Treasury Management Strategy 2025-26

Cheshire Police & Crime Commissioner

Cheshire Constabulary

TREASURY MANAGEMENT STRATEGY 2025/26

1. BACKGROUND

1.1 The Police & Crime Commissioner (the Commissioner) is required to operate a balanced budget meaning that cash raised during the year from grants, council tax and other income sources will match the cash expenditure for the year. The first requirement of treasury management is to ensure that this cash flow is adequately planned with cash being available when it is needed. Surplus funds are invested in low-risk counterparties or financial instruments commensurate with a low-risk appetite, that offer adequate liquidity (i.e. ease of access) before considering any return on the investment. The investment strategy objectives are, in order of priority, security, liquidity and then yield (i.e. interest earned).

1.2 The second main function of treasury management is the funding of the capital programme. The capital programme and plans provide a guide to the Commissioner's borrowing requirement which is essentially the longer-term cash flow planning to ensure that the capital programme commitments can be met. The management of longer-term cash flow may involve arranging long or short-term loans or by using cash flow surpluses. Any debt currently held may also be re-structured when favourable conditions arise and in line with risk and/or cost objectives.

1.3 The contribution treasury management makes to the organisation 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. Treasury operations will see a balance of the debt interest 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.

1.4 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

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

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities. The Commissioner does not currently undertake or plan to enter into any non-treasury activities.

1.5 CIPFA published revised Prudential and Treasury Management Codes on 20 December 2021. The Commissioner has regard to these codes of practice when he prepares the Treasury Management Strategy Statement and included Annual Investment Strategy.

1.6 The code states that all investments and investment income must 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 that seeks to manage prudently the risks, costs or income relating to existing or forecast debt or treasury investments. All of the Commissioner's current and planned investments fall into this category.

Service Delivery
Investments 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". The Commissioner has no Service Delivery investments.

Commercial Return
Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an organisation's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. The Commissioner must not and does not borrow to invest primarily for financial return.

1.7 The CIPFA 2021 Prudential and Treasury Management Codes require the preparation of a Capital Strategy providing a longer-term focus to capital plans including:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The Capital Strategy is reported separately as part of the annual budget report pack. The aim of the strategy is to ensure that the Commissioner fully understands the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

2. TREASURY MANAGEMENT REPORTING REQUIREMENTS

2.1 The Commissioner is required to receive and approve, as a minimum, three main reports each year which incorporate policies, estimates and actual income and expenditure.

Prudential and Treasury Indicators and Treasury Strategy (this report) – the first and most important report which is forward looking covering:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy statement (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised and includes the treasury indicators); and
- an Investment Strategy (the parameters on how investments are to be managed).

A Mid-Year Treasury Management Report – this updates the Commissioner on the progress of the capital position, updates prudential indicators as necessary and whether the actual execution of treasury management is in line with the Strategy or whether any policies need revision.

An Annual Treasury Management 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 Joint Management Board (JMB). This scrutiny is undertaken at regular strategic finance meetings of the Chief Finance Officers for the Commissioner and the Constabulary, together with the Chief Accountant.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24, additional quarterly reporting (end of June/end of December) is also required. This new reporting requirement will be fulfilled by the inclusion of updated and forecast Treasury/Prudential Indicators within the main First Quarter and Third Quarter financial review reports to JMB.

3. TREASURY MANAGEMENT STRATEGY 2025/26

3.1 The Treasury Management Strategy covers two main areas:

Capital:

- The capital expenditure plans and associated prudential indicators; and
- The minimum revenue provision (MRP) policy statement.

Treasury Management:

- The current position;
- Treasury indicators which limit the treasury risks and activities of the Commissioner;
- Prospects for interest rates;

- The borrowing strategy;
- The policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- The policy on creditworthiness; and
- The policy on using external service providers in relation to Treasury Management.

3.2 These elements cover the requirements of the Local Government Act 2003, Ministry of Housing, Communities and Local Government (MHCLG) Investment Guidance, MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

3.3 The CIPFA Treasury Management Code requires the responsible officer (the Chief Finance Officers for the OPCC & Constabulary) to ensure that anyone with responsibility for treasury management receives adequate training. The Code requires that organisations 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 which is appropriate to the size and complexity of the organisation's treasury management needs.

3.4 The external treasury management supplier will provide suitable training during the year as appropriate, and the training needs of treasury management officers will be continuously reviewed in order to maintain those skills and keep them up to date.

3.5 The Commissioner uses Link Group, Link Treasury Services Limited (who will be known as MUFG Pension & Market Services from 20th January 2025) as its external treasury management advisors. However, it is recognised that responsibility for treasury management decisions remains with the Office of the Police & Crime Commissioner (OPCC) at all times and overdue reliance will not be placed upon one source of advice alone. Nevertheless, it is also recognised that there is value in employing external advisors in order to gain access to specialist skills and resources.

4. CAPITAL EXPENDITURE PRUDENTIAL INDICATORS 2025-30

4.1 Capital Expenditure

4.1.1 Capital expenditure plans are a key driver of treasury management activity. The funding of such plans impact on cash balances and borrowing requirements in the short and longer terms. The ongoing consequences of these decisions have a direct impact on the annual revenue budget. As such, the following prudential indicators show the proposed capital expenditure plans, how they are to be funded, the impact on the organisation's finances and their affordability in terms of the impact on revenue budgets.

4.1.2 This prudential indicator is a summary of the capital expenditure plans, both those agreed previously and those forming part of this budget cycle. These are based on forecast 2024/25 cash spend along with the planned future capital programme.

Table 1: Capital Expenditure

2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000	2029/30 Estimate £000
10,599	13,365	14,558	5,983	15,075	5,026

4.2 The next table shows how the above capital expenditure is to be financed. Where there is a shortfall in available funds, the shortfall is covered by an additional borrowing requirement. It is anticipated that additional borrowing will be required over the period, however through pro-active management of the internal borrowing position it is anticipated that actual new external borrowing required will be approx. £3m in year 2025-26 and a further £4m in 2026/27.

4.3 The current Estates Strategy 2021-2031, jointly developed between the Commissioner and the Constabulary recognises that planned changes to the estate's footprint require additional capital financing. The latest forecast costs in respect of the in-progress Crewe and Wilmslow major projects, which will be completed during the period covered by this Treasury Management Strategy, have been included. Estimated costs have also been added for the refurbishment of the main North Cheshire Police Stations in Warrington and Halton over the next two years. Any further major schemes associated with the strategy will be subject to future business cases and no financial provision is therefore contained within this strategy. In 2028/29 estimated costs of £6m have been included for the replacement Emergency Services Network (ESN) to be funded by borrowing.

Table 2: Capital Financing

2024/25 Estimate £000		2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000	2029/30 Estimate £000
10,599	Forecast Spend	13,365	14,558	5,983	15,075	5,026
	Financed by:					
32	Specific capital grants	0	0	0	0	0
0	Capital Receipts	4,320	4,375	500	0	0
5,675	Capital Reserves & Revenue Contributions	4,502	3,478	4,085	4,631	4,546
374	Revenue Reserves	306	560	280	280	380
4,518	Borrowing requirement	4,237	6,145	1,118	10,164	100

4.4 **Capital Financing Requirement (or borrowing needs)**

4.4.1 The second prudential indicator is the Commissioner's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure, which has not yet been financed either from revenue or capital funds. It is essentially a measure of borrowing need and any capital expenditure not financed in the above table will increase the CFR.

Table 3: Capital Financing Requirement (CFR)

2023/24 Actual £000	2024/25 Estimate £000		2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
31,577	34,720	Borrowing Requirement	36,856	40,431	38,670
14,054	13,290	Other long-term liabilities	12,080	10,852	9,570
45,631	**48,010**	**Total CFR**	**48,936**	**51,283**	**48,240**
(18)	**2,379**	**Movement in CFR**	**926**	**2,347**	**(3,043)**

4.4.2 In addition to the capital expenditure borrowing requirements, the CFR also includes other long-term financial liabilities relating to Constabulary Headquarters (under PFI). Whilst these increase the CFR and therefore the Commissioner's borrowing requirement, these types of schemes include a borrowing facility and so the Commissioner is not required to borrow separately for them.

4.4.3 From 2024/25 the CFR also includes liabilities for Right of Use Assets under IFRS16 which is the new accounting standard for leases which applies from April 2024.

4.4.4 The CFR is reduced every year by the minimum revenue provision (MRP). The Commissioner is required by statute, to set aside MRP each year for the repayment of external debt. Under amendment regulation 4(1) of the 2008 Regulations, the Commissioner is charged with a simple duty to set aside MRP which he considers to be prudent. Guidance has been issued which sets out recommendations on the interpretation of 'prudent' and the Commissioner is required to approve an annual statement on how he proposes to calculate MRP in advance of each year. The 2025/26 annual statement is set out in the Annex to this paper.

4.4.5 The MHCLG has issued revised MRP guidance with effect from 1st April 2025 however there is no change to the Commissioner's current MRP practices as they are already compliant with the new guidance.

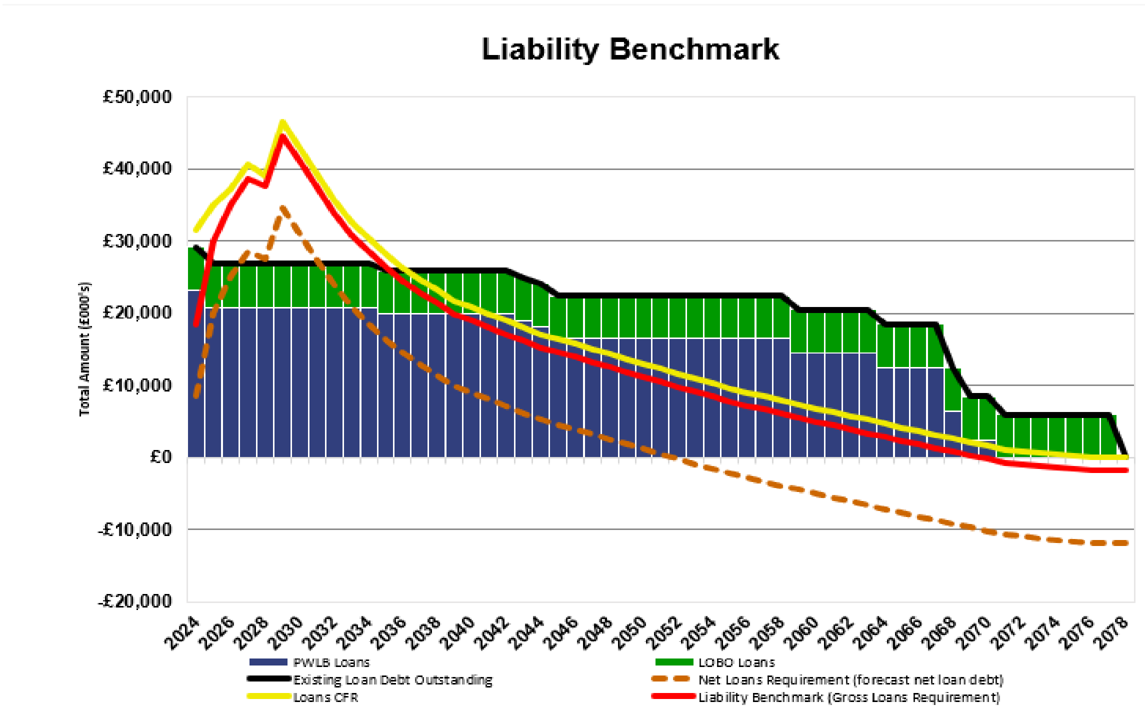
4.4.6 It should be noted that the CFR is increasing until 2026/27, reflecting the fact that major estates strategy projects are planned for delivery between 2023 and 2027. The new borrowing requirement is partly offset by the annual MRP provision and the ongoing reduction in Other Long-Term Liabilities (Residual PFI liability).

4.5 Liability Benchmark

4.5.1 A new prudential indicator from 2023/24 is the Liability Benchmark (LB). The Commissioner is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum. However, CIPFA strongly recommends that the liability benchmark is produced for at least ten years and should ideally cover the full debt maturity profile of a public body. The chart below covers the Commissioners full debt maturity profile as recommended.

4.5.2 There are four components to the Liability Benchmark:

1. **Existing loan debt outstanding**: the Commissioner's existing loans that are still outstanding in future years.
2. **Loans Capital Financing Requirement (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.
3. **Net loans requirement:** this shows the Commissioner's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.



4.5.3 The aim of the Liability Benchmark is to minimise/reduce refinancing, interest rate and credit risks by informing the timing and duration of new external borrowing. For this purpose, it has been assumed that a short-term liquidity allowance of £10m is required to be maintained throughout the period, to provide access to liquidity if needed due to unanticipated short-term cash flow variations.

4.5.4 The chart shows that the Commissioner's LB is currently rising to a peak in 2029. The rise to 2027 relates to the additional borrowing requirement associated with delivery of the Estates Strategy, with the increase in 2029 linked to the additional borrowing requirement of £6m for ESN. This requirement then reduces as provision is made to repay outstanding borrowing via the annual MRP charge whilst no further capital expenditure financed by borrowing is currently planned beyond 2030.

4.5.5 In view of this, by around 2035, the LB will have reduced back down to the level of the existing loan portfolio, indicating that although there is a significant short to medium term requirement for new borrowing, this borrowing would ideally only cover a 10 year period, i.e. filling the white triangular period in the chart between 2025 and 2035 where the LB (red line) exceeds the current loan portfolio (black line/bar chart).

4.5.6 The chart also shows that that the existing loan debt portfolio will be fully repaid by 2078 and that the requirement to borrow (CFR) will also be reduced to nil by 2078, indicating that the Commissioner's current MRP policy remains prudent and appropriate.

4.5.7 The chart then indicates that without any further new approved borrowing beyond the period of the current Capital Strategy, the existing borrowing portfolio exceeds the LB after around 2035. If this remains the case, then it indicates either excess cash requiring investment or an opportunity to repay/restructure debt over this future period.

4.6 Core Funds and Expected Investment Balances

4.6.1 The application of funds, (capital receipts, reserves etc.), to finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on the cash available for investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are the estimated year-end balances for reserves. The Capital Receipts and Unapplied Capital Grants reserves are restricted in their usage to funding capital expenditure or repaying debt and cannot be used for revenue purposes.

Table 4: Reserves

	31 March 2024 Actual £000	31 March 2025 Estimate £000	31 March 2026 Estimate £000	31 March 2027 Estimate £000	31 March 2028 Estimate £000
General Reserves					
Police Fund	5,773	5,773	5,773	5,773	5,773
MTFS Reserve	3,439	2,483	2,483	2,483	2,483
	9,212	8,256	8,256	8,256	8,256
Revenue Earmarked Reserves					
Carry Forward Reserve	2,653	0	0	0	0
POCA Reserve	679	560	413	395	377
Hardship Loan Reserve	50	50	50	50	50
Pay and Pensions Reserve	373	147	19	19	19
Redundancy Reserve	71	0	0	0	0
Major Investigations Reserve	1,375	1,125	562	0	0
Council Tax Deficit Reserve	1,000	769	769	769	769
Estates Strategy Reserve	500	500	0	0	0
Road Safety Initiatives Reserve	452	342	342	342	342
Commissioning Reserve	438	219	0	0	0
IT Reserve	291	291	291	291	291
	7,882	4,003	2,446	1,866	1,848
Capital Earmarked Reserves					
Revenue Reserve for Capital Expenditure	2,879	755	0	0	0
Emergency Services Network Reserve	1,419	226	226	226	226
	4,298	981	226	226	226
Collaboration Reserves	1,926	1,846	1,343	1,343	1,343
Total Reserves	**23,318**	**15,086**	**12,271**	**11,691**	**11,673**

4.7 Affordability Prudential Indicators

4.7.1 So far, the Strategy has covered the control of overall capital expenditure plans and borrowing prudential indicators. The following indicator provides an indication of the impact of the above capital expenditure plans and their financing proposals on the overall finances and precept (council tax). The Commissioner is requested to approve the following indicator:

Table 5: Ratio of financing costs to net revenue funding.

2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
1.16%	1.13%	1.19%	1.41%	1.53%	1.50%	1.85%

4.7.2 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. The estimates of financing costs include current commitments and the proposals included in the budget/medium-term financial strategy. The ratio reduces slightly in 2024/25 due to the impact of loans being repaid in 2023/24 and not yet replaced but then is steadily increasing due to the cessation of capital grant funding and the requirement to increase borrowing in order to finance the ongoing capital programme, in particular the Estates Strategy. The affordability of this will continue to be reviewed alongside the MTFS.

5. BORROWING

5.1 The capital expenditure plans set out in Section 4 provide details of the service activity of the Commissioner. A key function of treasury management is to ensure that the cash resources are organised in accordance with the relevant regulations and professional codes so that sufficient cash is available to meet service activity and the capital strategy. This will involve both cash flow management and where capital expenditure plans require it, the arrangement of appropriate borrowing facilities. This Strategy covers the relevant treasury and prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

5.2 Current Debt Position

5.2.1 The current debt position, as at 31 March 2024, with forward projections is summarised below. The table shows actual external debt against the underlying capital borrowing need highlighting any internal borrowing or over borrowing.

Table 6: Debt Position

2023/24 Actual £000	2024/25 Estimate £000		2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
30,274	29,274	External Debt as 1 April	28,889	31,889	35,889
(1,000)	(385)	Add/(less): net movement in year	3,000	4,000	0
15,006	14,054	Other Long-term Liabilities	13,290	12,080	10,852
(952)	(764)	Add/(less): net movement in year	(1,210)	(1,228)	(1,283)
43,328	42,179	Gross Debt Position at 31 March	43,969	46,741	45,458
45,631	48,010	Less: Capital Financing Req’t	48,936	51,283	48,240
(2,303)	(5,831)	Internal Borrowing	(4,967)	(4,542)	(2,782)

5.2.2 Within the prudential indicators there are a number of key indicators to ensure that the Commissioner operates their activities within well-defined limits. One of these is that the Commissioner ensures that their gross debt does not, except in the short-term, exceed the total Capital Financing Requirement in the preceding year plus the estimates for any additional Capital Financing Requirement for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future plans when favourable conditions allow but ensures that borrowing is not undertaken for revenue or speculative purposes. The Chief Finance Officer (OPCC) confirms that the Commissioner complied with this prudential indicator in the current year and does not envisage any issues for the immediate future. This view takes into account current commitments, existing plans and the proposals included in the budget report and Medium-Term Financial Strategy for 2025-30 to be approved by Joint Management Board on 29 January 2025.

5.3 **Treasury Indicators – limits to borrowing activities**

5.3.1 There are two limits to borrowing, the operational boundary and the authorised limit for external debt. These are the current debt position as shown in 5.1.1 above plus the forecast requirement for external financing over the next three years.

5.3.2 **The operational boundary** is the limit which external debt and long-term liabilities is not normally expected to exceed. In most cases this would be a similar figure to the Capital Financing Requirement but may be higher or lower depending on the level of actual debt and repayment schedules. Temporary breach of the operational boundary is not in itself cause for concern but an indicator that such liabilities should be reviewed. If there was a sustained breach, (such as an increase in long-term borrowing), then this would need to be investigated and action taken.

5.3.3 The operational boundaries below are based on estimating the Commissioner's most likely level of borrowing and leasing each year. It includes long-term borrowing to fund capital expenditure plans, short-term temporary borrowing for cash flow purposes and the impact of any finance leases.

Table 7: Operational Boundary

	2025/26 Estimate £000	**2026/27 Estimate £000**	**2027/28 Estimate £000**
Debt	47,889	52,889	50,889
Other long-term liabilities	12,269	11,041	9,758
Total	60,158	63,930	60,647

5.3.4 As Table 7 shows, the Operational Boundary will peak in 2026/27 because new borrowing will be required over the period to deliver planned major Estates Strategy projects. This is partly offset by the Other Long-Term Liabilities (Residual PFI Liability) which is reducing.

5.3.5 The **authorised limit for external debt** is a further key prudential indicator representing a control on the maximum level of borrowing. This represents a limit beyond which external debt and finance leases are prohibited and is set or revised by the Commissioner. It reflects the level of such debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer-term.

5.3.6 This is a statutory limit determined under section 3(1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authorities' plans or those of any specific public body; although this power has yet to be exercised.

5.3.7 The Commissioner is requested to approve the following authorised limits.

Table 8: Authorised Limit

	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000
Debt	50,889	55,889	53,889
Other long-term liabilities	12,269	11,041	9,758
Total	63,158	66,930	63,647

5.4 **Prospects for Interest Rates**

5.4.1 The Commissioner has appointed Link Group as his treasury advisor and part of their service is to assist him to formulate a view on interest rates. The following table gives our central view.

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

Source: Link Group

5.4.2 During 2024/25 interest rates have reduced from the peak of 5.25% in 2023 to 5% in August 2024 with a further reduction to 4.75% in November 2024.

5.4.3 Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the .25% Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, the forecasts have been revised for the first time since May. The Bank Rate forecast is now 0.50% to 0.75% higher than was previously the case, whilst the PWLB forecasts have been materially lifted to not only reflect increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

5.4.4 Reflecting on the 30 October Budget, the policy announcements are expected to be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% by the end of 2025 and 2.2% by the end of 2026 before dropping back in 2027 to 1.8%.

5.4.5 The anticipated major investment in the public sector is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

5.4.6 There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

5.4.7 It is hoped that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. The forecast is that the next reduction in Bank Rate will be made in February 2025 with cuts then being made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

5.4.8 Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.

5.4.9 Regarding the PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

5.4.10 Donald Trump's victory in the US Presidential election paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.

5.5 Borrowing Strategy

5.5.1 As shown in Table 6, the Commissioner is currently utilising internal borrowing and forecast to remain so for the period covered by this Strategy. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loan debt as cash supporting the Commissioner's reserves, balances and cash flow has been used as a temporary measure. This Strategy is appropriate for the current economic scenario and prudent as medium and longer dated borrowing rates are expected to fall from their current levels over the next two years.

5.5.2 Reducing reserve balances are beginning to place significant pressure on cash balances at certain points in the year and, as a result, internal borrowing of £3m supported by short term external borrowing when needed is now a more prudent target going forward. The strategy is to increase this over the period of the Estates Strategy delivery to around £5m until circa 2027, through careful cash flow management, in order to minimise new long term external borrowing over this period before returning to the target level once interest rates have returned to more favourable levels. The position will continue to be monitored closely throughout 2025/26 and reviewed again as part of the 2026/27 Treasury Management Strategy.

5.5.3 Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Commissioner's Chief Finance Officer will keep interest rates and the cash flow impact under continual review in order to adopt a pragmatic approach to changing circumstances, supported by advice from the external Treasury Management advisers.

5.5.4 A key aim of the borrowing strategy is to minimise the cost of the loan portfolio whilst ensuring that the obligation to repay the loans is spread out over a period of time. This reduces the impact of such loans on the revenue budget. The profile of the repayment of the debt portfolio is shown below at 5.7.3.

5.5.5 New long-term borrowing is currently planned during the life of this strategy. Where short-term borrowing arrangements are required to support a temporarily low general fund bank balance, the Commissioner will engage their Treasury Advisors to understand if there are any opportunities to borrow from local authority counterparties. The offer will then be considered, and terms of loans agreed between the Chief Finance Officer and nominated officer from the lending organisation.

5.6 Policy on borrowing in advance of need

5.6.1 The Commissioner will not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved CFR estimates and will be considered carefully to ensure that value for money can be demonstrated alongside the security of such funds.

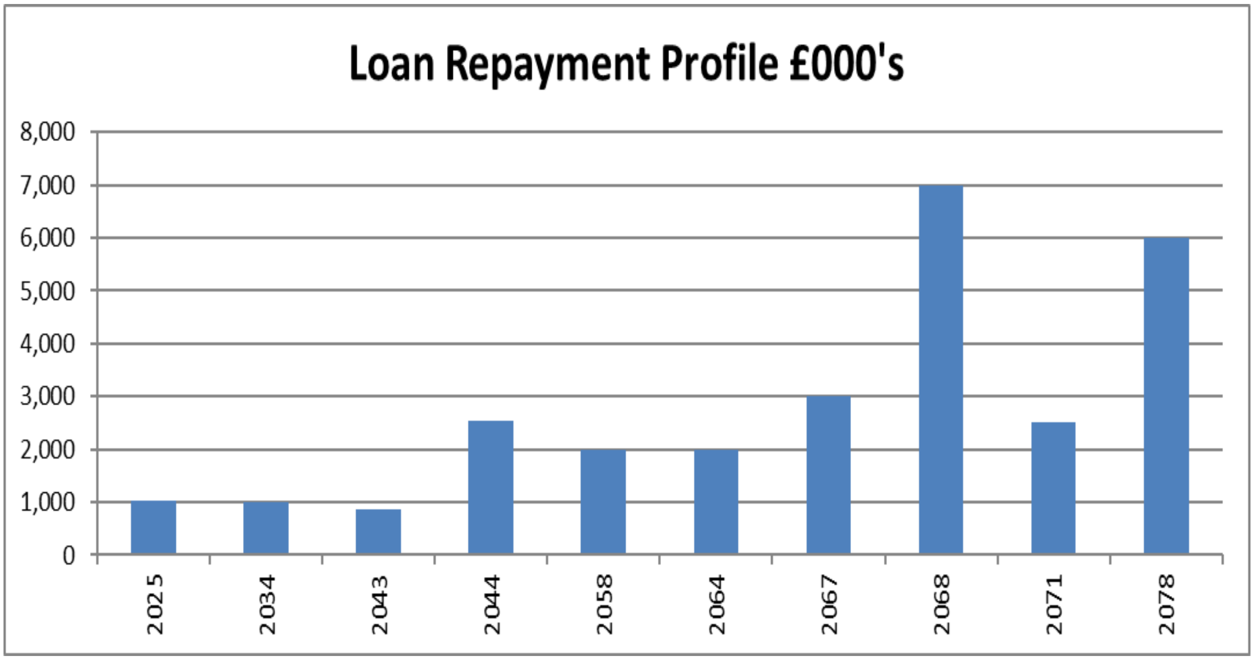
5.7 Debt Rescheduling

5.7.1 Rescheduling of current borrowing in the debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates.

5.7.2 The reasons for any rescheduling to take place will include:

- The generation of cash savings and/or discounted cash flow savings
- Helping to fulfil the treasury strategy
- Enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

5.7.3 Any potential rescheduling will be very carefully considered. The current profile of the debt portfolio is shown below:



5.7.4 The majority of the borrowing is on a fixed rate basis with the current overall weighted average of 3.21%. There is one loan held, (£6m), that is subject to semi-variable interest rates and has six monthly review periods when the bank can amend the rate or, the Commissioner can repay the loan if the new rate is deemed unacceptable. Any new loans taken out for future capital expenditure plans or the repayment of maturing debt will be subject to the rates applicable at that time. Any early repayment of debt would also be subject to either early pay-back premiums or discounts.

5.7.5 Key sensitivities of the interest rate forecast are likely to be:

- if it was felt that there was a significant risk of a much sharper rise in long and short term rates than that currently forecast, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years; and

- If it was felt that there was a significant risk of a sharp fall in short and long-term interest rates, then longer-term borrowing will be postponed until rates were deemed at their lowest and a review of current debt would be undertaken to ascertain the benefit of rescheduling to more competitive short-term loans.

5.8 Treasury Management limits on activity

5.8.1 There are three debt-related treasury activity limits. Their purpose is to restrain borrowing activity within certain limits to manage risk and reduce the impact of adverse movement in interest rates. However, if these are set too restrictively, they will impair the opportunity to reduce costs or maximise value for money. The Commissioner is requested to approve the following indicators and limits.

Table 9: Interest Rate Limits

	2025/26 Upper	2026/27 Upper	2027/28 Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	25%	25%	25%

Table 10: Maturity structure of fixed interest rate borrowing 2025/26

	Lower	Upper
Under 12 months	0%	15%
12 months to 2 years	0%	15%
2 years to 5 years	0%	25%
5 years to 10 years	0%	25%
10 years and above	50%	100%

6. ANNUAL INVESTMENT STRATEGY

6.1 Investment Policy

6.1.1 The 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. The Commissioner does not hold any non-financial investments, essentially the purchase of income yielding assets, but if he did these would now be covered in the separate Capital Strategy.

6.1.2 The Commissioner’s investment policy has regard to the following:

- MHCLG’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

6.1.3 The Commissioner’s principal objectives for investments are security first, liquidity next and finally yield (return). The Commissioner will aim to achieve the optimum return (yield) on their investments commensurate with proper levels of security and liquidity and with regard to the Commissioner’s risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs. However, where appropriate, the Commissioner will also consider the value available in periods up to 12 months with high credit rated financial institutions.

6.1.4 The above guidance from the MHCLG and CIPFA places a high priority on risk management. This Commissioner has adopted a prudent approach to managing risk and defines their risk appetite by the following means:

a) 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.

b) 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 Commissioner will engage with their advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

c) 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.

d) The Commissioner has defined the list of types of investment instruments that the treasury management team are authorised to use. There are two lists in table 11 below under the categories of 'specified' 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 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.

Table 11: Approved Investment Instruments

Specified Investments (maturities up to one year)
▫ Bank & Building Societies Term Deposits
▫ Other Local Authority Term Deposits
▫ Debt Management Agency Deposit Facility
▫ AAA Money Market Funds (CNAV/LVNAV/VNAV)
Non-Specified Investments (maturities over one year)
▫ Bank & Building Societies Term Deposits
▫ Other Local Authority Term Deposits
Other Non-Specified Investments
▫ Fixed term deposits with variable rates & maturities

e) Non-specified investments limit. The Commissioner has determined that he will limit the maximum total exposure to non-specified investments as being 20% of the total investment portfolio.

f) Lending limits, the maximum amount for each counterparty will be set at £10m per organisation/group. The maximum investment duration for each counterparty will be set in line with the creditworthiness service provided by Link Group as set out in paragraph 6.2.

g) The Commissioner will set a limit for the amount of investments which are invested for longer than 365 days, (see paragraph 6.4.5).

h) Investments will only be placed with counterparties from countries with a specified minimum sovereign rating, (see paragraph 6.3).

i) The Commissioner has engaged external consultants, (see paragraph 3.4), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

j) All investments will be denominated in sterling.

k) As a result of the change in accounting standards for 2023/24 under IFRS 9, the Commissioner 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 Ministry of Housing, Communities and Local Government, [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 March 2023). In 2023, a further extension to the over-ride to 31 March 25 was agreed by Government.

6.1.5 The above criteria are unchanged from last year.

6.2 Creditworthiness Policy and Exposure to Risk

6.2.1 The Commissioner utilises the creditworthiness service provided by Link Group as their Treasury Management advisers. This service employs a sophisticated modelling approach incorporating 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:

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

6.2.2 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system that 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 Commissioner to determine the suggested duration of investments. The Commissioner will use counterparties within the following durational bands:

- Yellow 5 years
- 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

6.2.3 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 Commissioner use 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.

6.2.4 All ratings and colour codes are monitored weekly via Link's credit listings and in-between via business press. The Commissioner is alerted to changes to any ratings via email from Link.

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

- In addition to the use of credit ratings the Commissioner 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 Authority's lending list.

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

6.3 Country Limits

6.3.1 The Commissioner has determined that he will only use approved counterparties from the UK and from countries outside of the UK with a minimum sovereign credit rating of AAA from Fitch (or equivalent). The list will be added to, or deducted from, should ratings change. Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, the Commissioner will not set a minimum rating for the UK.

6.4 **Investment Strategy**

6.4.1 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are not currently obtainable by investing for longer periods as the Bank Rate has begun to fall from its peak in 2023 with further reductions expected in 2025.

6.4.2 The Commissioner would seek to maintain at all times a core liquid balance of £5m.

6.4.3 For cash flow generated balances, the Commissioner will seek to utilise their business reserve instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), in order to benefit from the compounding of interest.

6.4.4 Bank Rate - The current forecast shown in paragraph 5.3, includes a forecast for a succession of rate decreases from the current rate of 4.75%. Bank Rate forecasts for financial year ends (March) are:

2024/25 – 4.50%	2025/26 – 3.75%	2026/27 – 3.50%	2027/28 – 3.50%

6.4.5 Investment treasury indicator and limit - total principal funds invested for greater than 365 days. This limit is set with regard to the Commissioner's liquidity requirements and to reduce the need for early sale of an investment. It is based on the forecast availability of funds after each year-end. The Commissioner is asked to approve the following treasury indicator and limit:

Table 12: Investment Treasury Limit:

	2024/25	**2025/26**	**2026/27**
	Upper	**Upper**	**Upper**
Principal sums invested for longer than 365 days	Nil	Nil	Nil

6.5 **End of Year Investment Report**

6.5.1 At the end of the financial year, a report on the Commissioner's investment activity as part of the Annual Treasury Report, will be presented to the Joint Management Board.

7. MINIMUM REVENUE PROVISION (MRP) STATEMENT

7.1 All local authorities have a legal requirement to set aside money to cover the repayment of debt. The amount of MRP charged needs to be a prudent amount. The broad aim of a prudent provision is to ensure that debt is repaid over a period that is reasonably commensurate with that over which the associated capital expenditure provides benefits.

7.2 At the end of 2017/18, around 50% of the non PFI related Capital Financing Requirement related to the balance of historic supported debt liability. The Commissioner has determined that this historic element of the CFR will be charged MRP at the rate fixed as 2% of the balance at 31 March 2018. The Commissioner considers this approach to be more prudent as it will ensure that the CFR will be cleared over a finite 50-year period rather than the previous 4% per year reducing balance method which would technically never clear the debt. The remaining amount will, under delegated powers (known as prudential borrowing), be subject to MRP under option 3 of the Guidance, which will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building will be related to the estimated life of that building. These options provide for a reduction in the borrowing need over approximately the asset's life.

7.3 The use of this option for certain schemes/expenditures will also result in a nil MRP charge until the year after that in which all expenditures on the scheme, project or other item of capital expenditure have been fully accrued under proper accounting practices, regardless of the extent of such expenditure that has not been accrued at the end of the previous financial year. Assets will not be transferred to the asset register and non-current assets account until complete, in accordance with standard accounting principles.

7.4 Repayments included in annual Private Finance Initiative (PFI) or the new accounting standard IFRS16 for leases are applied as MRP.

7.5 Estimated life periods will be determined under delegated powers. To the extent that expenditures are not on the creation of an asset and are of a type that are subject to estimated life periods that are referred to in the Guidance, these periods will generally be adopted by the Commissioner.

7.6 In view of the variety of different types of capital expenditure incurred by the Commissioner, which is not in all cases capable of being related to an individual asset e.g., capitalising revenue items; asset lives will be assessed on the basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components having substantially different useful economic lives.

Note: This policy will be reviewed on an annual basis. If it is ever proposed to vary the terms of the original statement during any year, approval from the Commissioner will be required.

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