BEDFORD BOROUGH COUNCIL **DECISION NO. 1711______**

RECORD OF EXECUTIVE DECISION TAKEN BY AN EXECUTIVE MEMBER

This form **MUST** be used to record any decision taken by the Elected Mayor or an individual Executive Member (Portfolio Holder).

The form must be completed and passed to the Chief Officer for Legal, Performance and Democratic Services no later than NOON on the second working day after the day on which the decision is taken. No action may be taken to implement the decision(s) recorded on this form until 7 days have passed and the Chief Officer for Legal, Performance and Democratic Services has confirmed the decision has not been called in.

1. Description of decision

Approve the updated Treasury Management Strategy and Capital Strategy including the updated Prudential Indicators for recommendation to Full Council.

2. Date of decision

23 November 2023

3. Reasons for decision

To enable Members to consider the revised strategies and prudential indicators alongside an updated Capital Programme at Full Council on 29 November 2023.

4. Alternatives considered and rejected

No alternatives were considered as the review of these strategies was requested by Full Council.

5. How decision is to be funded

There are no new financial implications arising as a result of this decision.

6. Conflicts of interest

Name of all Executive members who were consulted AND declared a conflict of interest.	Nature of interest	Did Standards Committee give a dispensation for that conflict of interest? (If yes, give details and date of dispensation)	Did the Chief Executive give a dispensation for that conflict of interest? (If yes, give details and the date of the dispensation).

The Mayor has been consulted on this decision | Tom Wootton

Signed ...Graeme S. Coombes... Date: 23 November 2023 Name of Decision Taker: Cllr Graeme Coombes

This is a public document. A copy of it must be given to the Chief Officer for Legal, Performance and Democratic Services as soon as it is completed.

Date decision published: ....23November2023..

Date decision can be implemented if not called in: ...RecommendationstoFullCouncilarenoteligibleforcallin...

(Decision to be made exempt from call in.........N/A.......)

For publication

Executive Decision

23 November 2023

Report by: Portfolio Holder for Finance, Risk and Welfare

Subject: Capital Strategy and Treasury Management Strategy Update

1 EXECUTIVE SUMMARY

1.1 To provide an update on the Treasury Management and Capital Strategies including prudential indicators as requested by Full Council in light of the revised Capital Programme Update Report considered by Executive on 18 October 2023.

2 RECOMMENDATION

2.1 **Approve the updated Treasury Management Strategy and Capital Strategy including the updated Prudential Indicators for recommendation to Full Council.**

3 REASONS FOR RECOMMENDATION

3.1 To enable Members to consider the revised strategies and prudential indicators alongside an updated Capital Programme at Full Council on 29 November 2023.

4 THE CURRENT POSITION

4.1 The Treasury Management Strategy and Capital Strategy were approved by Full Council on current capital programme was approved by Full Council on 1 February 2023.

5 DETAILS

Background

5.1 At its meeting on 11 October 2023, Full Council received the Treasury Management Annual Report 2022/2023 during which reference was made to the Capital Programme Update which was due to presented to Executive on 18 October 2023. It was agreed by Full Council that an additional recommendation be made to the report as follows:

"That in considering the Treasury Management Annual Report 2022/23, Full Council requests the Executive to submit a revised Capital Strategy and Treasury Management Strategy (both including updated prudential indicators) at the same Full Council meeting as the updated Capital Programme, given that the proposed new Capital Programme is not consistent with the current strategies."

5.2 The Capital Strategy is included at **Appendix A**, and the Treasury Management Strategy is shown at **Appendix B**. Amendments to the two documents are detailed below. For the most part the changes reflect changes to update the financial information to reflect the position as at October 2023 related to the Council's draft Capital Programme, investments and the related Prudential Indicators.

Treasury Management Strategy

5.3 It should be noted that the function of the Treasury Management Advisory Panel (TMAP) is to make recommendations to the Executive on treasury management policies and strategy. The proposed amendments have not at this stage been agreed by the Panel, which will review an updated Strategy for 2024/2025 as planned at its meeting on 11 January 2023 for onward recommendation to Executive on 25 January 2023.

5.4 The key changes shown with red and strikethrough in the Strategy include:

- Paragraph 5.2 – Internal borrowing will be utilised wherever possible.
- Paragraph 5.3 – References the new Strategies in the Capital Programme and that they will be subject to a business case and evidence that any borrowing is prudent and affordable.
- Paragraph 7.2 – Recognition that internal borrowing will be exhausted during the life of the Capital programme and that long-term borrowing will be required.
- Paragraph 7.3 – Consideration should be given whether to redeem any long-term investments ahead of any decision to undertake long-term borrowing.

Capital Strategy

5.5 The changes are shown with red and strikethrough in the Strategy; the key changes are:

- Paragraph 2.2 – Updated to reflect the new Corporate Plan Priorities.
- Paragraph 3.1 – Updated to include the new Capital Strategies included in the Capital Programme.
- Annex A – Prudential indicators have been updated to reflect the latest Capital Programme agreed by the Executive in October 2023 with the extension to include the 2026/2027 financial year.

5.6 Indicator 4 sets out the Authorised Limit and Operational boundary for which determines the total amount the Council will be able to borrow. The maximum levels of borrowing as a result of the draft Capital Programme is within these limits.

5.7 Indicator 5 – Estimates of the proportion of financing costs to net revenue stream is a national indicator. For transparency the comparison of the latest financing costs, compared to the original Programme as approved by Full Council in February 2023 is shown below. It should be noted that there are a number of variables affecting these financing costs including the level Reserves and Balances available to fund internal borrowing, revenue contributions to capital and the level of capital receipts in addition to the new strategies that are proposed in the Capital Programme.

	2022/2023 Actual £'000	**2023/2024 Forecast £'000**	**2024/2025 Forecast £'000**	**2025/2026 Forecast £'000**	**2026/2027 Forecast £'000**
Financing costs (Full Council Feb 2023)	7,298	7,381	7,287	7,100	
Proportion of net revenue stream (Full Council Feb 2023)	5.1%	4.7%	4.2%	3.7%	
Latest / Actual – Financing costs	**7,920**	**7,902**	**8,263**	**7,533**	**7,279**
Latest / Actual – Proportion of net revenue stream	**4.8%**	**5.0%**	**4.9%**	**4.2%**	**4.0%**

6 KEY IMPLICATIONS

7.1 Legal Issues	The Local Government Act 2003 provides the legal basis for capital finance, namely a general power to borrow and a duty to set an affordable borrowing limit. The Local Authorities (Capital Finance and Accounting) Regulations 2003 provides operational detail and specifically states that Authorities must have regard to CIPFA's Prudential Code when setting and reviewing borrowing limits. Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code).
7.2 Policy Issues	The Capital Strategy is one of the fundamental resource management strategies of the Council which should be reviewed annually to determine its ongoing appropriateness in relation to the capital control framework. The Capital Strategy provides the framework for: • considering bids for inclusion in the Capital Programme • maximising and allocating the finance available for investment • determining the Council's capital investment priorities • achieving Value for Money from capital schemes • ensuring an ongoing review process • enabling the implementation process of approved schemes • partnership working • cross cutting issues • performance measurement • Minimum Revenue Provision The Council has approved a Treasury Management Policy, Treasury Management Strategy and Responsible Investment Policy, which, together with established Treasury Management Practices, set out the parameters by which staff operate the Council's Treasury Management functions on a day-to-day basis. The Council's Capital Strategy sets the framework for the Capital Programme and incorporates Prudential Indicators that are set to ensure that capital investment is prudent, sustainable and affordable. It provides the overarching capital strategy and linkage to the priorities of the Corporate Plan, Directorate Service Plans and the Corporate Asset Plan. The Capital Strategy requires the Council to undertake public consultation on proposed new scheme bids for inclusion in the Council's Capital Programme.

7.3 Resource Issues	The Capital Strategy sets out how the Council determines its capital investment priorities in particular in relation to corporate priorities taking into account the capital resources available including borrowing in line with the Council's approved Prudential Indicators. A review of the Treasury Management and Capital Strategies do not give rise to specific additional resource requirements. The impact of any changes would be reflected in the Capital Programme, the implications of which will need to be included in the General Fund Revenue Budget and Medium-Term Financial Strategy. The Capital Programme is funded from a number of sources including specific funding (grants), revenue contributions, capital receipts and borrowing. Borrowing defrays the cost of the capital spending over a predetermined period of time and gives rise to Minimum Revenue Provision (MRP) requiring the setting aside of Revenue Budget for the repayment of debt. The overall programme must be assessed in terms of the estimated revenue implications of each scheme including the impact on Council Tax in terms of affordability.
7.4 Risks	The purpose of the Capital Strategy is to provide a key financial planning and resource management tool for the Council. An effective strategy for capital investment provides the framework for eliminating the risk of approving schemes which: • are not affordable in either capital or ongoing revenue terms; • do not meet legal obligations or the Council's key stated priorities. Compliance with the approved Treasury Management Strategy and associated Treasury Management Practices seeks to mitigate risks inherent with the Treasury Management function. The Council engages an external Treasury Management Adviser to provide appropriate and timely advice on the Council's treasury portfolio (and, in particular, to provide advice on counter-party creditworthiness and investment limits). This appointment is regarded as critical given the investment risks.
7.5 Environmental Implications	The Council incorporates Environmental, Social & Governance (ESG) factors into its investment analysis and decision-making. The Responsible Investment Policy 2023/2024 reflects the Council's investment beliefs and policy objective in respect of the fossil fuel industry.

7.6 Equalities Impact	The activity has no relevance to Bedford Borough Council's duty to promote equality of opportunity, promote good relations, promote positive attitudes and eliminate unlawful discrimination. An equality impact assessment is not needed.
7.7 Impact on Families	The activity has no implications for Families.
7.8 Community Safety and Resilience	The activity has no implications for Community Safety and Resilience.
7.9 Impact on Health and Wellbeing	The activity has no implications for Health and Wellbeing.

7 SUMMARY OF CONSULTATIONS AND OUTCOME

7.1 The following Council units or Officers and/or other organisations have been consulted in preparing this report:

Portfolio Holder for Finance
Management Team

7.2 No adverse comments have been received.

8 WARD COUNCILLOR VIEWS

8.1 The Ward Councillor is supportive of the approach to primary education in Sharnbrook and educational benefits it will bring.

9 CONTACTS AND REFERENCES

Report Contact Officer	Julie McCabe, Assistant Chief Executive (Finance) and Chief Finance Officer e-mail: julie.mccabe@bedford.gov.uk Mike Batty, Manager for Technical Finance e-mail: mike.batty@bedford.gov.uk
File Reference	
Previous Relevant Minutes	Minute 28(b), Full Council 12 July 2023 Minute 95(c), Full Council 1 February 2023
Background Papers	None
Appendices	Appendix A – Capital Strategy Appendix B – Treasury Management Strategy

APPENDIX A

BEDFORD BOROUGH COUNCIL

CAPITAL STRATEGY

2023 - 2026

Councillor Graeme Coombes
Financial Portfolio Holder

Julie McCabe
Assistant Chief Executive (Finance) & Chief Finance Officer

1. INTRODUCTION

1.1. This Capital Strategy provides a **high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability**. The Strategy includes sufficient detail to allow Members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and how this meets legislative requirement on reporting.

2. STRATEGIC OBJECTIVES

2.1. The Council's long-term vision is being still being developed; an outline Corporate Plan was approved by the Executive in October 2023 which set out four priorities:

- Supporting our families and the vulnerable
- Protecting the Environment
- Stimulating Economic Growth
- Promoting Health and Wellbeing

~~in the Corporate Plan **'Together Bedford Borough'**. Four goals guide the approach, each focussed on enhancing Bedford Borough as a place where people, communities and businesses can grow and realise their potential.~~

2.2. The Corporate Plan is seen as an integral element of the "golden thread" linking the Bedford Borough Strategic Partners Board's Sustainable Community Strategy (SCS) to the Council's Directorate Service Plans and its Capital Strategy. The Capital Strategy supports the achievement of the Council's vision through town centre regeneration, investment in leisure services, supporting the delivery of the primary care estate and the delivery of key infrastructure to support growth and improvement in services, and through improvements to the assets the Council owns, services and systems that the Council utilises.

- ➢ The **Corporate Plan** and other key plans and strategies can be found on the Council's website under the section Key Plans and Strategies.

3. INVESTMENT PRIORITIES

3.1. The major themes of the Capital Programme are:

- **Town Centres Regeneration** – The Council's Bedford and Kempston town centre vision is "Creating town centres that people are proud to live in and excited to visit". The vision will be delivered through a series of short, medium and long term projects working in partnership with a range of delivery partners. The Council has also secured £22.6 million from the Central Government (Town Deal) for Bedford town centre development to drive economic regeneration and deliver long-term economic growth and productivity growth. The investment will be used to help regenerate the Station Quarter, Midland Road and St Paul's Square.

- **Primary Care Estate** – The Council is taking a strategic approach to working with the Integrated Care Board and wider health partners to support the delivery of new and improved health estate/GP surgeries across Bedford Borough.

- **Leisure Complex & Asset Refurbishment** – A Vision Statement and Strategy for Leisure is being developed that sets out a detailed plan for the future investment, integration and delivery of the range of local services and facilities including the development of a new Leisure Village incorporating the provision of a new purpose-built leisure facility to bring modern state of the art ultra-low carbon facilities and a range of community activities.

- **Efficiency through Technology** & Service Transformation - The Council is investing in technology to deliver an Operating Model that is transforming how services are delivered and in so doing reduce operating costs.

- **Strengthen the Council's Asset Base** - Significant investment is committed in the capital programme towards maintaining and enhancing the Council's assets, the net book value of which stood at £739 million at the beginning of the financial year 2023/2024 (*source: balance sheet comprising of property, plant and equipment plus investment property*).

- **Highways' & Transport Improvements** – The Council is committed to investment in maintaining and improving road and pavements, including resurfacing of the Paula Radcliffe Way (A6) in addition to the Central Government grant funding for Highways' improvements. The Council is committed to delivering a new railway station at Wixams and securing East-West Rail through Bedford.

- **Provide Schools that are Fit for Purpose** - The school estate will be fit for purpose, with the removal of all temporary classroom accommodation across the Borough and extra capacity provided to meet the needs of a growing population. In addition a new Special School will be built to provide education for pupils with special educational needs and disabilities (SEND).

- **Delivering Housing Needs** – The Council is committed to addressing short term accommodation needs in Bedford having converted vacant properties into temporary accommodation and approval of a capital investment programme to acquire suitable properties to ensure a reliable standard of accommodation is available to those in need.

- **Climate Change** – The Council has committed to its activities being carbon neutral by 2030. Mitigating and adapting to climate change is now embedded within the Council's decision making and it is important that capital investments make a positive contribution to the Carbon Reduction Action Plan set out in the Carbon Reduction Strategy. Initiatives include reducing new vehicle emissions, use of electric vehicles, making Council buildings more efficient and installation of solar PV panels. Projects also include investing in pedestrian and cycling improvements to encourage more sustainable modes of transport.

4. CAPITAL EXPENDITURE AND FINANCING

4.1. Capital expenditure is where the Council spends money on assets, such as property or vehicles that will be used for more than one year. For local government this includes spending on assets owned by other bodies, i.e. loans and grants enabling them to acquire assets. The Council has limited discretion on what counts as capital expenditure; capital spending below £10,000 (de-minimus) is not capitalised and as such is charged to revenue.

➢ The Council's policy on capitalisation is contained in the **Capital Code of Practice**

4.2. Details of gross capital expenditure approved in the current three year rolling Capital Programme are set out in Annex A ***Prudential Indicator 1: Estimates of Capital Expenditure***.

4.3. Under certain circumstances the Council acts as an intermediary for central government in relation to transferring specific capital grants to third parties. Some schemes are subject of match funding arrangements whereby the receipt of funding by the Council is conditional upon certain grant conditions being fulfilled. The Council is committed to actively working with partners in the public, private and voluntary sectors to maximise the capital investment for the Borough in order to promote the social, economic and environmental wellbeing of the Borough and its residents.

➢ Full details of the Council's capital expenditure plans can be found in the most recent **Capital Programme** approved by Full Council.

Governance

4.4. The Council has an established Capital Asset Forum (CAF) which is comprised of senior officers representing each of the main services that have capital schemes. This group is chaired by the Director of Corporate Services and meets regularly to review the Council's capital investment performance. The CAF ensures synergy between the Corporate Asset Plan the Capital Strategy and other relevant plans/strategies. CAF meeting dates are scheduled to reflect the financial cycle in relation to asset management. In approving the annual Capital Strategy, the Council is providing a mechanism, for the Council, the Executive and its officers to review its capital investment needs and thus manage, measure and monitor progress against the Capital Programme.

4.5. All capital bids require a robust business case to be prepared before investment decisions are made. Business cases are collated by the Finance Team who calculate the financing costs (which can be nil if the project is externally financed). CAF in conjunction with Management Team review the bids to ensure that investment is targeted towards corporate priorities, is affordable in both capital and revenue terms and make good business sense. Executive and Full Council approve updates to the Capital Programme each year.

4.6. In addition to CAF to assist the governance of school places capacity planning a School Places Board has been put into place ~~chaired by the Mayor and~~ which includes the Portfolio Holder for Children's Services. The Board is supported by officers across the Council.

4.7. The Council is committed to consulting with local residents and other key stakeholders each year on appropriate Capital Schemes. The results of public consultations will be reported to Council for deliberation through the Executive as part of the approval process.

Capital Financing

4.8. All capital expenditure must be financed, either from external sources (government grants / external contributions), the Council's own resources (revenue, reserves, and capital receipts) or debt (borrowing and leasing). The planned financing of capital expenditure is set out in the Capital Programme.

4.9. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as Minimum Revenue Provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance.

- The Council's full Minimum Revenue Provision statement is at Annex B to this Strategy.

4.10. The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The planned Capital Financing Requirement is set out in Annex A ***Prudential Indicator 2: Estimates of Capital Financing Requirement.***

4.11. The Council will maximise capital resources from capital receipts, grants and contributions and other funding vehicles to finance the capital programme; debt has a direct impact on the revenue budget, further emphasising the need to ensure the capital proposals are prudent, sustainable and affordable.

4.12. In line with Government guidance, the Council's Corporate Asset Plan requires that property assets not needed for Council services or functions should be disposed of for "best consideration". The resultant capital receipts form an element of the directly provided Council finance for the approved capital investment programme

4.13. The Council will seek to maximise developer contributions (e.g. for the provision of affordable housing or sustainable community needs) through the Section 106 process and the Community Infrastructure Levy. The Community Infrastructure Levy will be used in accordance with statutory requirements.

4.14. School capital funding is enhanced by contributions from schools in accordance with the Scheme for Financing Schools

Asset Management

4.15. To ensure that capital assets continue to be of long term use, the Council has a ***Corporate Asset Plan (CAP).*** The CAP priorities are to:

1) Manage our assets strategically as a corporate resource and continue to embed the Corporate Landlord model
2) Support and empower local people by providing the right property, in the right place, at the right time
3) Provide value for money and secure efficiencies for the future
4) Support economic growth and regeneration by supporting and responding to local business needs
5) Work effectively with partners to maximise sharing and delivery opportunities
6) Reduce the environmental impact of our estate through initiatives such as energy reduction/efficiencies

- The **Corporate Asset Plan** can be found on the Council's website under Key Plans and Strategies.

Asset Disposals

4.16. When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be used to fund investment on new assets or to repay debt. The Council is currently also permitted to spend capital receipts on service transformation projects until 2024/2025 based on the Direction issued by the Secretary of State under Sections 16(2)(b) and 20 of the Local Government Act 2003: Treatment of costs as capital Expenditure. Repayments of capital grants, loans and investments also generate capital receipts.

- The Council's **Flexible Use of Capital Receipts Policy** is set out below

The Council may treat as capital expenditure, expenditure which although in normal circumstances is a revenue cost is deemed to be Capital Expenditure consistent with Capitalisation Directions issued by DLUHC for the period 2022/2023 to 2024/2025.The Capitalisation Direction sets out the categories of revenue that can be deemed capital and the reporting requirements applicable. All revenue expenditure that is capitalised should give rise to ongoing revenue savings, i.e. transformational in nature. The type of revenue spend, limits on spending and the savings arising from this are required to be set out in a schedule and approved by Full Council (as part of the Capital Strategy). The spending limits cannot be exceeded without further approval by Full Council.

Over the period 2022/2023 to 2024/2025 no use is made of the flexibility.

5. TREASURY MANAGEMENT

5.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts. The Council typically has cash available in the short-term as revenue income is received before it is spent, but in the long-term capital expenditure is incurred before being financed. The short term revenue cash balances are offset against capital expenditure to reduce overall borrowing.

5.2. The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loan Board.

5.3. The Council currently has £57.4 million borrowing (31 October 2023) at an average interest rate of 4.46% and £49.7 million of treasury investments at an average rate of 5.01%.

Borrowing Strategy

5.4. The Council’s main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between less costly short term loans (currently available at around 5.30% to 5.50%) and long term fixed rate loans where the future cost is known but higher (currently 5.0% to 5.6%).

5.5. Projected levels of the Council’s total outstanding debt (which comprises borrowing and lease liabilities) compared with the Capital Financing Requirement are shown in Annex A ***Prudential Indicator 3: Gross Debt and the Capital Financing Requirement.*** Debt remains below the Capital Financing Requirement as required by statutory guidance.

Affordable Borrowing Limit

5.6. The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit. The Limits are set out in Annex A ***Prudential Indicator 4: Authorised Limit and the Operational Boundary for External Debt.***

Treasury Investment Strategy

5.7. Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain (i.e. commercial venture with a long term revenue stream anticipated) are not considered to be part of treasury management.

5.8. The Council’s policy on treasury investment is to prioritise security and liquidity over yield; that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice. The Council’s Responsible Investment Policy incorporates Environmental, Social and Governance (ESG) factors into investment analysis and decision making.

Governance

5.9. Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Assistant Chief Executive (Finance) being the Council's Chief Finance Officer and appropriately qualified staff, who must act in line with the Treasury Management Strategy approved by Council. Reports on treasury management activity are presented to Treasury Management Panel and Executive.

- Further details on the Council's borrowing and treasury investments are found in the **Treasury Management Strategy Statement** approved annually in February each year by Full Council

6. INVESTMENTS FOR SERVICE OR COMMERCIAL PURPOSES

6.1. The Council has an established investment property estate, which Bedford Borough Council took ownership of when it was formed following the local government reorganisation in 2009. A Borough Development and Regeneration Fund is also established which actively contributes to the goals set out in the Corporate Plan. The strategic priority for this Fund and the investment property estate is to generate economic growth through providing facilities and infrastructure that will enable business start-up and growth, create employment opportunities and strengthen the local economy. Financial return is also a key objective (i.e. not a subsidised provision) to generate a financial payback from investment and acquisitions. Total investment property is currently valued at £81.557 million (31 March 2023) providing a net income after all costs of £4.5 million (5.5%).

6.2. The Council accepts higher risk on investment property than with treasury investments. The principal risk exposures include vacancy rates due to market conditions and external economic influences; potential reduction in both rental and capital values due to market changes; obsolescence due to changing demand and technological changes; and the impact of Minimum Energy Efficiency Regulations 2015. These risks are managed by the Council's Asset and Estate Management Service through proactive estates management practices and regular reviews of the performance of each asset. ~~In order that property investments remain proportionate to the size of the authority, further investment is subject to an overall maximum investment limit set out in the capital programme (Borough Development and Regeneration Fund).~~

Governance:

6.3. Decisions on investment properties are made by the Assistant Chief Executive (Finance) & Chief Finance Officer and the Chief Officer for Commercial Services & Business Transformation in consultation with Management Team and CAF, the relevant Portfolio Holders and the Portfolio Holder for Finance, in line with the criteria and limits approved by Council in the Borough Development and Regeneration Fund Strategy. Property and other commercial investments are capital expenditure and as such form part of the Council's capital programme.

- Risk management of investment property is detailed in the **Investment Practices** which comply with the Prudential Code.

7. REVENUE BUDGET IMPLICATIONS

7.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs. Financing costs (before deducting investment income – a change under the revised Prudential Code 2021) is compared to the net revenue stream i.e. the amount funded from Council Tax, Business Rates and general Government Grants. Forecasts are set out in Annex A ***Prudential Indicator 5: Proportion of Financing Costs to Net Revenue Stream.***

Sustainability

7.2. Due to the very long term nature of capital expenditure and financing, the revenue budget implications of capital expenditure incurred in the next few years could potentially extend for up to 50 years into the future. The Capital Programme is formulated within the financial constraints of the Council's Prudential Indicators set out in this Strategy. In assessing affordability the Council takes a whole life costing approach to capital investment decisions whereby the Council not only has to consider the availability of internal and external resources but also has to quantify the impact of such investment decision on future revenue budgets and tax payers. The Council is committed to achieving value for money when making capital investment decisions and complies with the regulations relating to the Prudential Framework for Capital Finance and reporting requirements set out in the Code of Practice on Local Authority Accounting. The Assistant Chief Executive (Finance) as the Council's Chief Finance Officer is required, under Section 25 of the Local Government Act 2003, to report on the robustness of estimates (in relation to the proposed budget) and the adequacy of financial reserves. This Report takes into account the Council's capital investment plans and as such incorporates the Prudential Code requirements of the proposed capital programme being prudent, affordable and sustainable.

8. KNOWLEDGE AND SKILLS

8.1. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Assistant Chief Executive (Finance) & Chief Finance Officer is a qualified accountant with 25 years' experience. The Chief Officer for Financial Control and Manager (Business Partner) for Financial Control have 35 years combined experience. A Treasury Management Accountant with Treasury qualification and relevant experience completes the structure which will ensure the Council meets the requirements of MiFiD II Professional Investor. The Chief Officer for Commercial Services & Business Transformation has significant experience and is supported by RICS qualified team members. The Council supports junior staff to study towards relevant professional qualifications including CIPFA, ACT (treasury) and RICS.

8.2. Where Council staff do not have the knowledge and skills required, use is made of external advisors and consultants that are specialists in their field. The Council currently contracts Arlingclose Limited as Treasury Management advisors and where property consultants are required they will be RICS qualified and Registered Valuers. The use of consultants is more cost effective than employing such staff directly, and ensure that the Council has access to knowledge and skills commensurate with its risk appetite. Councillors undertake training on treasury management and the Prudential Code through the Treasury Management Panel which meets twice a year.

9. REFERENCE DOCUMENTS

9.1. This Strategy covers the requirements of the updated 2021 Prudential Code, including the Prudential Indicators.

- CIPFA Prudential Code for Capital Finance in Local Authorities 2021 Edition
- CIPFA Prudential Code for Capital Finance in Local Authorities Guidance Notes for Practitioners 2021 Edition
- CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2021 Edition
- CIPFA Guidance on Prudential Property Investment
- CIPFA Code of Practice on Local Authority in the United Kingdom 2022/23
- Statutory Guidance on Local Government Investment (3rd Edition) 2018
- Statutory Guidance on the Minimum Revenue Provision 2018

CAPITAL PRUDENTIAL INDICATORS

The Prudential Indicators and Limits are based on currently known information and, in particular, the capital programme presented along with the approval of this Strategy. Consequently, the indicators and limits set out below are subject to change (e.g. if any amendments are made to the capital programme).

These indicators and limits are to ensure the Council manages its finances in a clear and transparent manner, and that the impact of capital expenditure decisions on current and future budgets is understood.

1. Estimates of Capital Expenditure (National Indicator)

This indicator provides the level of gross capital expenditure that is estimated to be incurred. The estimated expenditure includes schemes where funding has already been approved.

	2022/2023 Actual £000	2023/2024 Budget £000	2024/2025 Forecast £000	2025/2026 Forecast £000	2026/2027 Forecast £000
Capital Expenditure	51,940	157,651	106,593	56,384	32,692

2. Estimates of Capital Financing Requirement (National Indicator)

This indicator provides a limit for which net external borrowing will not be exceeded, except on a short-term basis. The Council has met this requirement in previous years and there are no difficulties envisaged in the current or future years based on current plans and policies known at this time.

	2022/2023 Actual £000	2023/2024 Budget £000	2024/2025 Forecast £000	2025/2026 Forecast £000	2026/2027 Forecast £000
Capital Financing Requirement	147,232	179,222	184,001	185,043	182,719

3. Gross Debt and the Capital Financing Requirement (National Indicator)

Statutory guidance is that debt should remain below the capital financing requirement, except in the short term. As can be seen from the indicator, the Council expects to comply with this in the medium term. The forecasts for debt are based on the following assumptions:

- capital expenditure is incurred at the rate shown in the published Capital Programme.
- strategic pooled fund investments of £37.000 million are held and not used to offset new borrowing.

Experience shows that the rate of capital expenditure is often slower than the levels set out in the capital programme. ~~so it is anticipated that no new borrowing will be required over the forecast period.~~ Decisions around borrowing, if required, will be made in the context of the overall longer-term financial position of the authority and will include an assessment of whether to redeem strategic pooled investments instead of borrowing.

	2022/2023 Actual £000	**2023/2024 Budget £000**	**2024/2025 Forecast £000**	**2025/2026 Forecast £000**	**2026/2027 Forecast £000**
Debt (including leases)	60,254	95,664	106,394	102,129	102,128
Capital Financing Requirement	147,232	179,222	184,001	185,043	182,719
Difference	**-86,978**	**-83,558**	**-77,607**	**-82,914**	**-80,591**
Debt Forecast (from Treasury Management Strategy)		**55,543**	**53,833**	**53,953**	**64,105**

The Debt Forecast set out in the Treasury Management Strategy is included in the table above. The forecast shown includes lease liabilities and planned new borrowing. ~~This shows the existing debt profile and no new or replacement borrowing~~. A slower rate of capital expenditure is anticipated (compared to the published programme) and redemption of strategic pooled funds may be considered instead of ~~necessary to avoid~~ taking on new borrowing in the medium term.

4. Authorised Limit and the Operational Boundary for External Debt (National Indicator)

This Authorised Limit determines the maximum total amount the Council will be able to borrow. The limit for Other Long Term Liabilities is set to accommodate the new leasing Accounting Standard IFRS 16 (adopted by CIPFA in the Code of Practice on

Local Authority Accounting from 1 April 2024) which requires all leases and rental agreements to be held on the Council's Balance Sheet as an asset and lease liability. The Operational Boundary indicator represents the prudent level of borrowing and will be reviewed annually. External debt at 31 October 2023 comprised of borrowing £57.390 million and other long term lease liabilities of £0.071 million, both below the respective limits.

	2023/2024 Limit £000	**2024/2025 Limit £000**	**2025/2026 Limit £000**	**2026/2027 Limit £000**
Authorised limit – borrowing	170,000	170,000	170,000	170,000
Authorised limit – other long term liabilities	10,000	10,000	10,000	10,000
Authorised limit – total external debt	**180,000**	**180,000**	**180,000**	**180,000**
Operational boundary – borrowing	160,000	160,000	160,000	160,000
Operational boundary – other long term liabilities	10,000	10,000	10,000	10,000
Operational boundary – total external debt	**170,000**	**170,000**	**170,000**	**170,000**

5. Estimates of the proportion of financing Costs to net revenue stream (National Indicator)

This indicator provides the ratio of financing costs to the Council's estimated net revenue expenditure budget (i.e. the expenditure financed by the revenue support grant, business rate redistribution, council tax and collection fund surplus share). Under the updated Prudential Code 2021, investment income is no longer netted off financing costs. Prior year comparators have therefore been updated.

The profile of Financing Costs is set out below has been incorporated into the Council's Medium Term Financial Plan.

	2022/2023 Actual £000	**2023/2024 Budget £000**	**2024/2025 Forecast £000**	**2025/2026 Forecast £000**	**2025/2026 Forecast £000**
Financing costs	7,920	7,902	8,263	7,533	7,279
Proportion of net revenue stream	4.8%	5.0%	4.9%	4.2%	4.0%

Minimum Revenue Provision Policy

1. MINIMUM REVENUE PROVISION POLICY

1.1. Local Authorities are required to charge to their revenue account each year a Minimum Revenue Provision (MRP) in relation to capital spend that has yet to be financed, i.e. borrowing. The Capital Financing Requirement (CFR) reflects the underlying need to borrow to finance capital expenditure. The MRP should be prudent and, although it is for each authority to determine the amount, the published guidance by the Government is “local authorities should align the period over which they charge MRP to one that is commensurate with the period over which their capital expenditure provides benefits”.

1.2. The MRP policy is set out below:

(1) For debt relating to periods before 1 April 2009, the MRP will be based on 2% of outstanding CFR, on a straight-line basis over 50 years.
(2) For capital expenditure financed by borrowing between 1 April 2009 and 31 March 2016, the MRP will be based on a straight-line basis, using equal annual instalments over the average estimated life of the assets created during the year.
(3) For capital expenditure financed by borrowing from 1 April 2016 onwards, the MRP will be based on a straight-line basis, using equal annual instalments over an estimated asset useful life, once the asset is operational.
(4) For assets financed through Finance Leases, the MRP will be equal to the annual principal repayments.
(5) For Capitalised provisions (e.g. Elstow Landfill), the MRP will be based on a straight-line basis, using equal annual instalments over the average estimated life of the asset once completed, but offset by adjustments due to the unwinding of the cash discount used to create the provision initially.
(6) Capital receipts received in year will be used to finance assets in line with in year capital financing decisions.
(7) Investments in Council Wholly Owned Companies, in the form of borrowing or equity, will be provided for in accordance with the most recent statutory guidance and informal commentary issued by Secretary of State under the Local Government Act 2003 and in accordance with the proposed amendments which are expected to be implemented in April 2024. MRP will be exempt on loans, because they are financed by the application of the capital receipts arising from the principal repayments of that capital loan. MRP on equity will be provided for over 20 years in line with CIPFA guidance.
(8) Overpayments of MRP (i.e. where the Council has made a voluntary overpayment) can be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until 31 March 2023 total overpayments were £0.

APPENDIX B

BEDFORD BOROUGH COUNCIL

TREASURY MANAGEMENT STRATEGY STATEMENT

2023 - 2024

1. BACKGROUND

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition (*the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

1.2 This Strategy fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA code and the Department for Levelling Up. Housing and Communities (DLUHC) Guidance.

1.3 The purpose of this Treasury Management Strategy Statement (TMSS) is, therefore to approve:

- Treasury Management Strategy for 2023/2024
- Treasury Management Indicators for 2023/2024

1.4 The Council has borrowed and invested substantial sums of money and, therefore, has potential exposures to financial risks including the loss of invested funds and the effect of changing interest rates. The successful identification, monitoring and control of risk, is therefore central to the Council's Treasury Management Strategy.

1.5 Treasury risk management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Authority to approve a Treasury Management Strategy before the start of each financial year.

2. STRATEGIC OBJECTIVES

2.1 The strategic objectives set out in this report flow from the Treasury Management Policy Statement and Responsible Investment Policy.

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

2.3 The Council will have regard to the security and liquidity of its investments before seeking the highest rate of return or yield.

2.4 The Council will incorporate Environmental, Social & Governance (ESG) factors into investment analysis and decision making enabling long-term sustainable investment performance.

2.5 To move towards the zero carbon future and the "Just Transition" from fossil fuels, the Council will transition to asset management strategies that do not invest in the fossil fuel sector. By 31 March 2035 at the latest, the Council will divest from fossil fuel companies and reinvest in environmentally sustainable businesses.

3. ROLE OF TREASURY MANAGEMENT ADVISORY PANEL

3.1 The Treasury Management Advisory panel is responsible for making recommendations to the Executive on treasury management policies and strategies.

3.2 The Panel receives reports from the Assistant Chief Executive (Finance) & CFO on treasury management policies and strategies.

3.3 Members of the Panel are responsible for ensuring that they have the necessary skills and training to properly discharge their responsibilities to the Council's treasury management function.

4. ROLE OF SECTION 151 OFFICER

4.1 The Assistant Chief Executive (Finance) & CFO, as Section 151 Officer, has delegated responsibility to implement and monitor the Treasury Management Policy, Responsible Investment Policy and Treasury Management Strategy Statement approved by the Council.

4.2 All monies in the hands of the Council are controlled by the Assistant Chief Executive (Finance) & CFO.

4.3 Decisions on borrowing, investment or financing are taken by the Assistant Chief Executive (Finance) & CFO.

4.4 The Assistant Chief Executive (Finance) & CFO is responsible for reporting to the Council on treasury management issues as follows:

- An annual report on the policy adopted and strategy to be pursued in the coming year for Treasury Investments, to include treasury management indicators.
- An annual report on the performance of the treasury management function, for the previous year.
- Mid-year review of the Treasury Management Strategy including a review of current year performance.

4.5 To ensure that members and officers with treasury management responsibilities have access to training relevant to their needs and responsibilities.

5. BACKGROUND

5.1 As at ~~30 November 2022~~ 31 October 2023 the Authority held ~~£65.172~~ £57.4 million of borrowing and ~~£86.964~~ £49.7 million of investments. This is set out in further detail at **Annex B**. Forecast changes in these sums are shown in the balance analysis in **Annex C.**

5.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable Reserves and working capital are the underlying resources available for investment. The Council's ~~current~~ strategy is to maintain borrowing and investments below their underlying levels (internal borrowing) wherever possible.

5.3 The proposed Capital Programme includes a number of new Strategies which represent the priorities of the new Mayor and Administration. These Strategies represent generic budgets that will require approval of a detailed and robust business case and a further report to the Executive/Full Council as appropriate. Each business case will need to evidence that any borrowing is prudent and affordable, taking into account any revenue streams arising from the investment.

5.4 The Council ~~is planning to~~ pre-paid ~~y~~ the Local Government Pension Scheme (LGPS) deficit contribution for the three years 2023/2024 to 2025/2026 of circa £16 million in April 2023 as determined by the Actuarial Valuation for the period 2023 to 2026. Payment will be funded from cash balances and will unwind over three years ending 2025/2026.

5.5 The Council has an increasing CFR due to investment in the capital programme, as shown in Treasury Management Indicator E.

5.6 CIPFA's prudential code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. **Annex C** shows that the Authority expects to comply with the recommendation.

5.7 The external context, economic backdrop and interest rate forecast is shows in **Annex A**.

6. LIABILITY BENCHMARK

6.1 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing, see Treasury Management Indicator E. This assumes the same forecasts as **Annex C**, which includes a liquidity allowance of £10 million at each year end as required under the Treasury Management Code 2021.

6.2 Following on from the medium term forecasts in **Annex C**, the long term liability benchmark assumes income, expenditure and Reserves all remaining flat until 2030, then increasing by inflation of 2% a year.

7. BORROWING STRATEGY

7.1 The Authority is forecast to hold £59.804 million of long term loans with scheduled PWLB repayments of £4.820 million during the year. Based on the latest approved Capital Programme and allowing for slippage there is no requirement to undertake borrowing for capital financing purposes in 2023/2024 however there may be an occasional operational cash flow need that requires short term borrowing to be taken particularly with regard to scheduled PWLB repayments.

7.2 Looking forward to 2024/2025 to 2026/2027 the liability benchmark indicates a reducing capacity to internally borrow. The Council may therefore need to raise external loans to meet minimum liquidity needs. Ahead of any decision to undertake any long-term borrowing the Authority will consider whether it is appropriate to redeem any of its long-term investments in light of the Council's objectives to divest of any investments in fossil fuels and the relative costs of redeeming the investment in comparison to borrowing costs. The risks of each option will be evaluated and discussed with the Council's treasury management advisors at the appropriate time.

7.3 The Authority could borrow in addition to this to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £180 million.

7.4 **Objectives:** The Authority's primary objective when borrowing money is to strike an appropriately low risk balance between securing low interest rates and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

7.5 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently lower than long-term rates, it is likely to be more cost effective and lower risk to either use internal resources or to borrow short-term loans instead of long-term loans, which commits the Council to many years of interest payments.

7.6 By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing and/or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The Council's treasury adviser will assist the Authority with this 'cost of carry' and breakeven analysis. This may determine whether the Authority borrows additional sums at long-term fixed rates in 2023/2024 with a view to keeping future interest costs low, even if this causes additional cost in the short-term. Forward starting loans, where the interest rate is fixed, but the cash is received at an agreed future date may also be considered. This would enable certainty to be achieved without suffering a cost of carry in the intervening period.

PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council has no investment plans that meet the definition so access to the PWLB is retained.

7.7 **Sources:** The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Bedfordshire Pension Fund)
- Municipal Bond Agency
- Capital Market Bond Investors

In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- sale and leaseback

7.8 **Municipal Bond Agency:** UK Municipal Bonds Agency was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons:

- Borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason
- There will be a lead time of several months between committing to borrow and knowing the interest rate payable

Any decision to borrow from the Agency will therefore be the subject of a separate report to Full Council.

7.9 **LOBOs:** The Council holds £7.960 million of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. £7.960 million of these LOBOS have options during 2023/2024, and with interest rates having risen recently, there is now a small chance that lenders will exercise their options. If they do, the

Authority will evaluate the option to repay LOBO loans to reduce refinancing risk in later years. Total borrowing via LOBO loans will be limited to £20 million.

7.10 **Short-term and Variable Rate loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.

7.11 **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The rise in interest rates during 2023/2024 means that more favourable debt rescheduling opportunities should arise than in previous years.

8. TREASURY INVESTMENT STRATEGY

8.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £121.288 million and £76.671 million. Lower levels are expected to be held in 2023/2024 as long-term borrowing is repaid and grant funding the capital programme is spent.

8.2 **Objectives:** The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

8.3 As a responsible investor, the Council will incorporate Environmental, Social and Governance (ESG) factors into investment analysis and decision making, particularly when considering long-term strategic funds as these issues can have a material impact on the value of financial assets and on the long-term performance of investments. The Council believes that well managed companies with strong governance are more likely to be successful long-term investments, therefore the Council will only invest in funds that score highly by the United Nations Principles for Responsible Investment (PRI).

8.4 To move towards the zero carbon future and the “Just Transition” from fossil fuel investments, the Council will develop and implement a strategy to divest from asset management strategies that invest in the fossil fuel sector, and reinvest in environmentally sustainable businesses via pooled funds by 31 March 2035.

8.5 Fluctuations in interest rates have a limited impact on the Council’s existing debt as loans carry a fixed rate of interest. However, interest rates will have an immediate effect on investments, particularly investments in short term money market deposits. A 1% increase in current interest rates (above what has been budgeted) will result in additional investment income of approximately £0.190 million.

8.5 **Strategy:** The Authority measures the yield against the BoE central target for CPI inflation (this can be seen in the treasury management prudential indicators). In order to maintain the spending power of money invested the Council will maintain its exposure to higher yielding pooled funds at £35 million (unless there is evidence that it is more cost effective to redeem an investment than undertake long term borrowing) but have the scope to increase to the £60 million limit. The Council may also look to increase its exposure to Real Estate Investment Trusts (REIT) up to its £5 million limit from the current level of £2 million to diversify property exposure. The remainder of the Council’s funds will be managed on a short-term basis via exposure to Money Markets Funds, the Council’s bank call account and short-term Local Authority Fixed Term investments.

8.6 **Business Model:** Under the IFRS 9 standard, the accounting for certain investments depends on the Authority’s “business model” for managing them. The majority of the Council’s strategic long-term investments are categorised as Fair Value through Profit and Loss (FVPL) therefore movements in fair value are charged to the Income and Expenditure Statement. However, a statutory override, which expires at 31 March 2023, requires that fluctuations in capital values of pooled investment funds must not be charged to the revenue account. DLUHC consulted on the statutory override in the autumn, the options included allowing the override to lapse, to extend it or to make it permanent. The outcome of the consultation is expected imminently.

8.7 **Approved Counterparties:** The Authority may invest its surplus funds with any of the counterparty types in **Annex D**, subject to the cash limits (per counterparty) and the time limits shown. A more detailed breakdown of this can be seen in **Annex E**.

8.8 **<u>Minimum Credit Rating:</u>** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

8.9 **<u>Banks and Building Societies (Unsecured):</u>** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.

8.10 **<u>Secured Investments:</u>** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

8.11 **<u>Government:</u>** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central may be made in unlimited amounts for up to 50 years.

8.12 **<u>Registered Providers (unsecured):</u>** Loans and bonds issued by, guaranteed by or secured on the assets of registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are tightly regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

8.13 **<u>Money Market funds:</u>** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

8.14 **Strategic Pooled Funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

8.15 **Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

8.16 **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

8.17 **Operational Bank Accounts:** The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £1 million per bank. However, operational circumstances may on occasion require or result in levels higher than £1 million which will be restricted to overnight deposits. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

8.18 **Risk Assessment and Credit Ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisor, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

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

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

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

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

8.20 **Investment Limits:** The Authority’s revenue reserves available to cover investment losses were ~~are forecast to be~~ £51.4 million on 31 March 2023. The maximum unsecured investments that will be lent to any one organisation (other than the UK Government) will be £3 million, which equates to approximately 6% of available reserves put at risk in the case of single default. For secured investments a limit of £5 million is set per organisation which equates to 10%. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as per **Annex F.** Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

8.21 **<u>Liquidity Management</u>:** The Authority uses purpose-built cash flow forecasting spreadsheets to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis, with receipts under-estimated and payments over-estimated to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium term financial plan and cash flow forecast.

The Authority will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

9. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

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

A. Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	50%	0%
24 months and within 5 years	50%	10%
5 years and within 10 years	40%	10%
10 years and within 20 years	30%	10%
20 years and within 30 years	30%	0%
30 years and above	30%	10%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

B. **Long-term treasury management investments**: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The indicator now includes a limit for long-term investments with no fixed maturity date (strategic pooled funds). The prudential limits on the long-term treasury management investments will be:

Price Risk indicator	2023/2024	2024/2025	2025/2026	No fixed date
Limit on principal invested beyond year end	£15m	£10m	£5m	£65m

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

C. **Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value and time-weighted average or credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk. A low score indicates a low credit risk has been taken on its internal managed investments. The Council aims to perform at a level less than or equal to the target:

Credit risk indicator	Target
Portfolio value weighted average credit score	5.0
Portfolio time weighted average credit score	5.0

A change to the credit risk score for Local Authorities and the UK Government has been made to reflect the latest scoring methodology provided by Arlingclose. The targets have been adjusted accordingly.

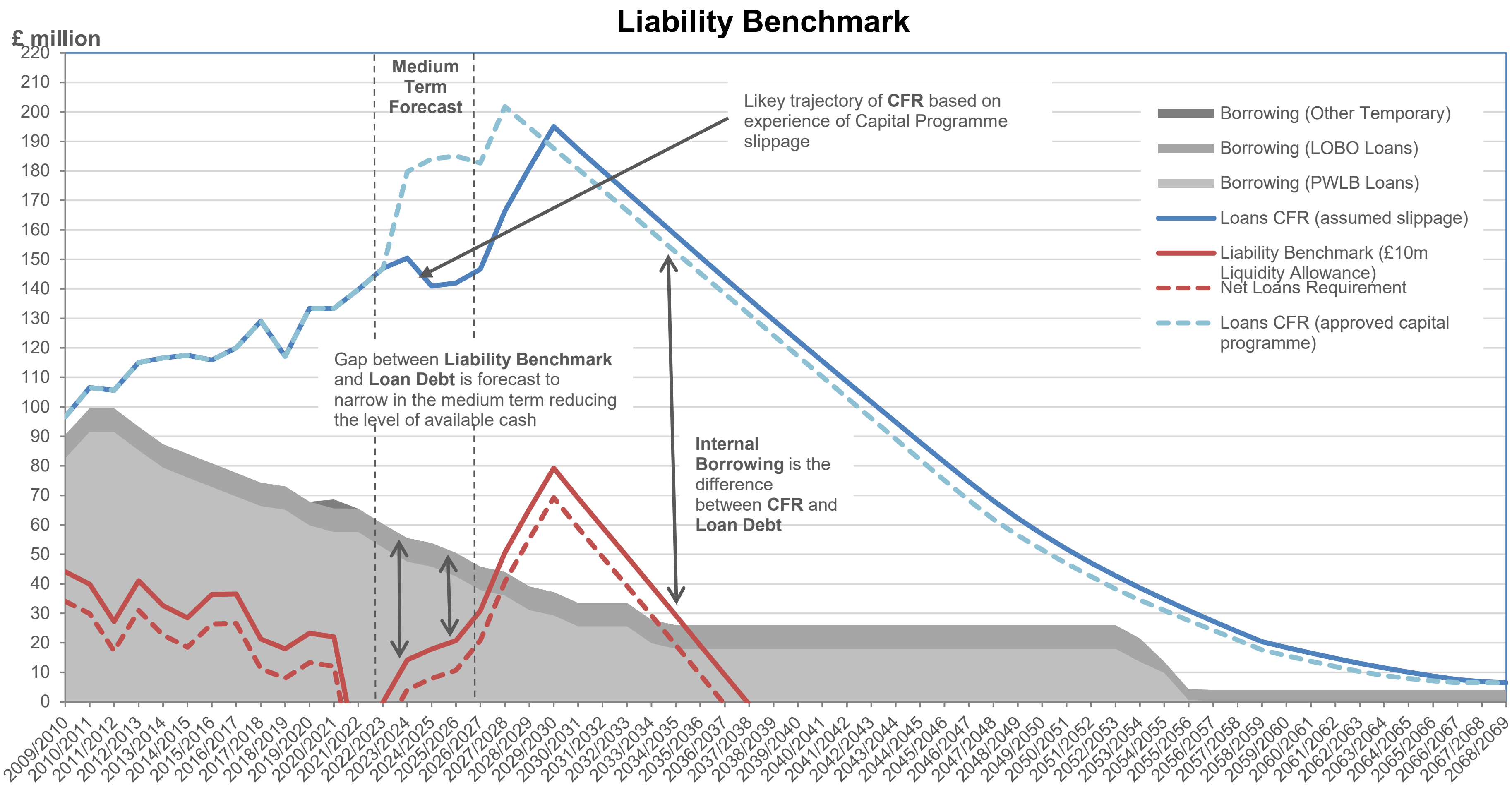
D. **Yield:** In order to maintain the spending power of the money it invests the Council has adopted a voluntary yield target for the portfolio of the Bank of England Consumer Price Inflation (CPI) target. This will be also be measured against year on year CPI Inflation as part of the Annual Review.

Inflation risk indicator	Target
Target Yield on Portfolio	2.0%

E. Liability Benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes that cash and investment balances are kept to a minimum level at each year-end to maintain sufficient liquidity but minimise credit risk. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision-making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

	31.3.2022 Actual £m	31.3.2023 Actual £m	31.3.2024 Estimate £m	31.3.2025 Forecast £m	31.3.2026 Forecast £m	31.3.2027 Forecast £m
Loans CFR (Assumed Slippage)	139,734	147,108	150,417	140,951	141,981	146,627
Less: Usable reserves	-105,488	-97,017	-98,478	-79,754	-72,377	-66,871
Less: Working Capital	-63,849	-60,124	-47,759	-53,271	-58,865	-58,865
Plus: Liquidity allowance	10,000	10,000	10,000	10,000	10,000	10,000
Liability Benchmark (year-end)	**-19,603**	**-33**	**14,180**	**17,926**	**20,738**	**30,891**
Existing Borrowing	**65,526**	**60,237**	**55,498**	**53,819**	**50,486**	**45,858**
***New Borrowing**	**0**	**0**	**0**	**0**	**3,455**	**18,236**
External Borrowing	**65,526**	**60,237**	**55,498**	**53,819**	**53,941**	**64,094**

***Assumes borrowing rather than redemption of long-term investments**



Liability Benchmark
£ million
220
210
200
190
180
170
160
150
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
Medium Term Forecast
Likey trajectory of CFR based on experience of Capital Programme slippage
Gap between Liability Benchmark and Loan Debt is forecast to narrow in the medium term reducing the level of available cash
Internal Borrowing is the difference between CFR and Loan Debt
Borrowing (Other Temporary)
Borrowing (LOBO Loans)
Borrowing (PWLB Loans)
Loans CFR (assumed slippage)
Liability Benchmark (£10m Liquidity Allowance)
Net Loans Requirement
Loans CFR (approved capital programme)
2009/2010
2010/2011
2011/2012
2012/2013
2013/2014
2014/2015
2015/2016
2016/2017
2017/2018
2018/2019
2019/2020
2020/2021
2021/2022
2022/2023
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2058/2059
2059/2060
2060/2061
2061/2062
2062/2063
2063/2064
2064/2065
2065/2066
2066/2067
2067/2068
2068/2069

The Liability Benchmark shows:

- The formation of the Unitary Council on 1 April 2009 brought external borrowing almost equal to the Capital Financing Requirement (CFR), from the ceased Bedfordshire County Council, when responsibility for highways and social care services was transferred.
- Since the formation of the Unitary Council, external borrowing has fallen as loans have been repaid and not replaced, reflecting the Council's long-term strategy of maximising internal borrowing and de-risking investment balances and the loan portfolio.
- An increasing CFR as expenditure is incurred to maintain, improve and acquire Council assets including schools, roads, leisure facilities, care homes and temporary accommodation.
- The medium term forecast plots the CFR increasing to £202~~163~~ million as per the agreed the capital programme. However, experience shows that the capital programme slips, so a lower trajectory CFR is also shown in the graph.
- Based on the likely trajectory of the CFR and forecast for reserves and working capital, the liability benchmark increases towards the top of the grey shaded area. This indicates a reduction in cash resources and therefore a decision the Council will need to make as to whether to redeem long-term investments (£37 million nominal) or raise external borrowing (long or short-term). The risks of each option will be carefully considered and evaluated against the prospects for interest rates at the relevant time with the Council's treasury management advisor. ~~no new or replacement borrowing will be required over the medium term, and instead cash resources can be used to maximise internal borrowing which may require redemption of long-term investments~~

Assumptions

- No further future capital expenditure is incurred beyond the approved Capital Programme.
- The likely trajectory of the CFR is shown based on experience of a slower than anticipated delivery of the capital programme.
- External borrowing follows the profile of scheduled repayments
- The Liability Benchmark (red line) assumes a liquidity allowance of £10 million is held.
- Cash backed resources increase by 2% in the long-term forecast
- The schedule of MRP ensures the CFR is charged in full to revenue over time.

10. OTHER ITEMS

10.1 The CIPFA code requires the Authority to include the following in its treasury management strategy.

10.2 **Policy on Use of Financial Derivatives:** Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transaction, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

10.3 **Markets in Financial Instruments Directive**: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Assistant Chief Executive (Finance) & CFO believes this to be the most appropriate status.

11 OTHER OPTIONS CONSIDERED

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Assistant Chief Executive (Finance) & CFO having consulted the Finance Portfolio holder, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

Annex A

Arlingclose Economic & Interest Rate Forecast – November 2023

Economic background: The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25.
The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. Members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) growth with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

Office for National Statistics (ONS) figures showed CPI inflation was 6.7% in September 2023, unchanged from the previous month but above the 6.6% expected. Core CPI inflation fell to 6.1% from 6.2%, in line with predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, declining to around 4% by the end of calendar 2023 but taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.

ONS figures showed the UK economy grew by 0.2% between April and June 2023. The BoE forecasts GDP will likely stagnate in Q3 but increase modestly by 0.1% in Q4, a deterioration in the outlook compared to the August MPR. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth remained strong, with regular pay (excluding bonuses) up 7.8% over the period and total pay (including bonuses) up 8.1%. Adjusted for inflation, regular pay was 1.1% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, the US Federal Reserve paused in September and November, maintaining the Fed Funds rate target at this level. It is likely this level represents the peak in US rates, but central bank policymakers emphasised that any additional tightening would be dependent on the cumulative impact of rate rises to date, together with inflation and developments in the economy and financial markets.

US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But as the impact from higher rates is felt in the coming months, a weakening of economic activity is likely. Annual CPI inflation remained at 3.7% in September after increasing from 3% and 3.2% consecutively in June and July.

Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.9% in October 2023. Economic growth has been weak, and GDP was shown to have contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has been increasing rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

Credit outlook: Credit Default Swap (CDS) prices were volatile during 2023, spiking in March on the back of banking sector contagion concerns following the major events of Silicon Valley Bank becoming insolvent and the takeover of Credit Suisse by UBS. After then falling back in Q2 of calendar 2023, in the second half of the year, higher interest rates and inflation, the ongoing war in Ukraine, and now the Middle East, have led to CDS prices increasing steadily.

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.
Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (November 2023): Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.

Underlying assumptions:

- UK inflation and wage growth remain elevated but, following a no-change MPC decision in November, Bank Rate appears to have peaked in this rate cycle. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy likely slides into recession and inflation falls more quickly.
- The much-repeated message from the MPC is that monetary policy will remain tight as inflation is expected to moderate to target slowly. In the Bank's forecast, wage and services inflation, in particular, will keep CPI above the 2% target until 2026.
- The UK economy has so far been relatively resilient, but recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will remain soft, offering little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.
- Employment demand is easing, although the tight labour market has resulted in higher nominal wage growth. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household spending will therefore be weak. Higher interest rates will also weigh on business investment and spending.

- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.

- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant policy loosening in the future to boost activity.

- Global bond yields will remain volatile, particularly with the focus on US economic data and its monetary and fiscal policy. Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.

- There is a heightened risk of geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in November. We believe this is the peak for Bank Rate.

- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

- The immediate risks around Bank Rate remain on the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation.

- Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply.

Annex B

	31.10.2023 Actual Portfolio £000
External borrowing:	
Public Works Loan Board	-49,429
LOBO loans from banks	-7,961
Total external borrowing	**-57,390**
Other long-term liabilities:	
Finance Leases	-71
Total other long-term liabilities	**-71**
Total gross external debt	**-57,461**
Treasury investments:	
Banks/Building Societies	1
Real Estate Investment Trusts (REIT)	2,000
Government (incl.local authorities)	
Money Market Funds	12,711
Pooled Funds:	
Equity Funds	12,000
Bond Funds	7,000
Multi-Asset Funds	6,000
Property Funds	10,000
Total treasury investments	**49,712**
Net (debt)/Investment	**-7,749**

Note: all values are on a principal/nominal basis

Annex C

	31.3.2022 Actual £m	31.3.2023 Actual £m	31.3.2024 Forecast £m	31.3.2025 Forecast £m	31.3.2026 Forecast £m	31.3.2027 Forecast £m
*General Fund CFR	139,927	147,232	150,463	140,965	141,993	146,638
Less: Other debt liabilities	-193	-124	-45	-14	-12	-11
Loans CFR	**139,734**	**147,108**	**150,417**	**140,951**	**141,981**	**146,627**
Less: External Borrowing**	-65,526	-60,237	-55,498	-53,819	-53,941	-64,094
Internal (over) borrowing	**74,208**	**86,871**	**94,920**	**87,132**	**88,040**	**82,533**
Less: Usable Reserves	-105,488	-97,017	-98,478	-79,754	-72,377	-66,871
Less: Working Capital	-63,849	-60,124	-47,759	-53,271	-58,865	-58,865
Investments	**-95,129**	**-70,270**	**-51,318**	**-45,893**	**-43,203**	**-43,203**

***Assumes capital slippage**

****External Borrowing excludes lease liabilities**

Annex D

Approved Investment Counterparties and Limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	Unlimited	Unlimited
Secured investments *	25 years	£5 million	Unlimited
Banks (unsecured) *	12 months	£3 million	Unlimited
Building societies (unsecured) *	12 months	£3 million	£5 million
Registered providers (unsecured) *	5 years	£3 million	£15 million
Money market funds *	n/a	£5 million	Unlimited
Strategic pooled funds	n/a	£15 million	£60 million
Real estate investment trusts	n/a	£2 million	£5 million
Other investments *	5 years	£3 million	£5 million

Annex E

Counterparty	Arlingclose Maximum Duration as at 30.11.2022	Credit Rating 30.11.2022	Domicile
Barclays Bank plc	100 Days	A+	United Kingdom
Barclays Bank UK plc	100 Days	A+	United Kingdom
National Westminster Bank plc	100 Days	A+	United Kingdom
Royal Bank of Scotland plc	100 Days	A+	United Kingdom
Natwest Markets plc	100 Days	A+	United Kingdom
Handelsbanken plc	100 Days	AA	United Kingdom
HSBC Bank plc	6 Months	AA-	United Kingdom
HSBC UK Bank plc	6 Months	AA-	United Kingdom
Lloyds Bank plc	6 Months	A+	United Kingdom
Bank of Scotland plc	6 Months	A+	United Kingdom
Santander UK Plc	100 Days	A+	United Kingdom
Standard Chartered Bank	6 Months	A+	United Kingdom
Nationwide Building Society	100 Days	A+	United Kingdom
Australia & New Zealand Banking Group	100 Days	A+	Australia
Commonwealth Bankk of Australia	100 Days	A+	Australia
National Australia Bank	100 Days	A+	Australia
Westpac Banking Corporation	100 Days	A+	Australia
Bank of Montreal	100 Days	AA	Canada
Bank of Nova Scotia	6 Months	AA	Canada
Canadian Imperial Bank of Commerce	6 Months	AA	Canada
National Bank of Canada	100 Days	A	Canada
Royal Bank of Canada	6 Months	AA-	Canada
Toronto Dominion Bank	6 Months	AA-	Canada

Counterparty	Arlingclose Maximum Duration as at 30.11.2022	Credit Rating 30.11.2022	Domicile
Nordea Bank ABP	100 Days	AA-	Finland
OP Corporate Bank Plc	100 Days	AA-	Finland
Bayerische Landesbank	6 Months	A	Germany
DZ Bank AG Deutsche Zentral	6 Months	AA	Germany
Landesbank Baden-Wuerrtemberg	6 Months	A	Germany
Landesbank Hessen-Thuringen	6 Months	A+	Germany
Cooperatieve Rabobank	100 Days	AA-	Netherlands
DBS Bank Ltd	100 Days	AA-	Singapore
Oversea - Chinese Banking Corporation	100 Days	AA-	Singapore
United Overseas Bank lyd	100 Days	AA-	Singapore
Svenska Handelsbanken	100 Days	AA-	Sweden

Annex F

	Cash limit
Any single organisation, except the UK Central Government	£5 million each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£5 million per group
Any group of pooled funds under the same management	£15 million per manager
Negotiable instruments held in a brokers' nominee account	£20 million per broker
Foreign countries	£5 million per country
Registered providers and registered social landlords	£15 million in total
Unsecured investments with building societies	£5 million in total
Loans to unrated corporates	£5 million in total
Money market funds	Unlimited
Real estate investment trusts	£5 million in total