change then the Treasury

Management Strategy will be amended prior to their use. The Council will seek proper advice when entering into arrangements to use such products to ensure that it fully understands those products.

Investments defined as capital expenditure

20 The acquisition of share capital or loan capital in any corporate body is defined as capital expenditure under Regulation 25(1) (d) of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as Non-specified Investments. As already stated, the Council does not currently intend to invest in Non-specified Investments.

21 Investments in Money Market Funds are not treated as capital expenditure.

22 A loan, grant or financial assistance by this Council to another body for capital expenditure by that body will be treated as capital expenditure, should it occur.

Provisions for credit-related losses

23 If any of the Council’s investments appeared at risk of permanent loss due to default (i.e. a credit-related loss and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

Investment strategy to be followed in-house

24 The Council’s in-house managed funds are mainly cash-flow derived. It is expected that the majority of the Council’s funds will be invested for periods of less than 365 days although this will be reduced should it be deemed appropriate. There are core funds of approximately **£10m** that it is very unlikely will be required for cash flow purposes for another 2 to 5 years. The inclusion of longer term investments within the strategy allows some or all of these funds to be invested, at higher rates, to provide additional investment income for the Council.

Investment treasury indicator and limit

25 These limits, relating to funds invested for greater than 365 days and shown in the table below, are set with regard to the Council’s liquidity requirements. They are designed to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

Upper limit for principal sums invested for longer than 365 days			
£m	2024/25	2025/26	2026/27
Principal sums invested for longer than 365 days	£15m	£15m	£15m
Current investments as at 31.03.2025 in excess of 1 year maturing in each year	£0m	£0m	£0m

The Council’s banking arrangements

26 The Council’s banking operations are with Lloyds Bank PLC with the current contract expiring on 31st March 2025. At time of writing a new contract is currently in the process of being procured.

Risk benchmarking

27 The most recent version of the CIPFA Treasury Management Code recommended the use of security and liquidity benchmarks alongside existing yield benchmarks used to assess investment performance.

28 These benchmarks are simple targets (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy depending on any changes. Any breach of the benchmarks will be reported with supporting reasons in the quarterly or Annual Report. Use of these benchmarks will be reviewed and they may be amended or added to if necessary.

- 29 **Security** – The Council’s maximum-security risk benchmark for the current portfolio is:
- A credit-rating score of **4** for the overall investment portfolio. Each investment is given a score according to long-term credit rating (e.g. 7 for AAA, 4 for AA-, 1 for A-) and then weighted according to amount.
- 30 **Liquidity** – In respect of this area the Council seeks to maintain:
- The bank overdraft facility was reviewed for the new banking contract that started in April 2020 and it was decided it was not cost effective for the Council to have one permanently in place
 - Liquid short-term deposits of at least **£1m** available with a day’s notice
 - Weighted Average Life benchmark is expected anything up to 270 days, with a maximum of 1 year
- 31 **Yield** – Local measures of yield benchmarks are:
- Investments – returns above SONIA (Sterling Overnight Index Average) rate. The Council previously used LIBID but this measure has been discontinued by the Bank of England in favour of SONIA.

Treasury management adviser

- 32 Link Treasury Services, the largest provider of capital financing and treasury advisory services to public sector organisations, is the Council’s current treasury adviser. The company provides a range of services through a formal contract, which includes technical support on treasury matters and capital finance issues; economic and interest rate analysis; debt rescheduling advice surrounding the existing portfolio; investment advice on interest rates, timing and investment instruments; credit ratings/market information service provided by the three main credit rating agencies; and data from international money markets. The current contract expires in 2023. A procurement exercise will be undertaken to ensure a treasury management adviser is in place at the end of the current contract.

- 33 Whilst Link provide support to the internal treasury function, under current market rules and the CIPFA Treasury Management Code, the final decision on all treasury matters remains with the Council.

Member and officer training and experience

- 34 Members receive training on Treasury Management matters on a periodic basis. Treasury staff attend appropriate courses and seminars held by CIPFA and Link both to maintain and improve their knowledge and expertise. All treasury staff have accountancy or treasury qualifications and many years’ experience in local authority treasury across the team.

Investment activity reporting and publication

- 35 Officers prepare a quarterly monitoring report on investment activity and an end of year report as part of its Annual Treasury Report after the close of each financial year. This does not preclude more frequent reporting should changes or circumstances dictate, including changes to the Treasury Management and Investment Strategy if required. The Investment Strategy is published annually on the Council’s website.