worcestershire county council

Treasury Management Strategy 2024/25

Treasury Management Strategy

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury Management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. This report also covers the requirements of statutory guidance last issued in 2018 by the then Ministry of Housing, Communities and Local Government (MHCLG) now Department for Levelling Up Housing and Communities (DLUCH) regarding both Minimum Revenue Provision (MRP) and local government investment.

The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

- **Treasury management**
  Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

- **Service delivery**
  Held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

- **Commercial return**
  Held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

The revised Treasury Management Code requires an authority to implement the following: -

- **Adopt a liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.

- **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case.

- **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year.

- Amendment to the **knowledge and skills register** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each authority.

- **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (s151) (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments, is not required to be taken to Full Council and should be reported as part of the Council's integrated revenue, capital and balance sheet monitoring.

- **Environmental, social and governance (ESG)** issues to be addressed within an authority's treasury management policies and practices (TMP1).

The main requirements of the Prudential Code relating to service and commercial investments are: -

- The risks associated with service and commercial investments should be proportionate to their financial capacity – that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services;

- An authority must not borrow to invest for the primary purpose of commercial return;

- It is not prudent for local authorities to make any investment or spending decision that will increase the Capital Financing Requirement (CFR), and so may lead to new borrowing, unless directly and primarily related to the functions of the Council, and where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

- An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.

- A prudential indicator is required for the net income from commercial and service investments as a proportion of the net revenue stream.

- Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

An authority's Capital Strategy or Annual Investment Strategy should include: -

- The Council's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining The Council's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence.

- An assessment of affordability, prudence, and proportionality in respect of The Council's overall financial capacity (i.e., whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).

- Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed.

- Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments).

- Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform The Council's overall strategy).

- State compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

As the TMSS and AIS deal solely with treasury management investments, the categories of service delivery and commercial investments should be addressed as part of the Capital Strategy report.

However, as commercial property investments have implications for cash balances managed by the treasury team, it will be for each authority to determine whether to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

1. Background

In accordance with the Council's Treasury Management Practices (TMPs) and The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice the Council is required to approve the Treasury Management Strategy and Annual Investment Strategy for 2024/25. The Treasury Management Strategy is reflected in the Section 25 Statement given by the Chief Financial Officer concerning the 2024/25 budget calculations.

Treasury management is the management of the Council's cash flows, borrowing, and investments, including its banking, money market, capital market transactions, and associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring, and control of financial risk are therefore central to the Council's prudent financial management.

- **Managing Cashflow**

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash spent in that period. Thus, the first aim of the function of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed; and to ensure that surplus monies are invested in assessed risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

The Chief Financial Officer reports that the Council had no difficulty meeting this requirement for 2023/24. Due to envisaged unprecedented service demand and the continuation of inflationary challenges faced, there are challenges to achieve that for future years. However, the Council is taking measures to mitigate those challenges and is confident that a balanced budget can be achieved. This view considers all plans and commitments included in the 2024/25 budget policy.

- **Managing Capital Financing**

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

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

- **Maintaining Professional Advice**

Treasury management is undertaken by a small team of professionally qualified staff within financial services. In addition, the Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions always remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisor's advice.

The Council also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. The advisors have been engaged on a fixed term basis after a tendering procedure completed in August 2020. The Council exercised the option to extend its existing contract for a period of one year, from 1 November 2023 to 31 October 2024.

Relevant information is also obtained from other financial commentators, the press and seminars arranged by other organisations, for example CIPFA and the Local Government Association. Information received from these different sources is compared to ensure all views are considered and there are no significant differences or omissions from information given by the Council's advisors.

All Treasury Management employees take part in the Council's Staff Review and Development scheme, where specific individual development needs are highlighted training in Treasury Management activities and networking opportunities provided by both professional and commercial organisations taken up where appropriate.

- **Investments Over 2023/24**

During 2023/24 the Council has invested its surplus cash with selected Banks, AAA- rated Money market and cash-plus funds, the UK Debt Management Office and with other local authorities.

Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

Capital Issues.
- the capital expenditure plans and the associated prudential indicators.
- the Minimum Revenue Provision (MRP) policy

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

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

Reporting Requirements

- **Treasury Management Reporting**

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

i. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers: -
   - the capital plans, (including prudential indicators)
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
   - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an Annual Investment Strategy, (the parameters on how investments are to be managed)

ii. **A mid-year treasury management report –** This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

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

- **Scrutiny**

The above reports are required to be adequately scrutinised before being recommended to the Full Council. This role is undertaken by the Cabinet.

- **Quarterly Reports**

In addition to the three major reports detailed above, from 2023/24 financial year quarterly reporting (end of June/September/December) is also required which we have complied with. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Cabinet. (The reports, specifically, should comprise updated Treasury/Prudential Indicators.)

- **Training**

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect “all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance, and decision making.

The scale and nature of this will depend on the size and complexity of the organisation’s treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ Council members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/Council members.
- Require treasury management officers and board/Council members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/Council members, encouraging them to highlight training needs on an ongoing basis.

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

In line with the Council's Treasury Management Strategy and the CIPFA code of practice, on 7 September 2023, a virtual training session, organised by officers, was delivered to members by Link Group in conjunction with the Chief Financial Officer. That training was designed to provide members with an awareness of relevant macroeconomic conditions and their impact on the Council's treasury management operations. Members' needs are regularly reviewed, and further relevant training will be organised by officers as appropriate.

The training needs of treasury management officers are periodically reviewed. A formal record of the training received by officers central to the Treasury function will be maintained by the Treasury Manager. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Treasury Manager.

Treasury Management Consultants

The Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

Economic Commentary

- The third quarter of 2023/24 saw:

i. A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;

ii. A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%;

iii. CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;

iv. Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;

v. The Bank of England holding Base Rate at 5.25% in November and December;

vi. A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.

Chart 1 - PWLB RATES 3.4.23 - 29.12.23

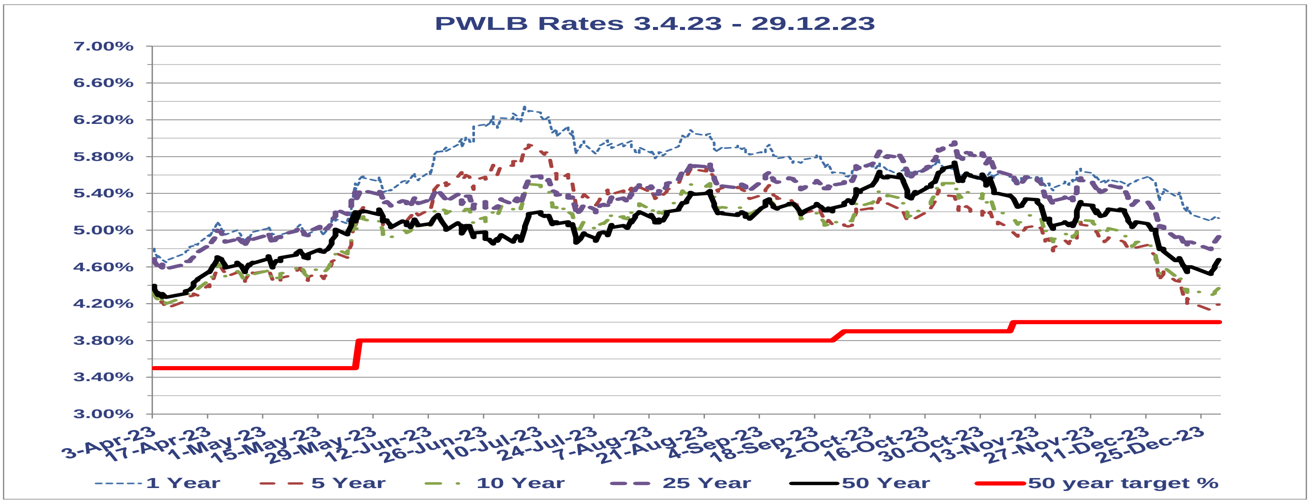


Table 1 below highlights the volatility if the lowest and highest rates are compared.

Table 1 - HIGH/LOW/AVERAGE PWLB RATES FOR 3.4.23 – 29.12.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

Prospects for Interest Rate

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Table 2 –Interest Rate View

Link Group Interest Rate View	07.11.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

2. THE CAPITAL PRUDENTIAL INDICATORS 2024/25 – 2026/27

The Council’s capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members’ overview and confirm capital expenditure plans. The following paragraphs summarise The Council’s forecasts for the coming years against those indicators.

- **Capital Expenditure and Financing**

This prudential indicator is a summary of the Council’s capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts: -

Table 3 – Capital Expenditure Forecast

Capital expenditure £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Total	**106.9**	**129.1**	**172.4**	**50.2**	**37.4**

Other long-term liabilities - the above financing need excludes other long-term liabilities, such as PFI and leasing arrangements that already include borrowing instruments. The levels in later years are lower due to the lack of certainty over funding and schemes and is likely to change in due course.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 4 – Capital Expenditure Finance Sources

Financing of capital expenditure £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital receipts	11.2	4.9	10.4	0.5	0.0
Capital grants	36.7	50.8	94.5	16.6	-0.2
Capital reserves	10.5	1.7	3.7	0.0	0.0
Third Party Contribution	6.6	11.1	15.5	8.6	10.2
Revenue	1.2	4.1	1.9	0.0	
Total non-borrowing	**66.3**	**72.6**	**126.0**	**25.7**	**10.0**
Net financing need for the year	**40.6**	**56.4**	**46.4**	**24.5**	**27.4**
Total Capital Expenditure	**106.9**	**129.1**	**172.4**	**50.2**	**37.4**

- **The Council's Borrowing Need (the Capital Financing Requirement - CFR)**

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

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

The CFR includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the PFI, PPP lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £144.8m of such schemes within the CFR. It is customary to deduct the PFI schemes from the Councils CFR to give the underlying need to borrow, the underlying need to borrow is used for the remainder of this report.

The Council is asked to approve the following CFR projections:

Table 5 – CFR Projections

£m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital Financing Requirement					
Total CFR	**661.1**	**691.5**	**741.6**	**779.0**	**791.9**
Movement in CFR	**20.2**	**36.4**	**23.6**	**1.1**	**0.8**

Movement in CFR represented by					
Net financing need for the year (above)	40.6	56.4	46.4	24.6	27.4
Less MRP/VRP and other financing movements	-20.4	-20.1	-22.8	-25.7	-26.6
Movement in CFR	**20.2**	**36.4**	**23.6**	**-1.1**	**0.8**

- **Liability Benchmark**

The Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum. However, CIPFA recommends that a minimum of 10 years is covered. Whilst this is beyond the time limits of this report, it does give a better feel for the direction of travel of the Councils borrowing needs.

There are four components to the LB: -

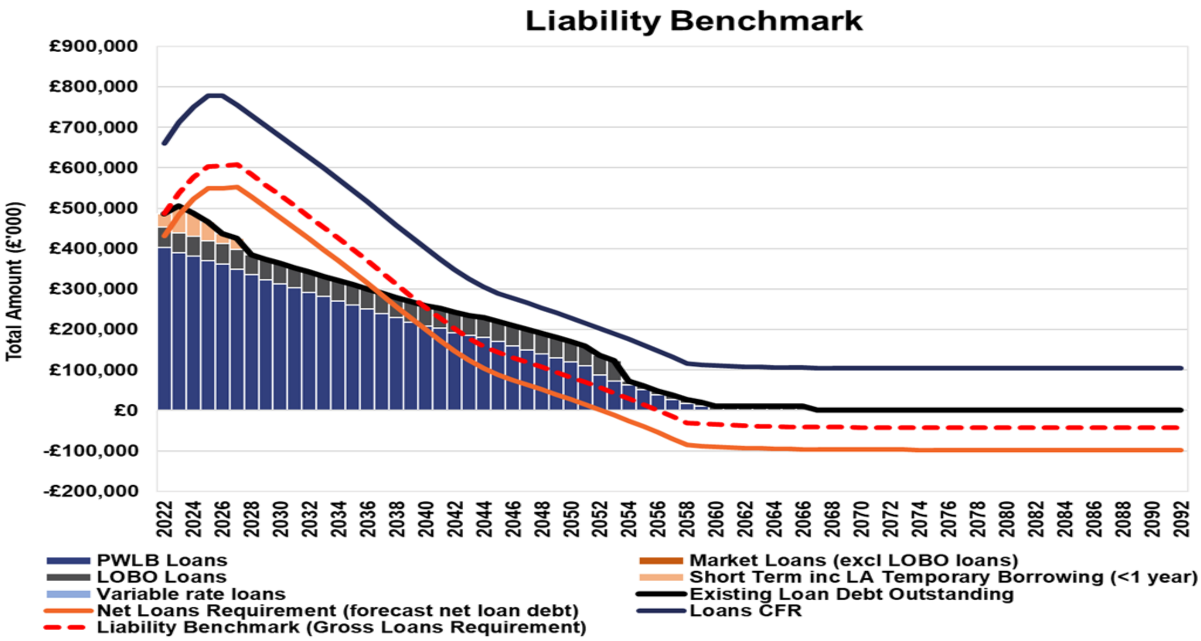
i. **Existing loan debt outstanding**: the Council's existing loans that are still outstanding in future years.

ii. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. It should be noted that only approved borrowing is included. This practice will mean that the Councils loan CFR will peak during the next 4 years. This is an anomaly, as all other inputs are estimated for 50 years+. It should also be noted that estimates beyond the next 4 years are subject to annual change.

iii. **Net loans requirement**: this will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.

iv. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Chart 3 – Liability Benchmark



CIPFA notes on page 13 of the 2021 TM Code: "The liability benchmark should be analysed as part of the annual treasury management strategy, and any substantial mismatches between actual loan debt outstanding and the liability benchmark should be explained."

The above graph shows that Existing Loan Debt Outstanding (bold black line) is below the Liability Benchmark (dotted red line), which indicates a borrowing need. This borrowing need has been factored into the Treasury Management Strategy.

It is not until about 2039 (which is outside CIPFA's 10-year minimum requirement), that the outstanding debt figure meets the Liability Benchmark, which is an indicator of an overborrowed Council. It would therefore be prudent to ensure any new debt matures prior to that date, to avoid any debt repayment penalties. Prior to 2039 the Council is forecast to remain significantly under borrowed, as a means of minimising debt interest costs.

However, as previously stated any estimate beyond the term covered by the current TMSS is subject to many changes.

Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.).

Detailed next are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances: -

Table 6 – Year End Balances Forecast

Year End Resources £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Fund balances / reserves	117	114	88	76	69
Capital receipts	0	0	0	0	0
Provisions	2	2	2	2	2
Other	56	61	54	48	42
Total core funds	**174**	**177**	**143**	**126**	**113**
Working capital	4	4	4	4	4
Under/over borrowing	152	162	173	187	197
Expected investments	**18**	**10**	**-33**	**-65**	**-88**

Note: whilst the strategy of being under borrowed will minimise debt interest costs, what the above table shows is that the current levels of under borrowing cannot be sustained beyond next year. At some point during 2023/24 a proportion of the under borrowing will need to be externalised, to replenish the cash currently being used to support the position.

Affordability Prudential Indicators

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

Ratio of Financing Costs to Net Revenue Stream

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

Table 7 – Ratio of Financing Costs to Net Revenue

%	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Total	**7.47**	**7.49**	**9.09**	**9.00**	**9.64**

The estimates of financing costs include current commitments and the proposals in this budget report.

Maturity Structure of Borrowing

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

The Council is asked to approve the following treasury indicators and limits: -

Table 8 – Fixed Rate Borrowing Maturity Structure

Maturity structure of fixed interest rate borrowing 2024/25				
	Lower	**Upper**	**Actuals %**	**Actuals £m**
Under 12 months	0%	25%	25.00%	144
12 months to 2 years	0%	25%	5.96%	34
2 years to 5 years	0%	50%	9.33%	54
5 years to 10 years	0%	75%	4.33%	25
10 years to 50+ years	25%	100%	55.37%	319
Total			**100%**	

3. BORROWING

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

Current Portfolio Position

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

Table 8 – Treasury Portfolio

TREASURY PORTFOLIO				
	actual **31.3.23**	actual **31.3.23**	current **31.12.23**	current **31.12.23**
Treasury investments	£000	%	£000	%
Banks	5,000	6%	10,000	17%
Building societies - unrated		0%		0%
Building societies - rated		0%		0%
Local authorities		0%		0%
DMADF (H.M.Treasury)	10,000	13%		0%
Money Market Funds	52.480	68%	37.63	65%
Certificates of Deposit		0%		0%
Total managed in house	**67,480**	**87%**	**47,630**	**83%**
Bond Funds	10,000	13%	10,000	17%
Property Funds		0%		0%
Total managed externally	**10,000**	**13%**	**10,000**	**17%**
Total treasury investments	**77,480**	**100%**	**57,630**	**100%**
Treasury external borrowing				
Local Authorities	91,000	17%	145.356	25%
PWLB	389.54	74%	381,088	66%
LOBOs	50,000	9%	50,000	9%
Total external borrowing	**530,060**	**100%**	**576,444**	**100%**
Net treasury investments / (borrowing)	**-453,060**	**0**	**-518,820**	**0**

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 9 – External Debt

£m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
External Debt					
Debt at 1 April	492.9	530.1	566.5	590.1	589.0
Expected change in Debt	37.2	36.4	23.6	-1.1	0.8
Actual gross debt at 31 March	**493**	**566.5**	**590.1**	**589.0**	**589.7**
The Capital Financing Requirement	**530.1**	**727.8**	**765.2**	**777.9**	**792.6**
Under / (over) borrowing	**151.2**	**161.3**	**175.1**	**188.9**	**202.9**

Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Financial Officer reports that the Council complied with this prudential indicator in the current year and, being significantly under borrowed, does not envisage difficulties for the future. This view takes account of current commitments, existing plans, and the proposals in this budget report.

Treasury Indicators: Limits to Borrowing Activity

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

Table 10 – Operational Boundaries

Operational Boundary £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Debt	530.1	566.5	590.1	589.0	589.7
Other long-term liabilities	144.8	134.5	124.2	113.9	103.6
Total	**678.8**	**701.0**	**714.3**	**702.9**	**693.3**

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

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

The Council is asked to approve the following Authorised Limit:

Table 11 – Authorised Limits

Authorised Limit £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2025/26 Estimate
Debt	530.1	566.5	590.1	589.0	589.7
Other long-term liabilities	144.8	134.5	124.2	113.9	103.6
Cushion (CFR – act debt)	6.4	26.9	50.9	75.0	99.3
Total	**681.3**	**727.8**	**765.2**	**777.9**	**792.6**

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

best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

Our suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows. You will note that investment earnings have been revised somewhat higher for all years from 2025/26 as Bank Rate remains higher for longer.

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

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

Borrowing Strategy

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

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Chief Financial Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances: The opportunity may be taken to reschedule any outstanding debt, rates become favorable to delivering savings in the revenue budget. The cost of external interest of maintaining the Council debt is estimated to be £21.4 million in 2024/25.

Policy on Borrowing in Advance of Need

The Council will not borrow money purely to invest. The Council will only borrow up to 2 years in advance of cash being required to fund its capital expenditure and any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

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

Rescheduling

Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate. If rescheduling is to be undertaken, it will be reported to the Cabinet, at the earliest meeting following its action.

Financial Institutions as a Source of Borrowing and / or Types of Borrowing

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

Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the

Certainty Rate).

Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

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

Approved Sources of Long and Short-term Borrowing

On Balance Sheet	**Fixed**	**Variable**
PWLB	●	●
UK Municipal Bond Agency	●	●
Local Authorities	●	●
Banks	●	●
Pension Funds	●	●
Insurance Companies	●	●
UK Infrastructure Bank	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Local Temporary	●	●
Overdraft		●
Internal (capital receipts & revenue balances)	●	●
Finance Leases	●	●

4. ANNUAL INVESTMENT STRATEGY

Investment Policy – Management of Risk

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

The Council’s investment policy has regard to the following: -

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

Treasury management investments represent the placement of cash in relation to the s12 Local Government Act 2003 Act investment powers, i.e., they are the residual cash left in an authority’s bank account resulting from The Council’s day to day activities. The policy objective for the Council is the prudent investment of its cash balances. The investment priorities are firstly the security of capital (protecting sums from capital loss) and secondly the liquidity of investments (ensuring cash is available when required). Only when these two priorities are met, the Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to The Council’s risk appetite.

Treasury investments may include an allowance for a reasonable level of short-term treasury investments to provide access to liquidity; they may also include the investment of borrowing proceeds where it has been prudent for an organisation to borrow in advance of the need for cash, e.g., to reduce financing and interest rate risks. Treasury investments may also arise from other treasury risk management activity that seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider “laddering” investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

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

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

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

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

The investments, which the Council can use for the prudent management of cash balances are categorised as ‘Specified Investments’ and ‘Non-Specified Investments’.

Specified investments are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally, they were classified as being non-specified investments solely due to the maturity period exceeding one year.

Non-specified and loan investment limits. The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments.

The Council has engaged **external consultants**, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of the Council in the context of the expected level of cash balances and need for liquidity throughout the year. All investments will be denominated in **sterling**.

As a result of the change in accounting standards for 2023/24 under IFRS 9, the Council will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.

However, this Authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

For overnight investments, or money placed in instant access accounts and Notice Accounts, the Council defines a body of high credit quality as firstly having the below Short-Term ratings:

Agency:	Short-Term rating:
Fitch	F1
Moody's	P-1
Standard and Poor's	A-1

For **unsecured** term deposits between 2 and 364 days, the Council will firstly define a body of high credit quality as having the below Long-term ratings:

Agency:	Long-Term rating:
Fitch	A
Moody's	A2
Standard and Poor's	A

The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Treasury 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	£25m	Unlimited
Banks and Building Societies	12 months	£25m	Unlimited
Money market funds	n/a	£25m	Unlimited

The Council will undertake continued due diligence and will not automatically lend to Counterparties that merely satisfy the above criteria. As additional consideration, the Council will assess for each:

- Environmental, Social & Governance (ESG) considerations.
- Input from Treasury Advisors.
- Other market data from a reputable source.
- Press coverage.
- Market presence by the Counterparty.
- Availability of suitable products from the Counterparty.
- Ease of execution with the Counterparty.
- Level of Customer service from the Counterparty.

The above list is not exhaustive, the Council may at any time exclude a Counterparty should it perceive any reasonable doubt concerning its Creditworthiness; the 2021 Code and subsequent revisions advise that subjective criteria may be used, in line with the Council's risk appetite.

Environmental, Social & Governance (ESG) Considerations

This topic is becoming a more common place discussion within the wider investment community, including Local Authorities.

Annual Investment Strategy

ESG Following changes to the CIPFA TM Code 2021 the Council has incorporated ESG considerations into Treasury Management Practice 1 (page 29 below). The following wording (page 18 of the Treasury Management Code) suggests the scope of what is included: “The organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This is a developing area, and it is not implied that the organisation’s ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level.”

Furthermore, page 50 of the Treasury Management Code states “ESG issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult. Organisations are therefore recommended to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation’s own relevant policies, such as environmental and climate change policies.”

For **secured** term deposits, the Council defines high credit quality as an **instrument** that has the above ratings with every agency that rates it.

Enhanced Money Market funds or Cash Plus funds, which carry a AAA-rating from at least one rating agency.

Non-Specified Investments have a range of vehicles not covered by the definition of Specified Investments, which are set out in the Treasury Management Practices (TMPs) and generally carry more risk.

The only types of non-specified investments the Council will enter into or hold during the coming financial year are as below:

A routine term deposit with a counterparty as described above for Specified Investments, for a period of more than 1 year. This type of investment will be considered when rates are favourable and cash balances allow. The Council’s prudential indicators allow no more than £10 million to be invested in this category.

Investments in Pooled Property Funds, these will be considered as having a 5 to 10-year term.

The credit ratings of Fitch, Moody’s and Standard and Poor’s are monitored at least weekly, ratings-watches and downgrades are acted upon immediately. Any other information that is deemed relevant to the creditworthiness of any Counterparty will be acted upon, in line with the 2009 code revision.

The Council may hold cash within its current account overnight as a transactional control to mitigate the risk of going overdrawn and incurring penalty and interest charges. The Council may also leave funds in this account when it is impractical and/or not economically feasible to invest elsewhere. These balances are considered as cash or cash equivalents and not investments.

The Council will aim to have not less than 50% of its investments returnable within 28 days with at least 20% within 7 days.

Changes in risk management policy from last year
The above criteria are changed from last year, as flows:

The Council increased the counterparty limit from £15 million sterling pounds to £25 million pounds for the bank and building societies, money market funds, local authorities, and other government entities. The Council decided that the maximum amount of money it can invest with the UK government is unlimited.

Investment Performance / Risk Benchmarking
This Council will use an investment benchmark to assess the investment performance of its investment portfolio of 7-day Sterling Overnight Index Average (SONIA).

End of Year Investment Report
At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Markets in Financial Instruments Directive (MIFID II)

The Council has elected to opt-up to Professional Client status for most of its Counterparties, on the grounds of the typical size of its investment portfolio and the volume of transactions on the relevant market. This was primarily concerned with maintaining access to the financial instruments used. A few selected Counterparties indicated that the Council would not need to opt-up to Professional Client status to continue service.

A schedule of the Council's status with its Counterparties (Retail or Professional) is maintained as part of the Treasury Management Practices and will be reviewed annually and/or when a counterparty is added or removed.

Non-Treasury Investments

The Council recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

The Council will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the Council's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management. For instance, liquidity shall ordinarily not be a consideration for such investments, since the monies invested are pursuant to a service outcome and yield may comprise intangible elements such as Economic and Social Development and expansion of the tax base.

The Council will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures, and liabilities including financial guarantees and the organisation's risk exposure.

Below is a schedule for current approved non-treasury investments, other than Energy fromwaste, which is discussed later in this document:

Borrower	**Amount**	**Date Lent**	**Terms**
Malvern Hills SciencePark	£4.4m at cost. Carried at £1.9m Fair Value.	Various tranches 29/10/1998 to 15/10/2014	Preference Shares, with a semi-annual coupon basedon cost, as follows: £944k at 3% £3,500k at 6.37% Note: As these shares carryno voting rights, this holding does not constitute a jointventure or subsidiary.

In managing these Investments, the Chief Financial Officer shall be responsible for:

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments, and treasury management, with a long-term timeframe.

- ensuring that the capital strategy is prudent, sustainable, affordable, and prudent in the long term and provides value for money.
- ensuring that due diligence has been carried out on all treasury and non-financial investmentsand is in accordance with the risk appetite of the Council.
- ensure that the Council has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- ensuring the proportionality of all investments so that the Council does not undertake a level of investing which exposes the Council to an excessive level of risk compared to its financial resources.
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities.
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans, and financial guarantees.
- ensuring that members are adequately informed and understand the risk exposures taken on by the Council.
- ensuring that the Council has adequate expertise, either in house or externally provided, to carry out the above.

West Mercia Energy
Regarding the joint ownership of West Mercia Energy, the Council may, if deemed to be in the best interest of prudent management of the West Mercia business, undertake transactions pertaining to foreign currencies, such as foreign exchange deals and investments.Such dealings must have relevance to the course of business of West Mercia Energy. These dealings will be classified as Non-specified Investments as they are not sterling denominated.

Energy from Waste
In partnership with Herefordshire Council, the Council provided finance to Mercia Waste for the building of an Energy from Waste Plant, which they are operating for a period determined by the existing PFI contract. At the end of the contract, the ownership of the plant will revert to the Councils. The construction phase commenced on 21 May 2014.

Mercia took control of the plant from the contractor at the beginning of March 2017.

Worcestershire County and Herefordshire Councils provided the finance on a 758:252 split, by granting loans on a commercial basis, in accordance with the agreed timetable. Loans granted to Mercia Waste for this purpose will be considered separately to normal Treasury Management investment activity. All costs and income related to this scheme shall beringfenced for budget monitoring purposes and the loans granted are being considered as Capital Expenditure under the 2003 Regulations and is carried at amortised cost.

As at the 31 March 2023, the carrying value of the loan to Mercia Waste was £83.2m, repayments of Principal and Interest to date have proceeded to schedule.

Extension of Mercia Loan facility

WCC and HC have agreed, a proposal from Mercia to extend the current waste management services arrangements by 5 years (to expire on 11th January 2029) on the following terms:

WCC and HC have agreed in principle, a proposal from Mercia to extend the current waste management services arrangements by 5 years (to expire on 11th January 2029) on the following terms:

WMSC term extended by 5 years but with a reduction in the unitary payment by WCC and HC by the following amounts:

- £2.5m on the date of signature of the extension
- £4.5m per calendar year, from 1st January 2022 to 31 December 2023.
- £6m per annum, from 1st January 2024 to the end of extension period (i.e. + 5 years) which together are referred to as "M" in the proposal.

The impact of extending the WMSC will be that repayment of Facility B will also be extended by 5 years as it is linked to the Expiry Date of the WMSC. However, Mercia proposes that the bullet payment amounts due from Mercia under the Funding Agreements and from the WCC and HC under the WMSC are reduced to £106m. It is understood that this is to reflect a reduction in the projected value of the EfW facility at the end of the extended period. Mercia will pay to the Council a level of principal payments on Facility B, equivalent to the balance in the proposed reduction to the bullet payment amounts i.e. £22m.

5. Minimum Revenue Provision (MRP) Policy Statement amended 2023/24

Council is recommended to approve the following revised statement:

- The Authority's MRP policy has been amended for 2023/24 following a comprehensive review of MRP charges and methodology. This updated policy reflects the new MRP calculation methods to be implemented.

- For historic capital expenditure financed by supported borrowing, the Authority will apply the Asset Life method over 50 years using an annuity basis.

- Unsupported borrowing will be subject to MRP using the Asset Life method, which will be charged over a period which is reasonably commensurate with the weighted average estimated useful life of the assets. An annuity method will be applied for the MRP calculation.

- For expenditure funded by borrowing, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, MRP will be provided in accordance with the asset lives as recommended by the statutory guidance.

- The interest rate applied to the annuity calculations will reflect the market conditions at the time and will for the current financial year be based on PWLB annuity rates.

- MRP in respect of assets acquired under PFI will be calculated using the Asset Life method using an annuity basis.

- MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory MRP, i.e. voluntary revenue provision (VRP) or overpayments, 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. The amount of VRP overpayments up to 31st March 2023 was £11.2m.

- MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for asset under construction where the MRP will be deferred until the year after the asset becomes operational.

- For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

- Where no principal repayment is made in a given year, MRP will be charged over the life of the assets funded by the loan.

Minimum Revenue Provision (MRP) Policy Statement 2024/25

Council is recommended to approve the following:

- The Authority's MRP policy has been amended for 2023/24 (above) and future years following a comprehensive review of MRP charges and methodology. This updated policy reflects the new MRP calculation methods to be implemented.

- For historic capital expenditure financed by supported borrowing, the Authority will apply the Asset Life method over 50 years using an annuity basis.

- Unsupported borrowing will be subject to MRP using the Asset Life method, which will be charged over a period which is reasonably commensurate with the weighted average estimated useful life of the assets. An annuity method will be applied for the MRP calculation.

- For expenditure funded by borrowing, which is treated as capital expenditure by virtue of either a capitalisation direction or regulations, MRP will be provided in accordance with the asset lives as recommended by the statutory guidance.

- The interest rate applied to the annuity calculations will reflect the market conditions at the time and will for the current financial year be based on PWLB annuity rates.

- MRP in respect of assets acquired under PFI will be calculated using the Asset Life method using an annuity basis.

- MRP Overpayments - The MRP Guidance allows that any charges made in excess of the statutory MRP, i.e. voluntary revenue provision (VRP) or overpayments, 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. The amount of VRP overpayments up to 31st March 2023 was £11.2m.

- MRP will commence in the year following the year in which capital expenditure financed from borrowing is incurred, except for asset under construction where the MRP will be deferred until the year after the asset becomes operational.

- For capital expenditure on loans to third parties where the principal element of the loan is being repaid in annual instalments, the capital receipts arising from the principal loan repayments will be used to reduce the CFR instead of MRP.

- Where no principal repayment is made in a given year, MRP will be charged over the life of the assets funded by the loan.

At the time of writing this policy for the 2024/25 year, the government is consulting on amendments to the 2003 MRP regulations and MRP Statutory Guidance. The consultation ends on the 16 February 2024 and the outcome of this is not yet known. Changes to the regulations will be effective form 1 April 2024 and will apply to MRP policies from 2024/25 onwards. Therefore, as a result, of the new regulations and Guidance once finalised, if there are changes required to the 2024/25 MRP policy this will be reported to Council.

6. TREASURY MANAGEMENT PRACTICE (TMP1) – CREDIT AND COUNTERPARTY RISK MANAGEMENT

Based on the current economic view and budget setting assessment the Council's Section 151 Officer suggests no changes to the policy and as such the following paragraphs set out that management of credit risk.

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable. (Non-specified investments which would be specified investments apart from originally being for a period longer than 12 months, will be classified as being specified once the remaining period to maturity falls to under twelve months.)

NON-SPECIFIED INVESTMENTS: are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

A maximum of £10 million will be held in aggregate in non-specified investment.

A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

This Council applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's, and Standard & Poor's.

The credit ratings of counterparties are supplemented with the following overlays: -

- "watches" and "outlooks" from credit rating agencies.
- CDS spreads that may give early warning of changes in credit ratings.
- sovereign ratings to select counterparties from only the most creditworthy countries.

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

Yellow	5 years *
Dark pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
Light pink	5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	not to be used.

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

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

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

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

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

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

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	**** Max % of total investments / £ limit per institution**	**Max. maturity period**
DMADF – UK Government	Yellow	100%	6 months (max. is set by the DMO*)
UK Gilts	Yellow		5 years
UK Treasury Bills	Yellow		364 days (max. is set by the DMO*)
Bonds issued by multilateral development banks	Yellow		5 years
Money Market Funds CNAV	AAA	100%	Liquid
Money Market Funds LNVAV	AAA		Liquid
Money Market Funds VNAV	AAA		Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.25	AAA	100%	Liquid
Ultra-Short Dated Bond Funds with a credit score of 1.5	AAA	100%	Liquid
Local Authorities	Yellow	100%	5 years

	Minimum credit criteria / colour band	** Max % of total investments / £ limit per institution	Max. maturity period
Term Deposits with Housing Associations	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Term Deposits with Banks and Building Societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
CDs or Corporate Bonds with Banks and Building Societies	Blue Orange Red Green No Colour		12 months 12 months 6 months 100 days Not for use
Gilt Funds	UK sovereign rating	unlimited	

* DMO – is the Debt Management Office of HM Treasury