Lincolnshire COUNTY COUNCIL *Working for a better future*

Open Report on behalf of Andrew Crookham, Deputy Chief Executive & Executive Director – Resources

Report to:	**Councillor M J Hill OBE, Leader of the Council and Executive Councillor for Resources, Communications and Commissioning**
Date:	**11 - 15 March 2024**
Subject:	**Treasury Management Strategy Statement and Annual Investment Strategy for Treasury Investments 2024/25**
Decision Reference:	**I030812**
Key decision?	**No**

Summary:

The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2024/25. These activities include the Council's expected borrowing and treasury investments, cashflows and banking.

Annual strategies for the Council's borrowing and treasury investments are included as part of this Report, as well as the Council's Minimum Revenue Provision Policy Statement and the Annual Investment Strategy for Treasury Investments which sets out the Council's policies for investing its surplus cash for the year ahead taking into account the risks involved.

This report meets the requirements of the 2021 CIPFA Code of Practice for Treasury Management in the Public Sector, (adopted in the Council's Financial Regulations), and also the Local Government Act 2003 and the Ministry of Housing Communities and Local Government (MHCLG) Government Guidance. Requirements of the Code relating to Non-Treasury Investments (for Service or Commercial reasons) are detailed in the Council’s Capital Strategy 2024/25 that is an Appendix to the Budget 2024/25 to be approved by Full Council on 23rd February 2024.

Approval for this Strategy Statement and Annual Investment Stategy is required by the Executive Councillor with Responsibility for Resources, Communications and Commissioning.

Recommendation(s):
That the Leader of the Council approves: The Treasury Management Strategy Statement for 2024/25, including the Annual Investment Strategy Statement for Treasury Investments 2024/25 and the Minimum Reveunue Provision Policy Statement contained within the Statement for the year ahead.

Alternatives Considered:	
1.	Not to approve the strategies or to approve amended strategies.

Reasons for Recommendation:
The Council's Financial Regulations require the Council to prepare annually a Treasury Management Strategy Statement (including an Annual Investment Strategy Statement for Treasury Investments and a Minimum Revenue Provision Policy Statement). The strategies proposed in this Report have been developed with regard to relevant Guidance and in accordance with the Council's financial policies. They are alligned to the Council's Prudential Indicators. The advice of the Council's Treasury Management advisor has been taken during the course of developing the strategy and the proposals in this report are considered to be the most appropriate approach for the Council to adopt.

1. INTRODUCTION / BACKGROUND

1.1. Background

1.1.1. CIPFA defines treasury management as:

'The management of the Council'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.'

1.1.2. The main functions of treasury management are outlined in the table below.

• Cash Flow	Cash raised during the year meets cash expenditure as part of a balanced budget. This cash flow is planned and managed to ensure cash is available when needed. (Investing surplus cash or short-term borrowing for predicted shortfalls).

• Investing Surplus Monies	Surplus monies are invested in accordance with the Councils low risk appetite and in line with its liquidity requirements. The Council outlines its investment policy and investment risk appetite within its **Annual Investment Strategy**. Risk appetite is low as security of investments is paramount over any returns made.
• Borrowing (Long Term) to fund Capital Plans.	The Council's capital plans provide a guide to the longer-term borrowing need of the Council; essentially longer term cash flow planning. Both external and internal borrowing, (using long term cash surpluses), is done to manage this long-term cash flow requirement.

1.1.3. These functions are critical to the Council, as the management of both debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due both in the short and long term for both revenue and capital projects. The minimisation of interest costs on borrowing and the maximisation of interest earned on investments, subject to the security of the sums invested, also play a significant role to the available resources of the Council

1.2. Relevant Treasury Management Regulation / Legislation

1.2.1. The Council’s treasury management activities are governed and meet the requirements of the following regulations, legislation and guidance.

- The Local Government Act 2003.
- CIPFA Prudential Code 2021.
- MHCLG MRP Guidance 2018.
- CIPFA Treasury Management Code 2021.
- MHCLG Investment Guidance 2018.

The Council has also adopted the key requirements of the CIPFA Treasury Management Code as part of its **Financial Regulations** within the **Constitution**.

CIPFA published the revised Treasury Management and Prudential Codes on 20th December 2021 , effective for 2023/24 and the requirements of this revision are now fully implemented in the Treasury Management, Annual Investment and Capital Strategies of the Council for 2024/25. The new Code requires the Council to ensure that:

- it defines its risk appetite and its governance processes for managing risk.

- it sets out, at a high level, its investment policy in relation to environmental, social and governance (ESG) aspects.

- it adopts 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.

- it does not borrow to finance capital expenditure to invest primarily for commercial return.

- increases in the Capital Financing Requirement (CFR) and borrowing are undertaken solely for purposes directly and primarily related to the functions of the authority. Where any financial returns are related to the financial viability of the project in question, they should be incidental to its primary purpose.

- an annual review is conducted to evaluate whether commercial investments, (if held), should be sold to release funds to finance new capital expenditure or refinance maturing debt.

- its capital plans and investment plans are affordable and proportionate.

- all borrowing/other long-term liabilities are within prudent and sustainable levels.

- risks associated with commercial investments, (if held), are proportionate to overall financial capacity to sustain losses.

- treasury management decisions are in accordance with good professional practice.

- reporting to members is done quarterly, including updates of prudential indicators.

- it should assess the risks and rewards of significant investments over the long term, (if held**),** as opposed to the usual three to five years that most local authority financial planning has been conducted over, to ensure the long-term financial sustainability of the authority.

- it has access to the appropriate level of **expertise** to be able to operate safely in all areas of investment and capital expenditure, and to involve members adequately in making properly informed decisions on such investments.

To meet these requirements the Council will:

- attribute all investments and investment income to one of the following three purposes: **Treasury Management**, **Service Delivery** and **Commercial Return;**
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a **proportionate approach to commercial and service capital investment** by setting approriate Prudential Indicators (Included in Capital Strategy);

- create new **Investment Management Practices (IMPs)** to manage risks associated with non-treasury investment, similar to the current Treasury Management Practices or TMPs (included in Capital Strategy);
- require implementation of a policy to review **commercial property (if held)**, with a view to divest where appropriate. (Included in Capital Strategy);
- develop a new requirement to clarify **reporting requirements for service and commercial investment**, especially where supported by borrowing/leverage. (Included in Capital Strategy);
- adopt a new **debt liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement;
- ensure that any **long term treasury investment,** (if held)**,** is supported by a business model;
- **effectively manage liquidity and longer term cash flow requirements**;
- address any **ESG issues** within the Capital or Treasury Strategy and amend TMP1 to address the Councils's **ESG policy** within the treasury management risk framework;
- create a **knowledge and skills register** for all individuals involved in the treasury management function, including Members, - to be proportionate to the size and complexity of the treasury management conducted by each council;

1.3. Reporting Requirements: Treasury Management

1.3.1. The following reporting requirements of the CIPFA Treasury Management Code are met as follows:

- The Treasury Management Strategy, including the Annual Investment Strategy for Treasury Investments and the Council's Minimum Revenue Provision Policy Statement, is submitted to the **Executive Councillor with Responsibility for Resources, Communications and Commissioning** for approval prior to the start of the financial year. It is presented to the **Overview & Scrutiny Management Board** prior to this decision for scrutiny comment.
- **Quarterly update reports** will then be presented to the Overview & Scrutiny Management Board throughout the financial year which will monitor and report on actual treasury activity against the approved Strategy. This will include an update on Prudential Indicator performance against Limits set for the year.

1.3.2. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities regarding delegation and reporting.

1.4. Treasury Management Training – Creation of Knowledge & Skills Framework

1.4.1. All public service organisations should be aware of the complexity of treasury management in general and its application to the public services in particular. Modern treasury management demands the following appropriate skills:

- a knowledge of money and capital market operations,
- appreciation of the economic and interest rate environment and how this impacts treasury strategy,
- an awareness of available sources of funds and investment opportunities and how to determine these,
- An ability to assess, manage and control risk in relation to all aspects of treasury management,
- An appreciation of the implications of legal and regulatory requirements and key reports presented to Council.

1.4.2. Public service organisations also have a responsibility to ensure that those charged with governance have access to the skills and knowledge they require to carry out this role effectively, including treasury management and those charged with governance also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

1.4.3. The CIPFA Treasury Management Code 2021 therefore requires the S151 Officer to ensure that all parties, (members and officers), involved in the treasury management process for the Council, including those who cover treasury responsibilities in periods of staff absence, receive adequate training in treasury management and that the Council needs 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 all those responsible for **management, delivery, governance and decision making**.

1.4.4. The importance of ensuring that all staff and members involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them are already recognised by the Council.

1.4.5. The Council seeks to appoint individuals who are both capable and suitably experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

1.4.6. All treasury management staff are encouraged to take any suitable training in treasury management provided by CIPFA, Link Asset Services Ltd or other relevant market participants.

1.4.7. The Section 151 Officer ensures that elected members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

1.4.8. To formulise this area in line with the CIPFA Code requirements, an appropriate knowledge and skills framework has been developed which will be launched in April 2024. An outline of this framework is detailed as follows:

- **treasury management competencies** relevant and appropriate for the needs of the roll, will be specified for the following roles identified;
    - **the treasury manager**
    - **the treasury officer**
    - **cover staff for the above two roles**
    - **the monitoring officer**
    - **the chief finance officer (S151 officer) and deputy**
    - **the Executive Councillor for Resources responsible for decision making and approval.**
    - **council members responsible for scrutiny**
- **A knowledge and skills schedule** will be maintained to record those treasury management skills identified and this information will be ascertained following the completion of a self-assessment form by all treasury management officers and members to measure against the required competencies identified for their role. Any gaps in required skills, knowledge or understanding will be identified and recorded following this assessment..
- **Tailored learning plans** for treasury management officers and members will be devised to fill any gaps in Knowledge and Skills identified in the self-assessment process and any training identified can be provided either internally or externally as appropriate for the need. Special topics can also be covered by training as identified.
- **Monitoring and review** of the knowledge and skills developed by treasury management officers and members will take place by developing training plans and recording attendance at such training, and having regular communication with officers and members to encourage them to highlight training needs on an ongoing basis.

1.5. External Service Providers: Treasury Management

1.5.1. The Council currently uses **Link Asset Services Ltd** as its external treasury management advisers.

1.5.2. The Council recognises that responsibility for treasury management decisions always remains with the Council and will ensure that undue reliance is not placed upon our external service providers.

1.5.3. It also recognises that there is value in employing external providers of treasury management services in order 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, documented and subjected to regular review.

1.6. Pension Fund Cash

In line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, effective from 1st April 2010, an agreement is in place for the pooling of Pension Fund cash within the surplus Council cash balances for investment. This cash can include both day to day cash balances of the Pension Fund and its Strategic Asset Allocation for Cash at any time.

1.7. Definition of Investments

1.7.1. The revised CIPFA Treasury Management and Prudential Code 2021 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. Treasury investments are made under the **Section 12 Local Government Act 2003 - Investment powers.**

Service delivery
Classed as Non-Treasury Investments held primarily and directly for the delivery of public services including 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". **Investments for this purpose are made under Section 1 Local Government Act 2003 - Expenditure Powers.**

Commercial return
Classed as Non-Treasury Investments 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 is not permitted to borrow to invest primarily for financial return and hence not to finance this class of investment. **Investments for this purpose are made under Section 1 Local Government Act 2003 - Expenditure Powers.**

1.7.2. Non-treasury investments (Service Delivery and Commercial Return) generally arise from capital expenditure, not from the Council's day to day cashflow activities, and can comprise commercial financial assets and property, third party loans supporting service outcomes, investments in subsidiaries and investment in property portfolios.

1.7.3. Non-treasury investments held by the Council are therefore not covered within this Treasury Strategy but are reported within the Council's **Capital Strategy 2024/25**, which will be presented to Full Council for approval on 23 February 2024 along with the County Council Budget for 2024/25. The risks of holding these types of investment and how the Council manages these risks are fully explained within the Capital Strategy as they differ to the risks relating to Treasury Investments as outlined in this document.

2. TREASURY MANAGEMENT STRATEGY STATEMENT 2024/2025

2.1. Introduction

2.1.1. The Treasury Management Strategy for 2024/25 is based upon the capital and revenue expenditure plans of the Council and the Treasury Officers' current views on interest rates for the year ahead.

2.1.2. Both capital and treasury management issues are covered in the following three areas of the Strategy as detailed below:

1- Prospect For Interest Rates 2024 to 2027 and Economic Commentary	
2- Borrowing	
- Borrowing Requirement 2023/24 to 2026/27	
- Associated Prudential Indicators (PI), including: ▪ Capital Expenditure and Financing Plans. ▪ Capital Financing Requirement & Debt Liability Benchmark. ▪ Affordable Borrowing Limit 2024/25 to 2026/27. ▪ **Minimum Revenue Provision (MRP) Policy.** ▪ Borrowing in Advance of Need Policy. ▪ Interest Rate Exposure Re Borrowing.	 PI 1 PI 2,9 PI 3 **PI 6** PI 13 PI 12
- Debt Rescheduling.	
- Borrowing Performance Benchmark.	
- Long Term Borrowing –Factors for Consideration 2024/25.	
- **Long Term Borrowing Strategy for 2024/25.**	
3- Investments	
- Annual Investment Strategy for Treasury Investments 2024/25	
- Interest Rate Exposure re Investments.	PI 12
- Short Term and Long-Term Cash Flow Management. ▪ Liquidity of Investments.	 PI 11
- Treasury Investment Performance Benchmark.	

- Treasury Investments – Factors for Consideration 2024/25.	
- Treasury Investment Strategy for 2024/25.	

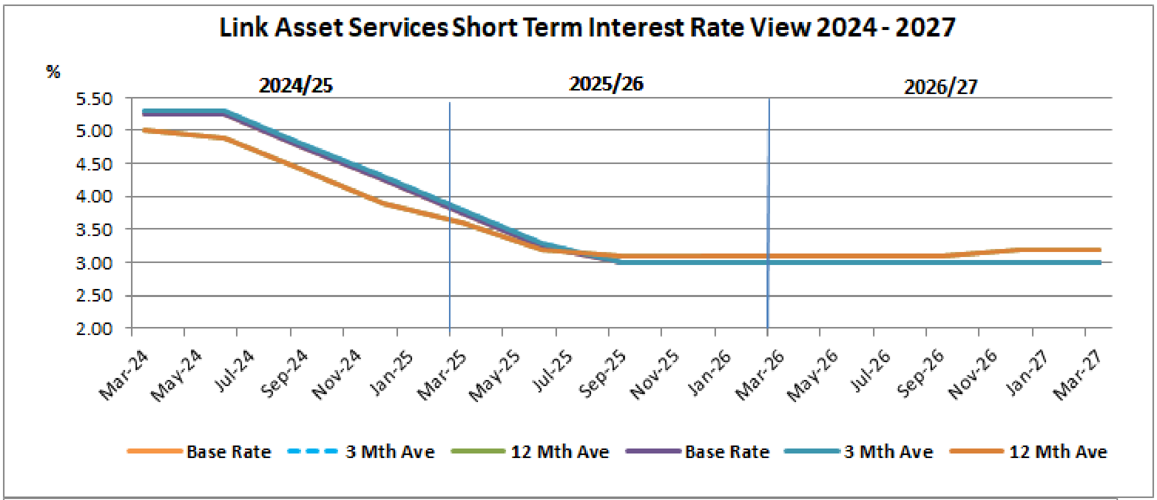
2.1.3. To place this Treasury Management Strategy in context, the table below shows the Council's net treasury portfolio position on 31 December 2023 compared to the start of the year, with associated average percentage costs/returns. It shows the net borrowing position of the Council as follows:

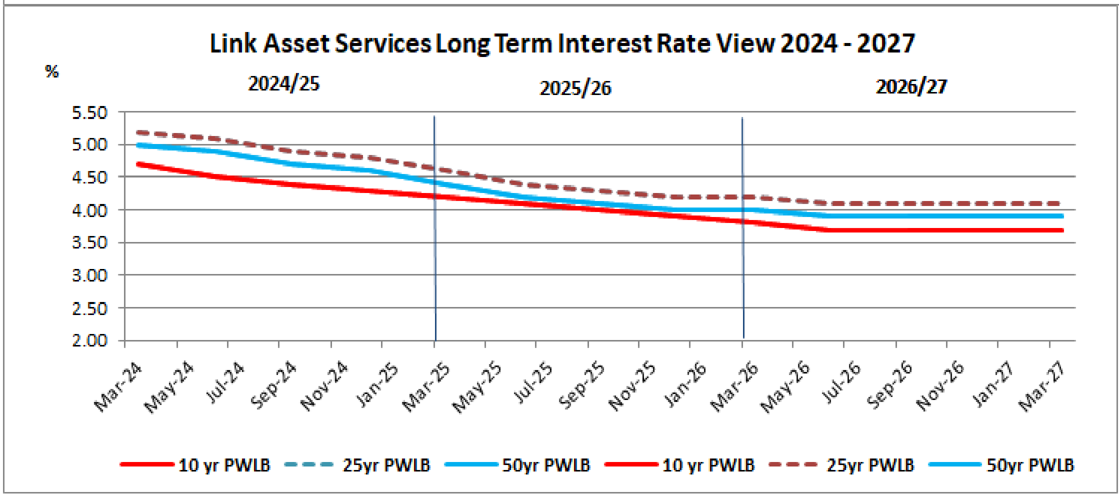
	1 Apr 2023		31 Dec 2023	
	Principal £m	Ave Rate %	Principal £m	Ave Rate %
PWLB Debt	**(447.768)**	**3.71%**	**(439.439)**	**3.70%**
LOBO Debt	**(20.000)**	**4.00%**	**(20.000)**	**4.00%**
Long Term Borrowing	**(467.768)**	**3.73%**	**(459.439)**	**3.72%**
Fixed Deposits	**144.930**	**4.38%**	**140.900**	**5.17%**
Bonds	**0.000**	**0.00%**	**0.000**	**0.00%**
Certificates of Deposit	**35.000**	**4.82%**	**73.000**	**5.60%**
Call & O/N	**0.000**	**0.00%**	**0.000**	**0.00%**
Money Market Funds	**62.850**	**4.13%**	**54.525**	**5.32%**
Treasury Investments*	**242.780**	**4.38%**	**268.425**	**5.31%**
Net Borrowing	**(224.988)**		**(215.847)**	

* Note this balance excludes non-treasury investments but includes Pension Fund cash.

2.2. Prospect for Interest Rates 2024 to 2027 and Economic Commentary

2.2.1. Link Asset Services provided their view for both short term and longer-term interest rates for the following three years to March 2027 on 8th January 2024, considering the current outlook for the UK Economy. This is summarised in the graphs below.





2.2.2. The Monetary Policy Committee (MPC) kept Bank Rate on hold, **at 5.25%**, for the fourth time in a row at its meeting on 1st February 2024. They expect CPI inflation to fall to the 2% target in Q2 2024, (April 24 to June 24), but then think it will rebound to above this level for the bulk of the next 3 years, due to service inflations and wage growth, and are therefore adopting a restrictive policy in the cutting of Bank Rate. Link's short term interest rate graph shows that the **first cut in Bank Rate is expected in August 2024 and for it to be cut to 3.75% by the end of 2024/25 with a drop to the low point of the cycle at 3% by the end of 2025**. The markets concur with this forecast, but the movement of Bank rate is pinned to the inflation outcome.

2.2.3. The forecast for long term PWLB rates are determined by gilt yield movements. Shorter end gilt rate forecasts, (5yrs to 10yrs), reflect the Bank Rate forecast above, whilst medium to longer dated gilt yield forecasts (15yrs to 50yrs) are influenced by the inflation outlook and the markets appetite for significant gilt issuance. Link's long term interest rate graph shows that **PWLB rates are expected to fall gradually by around 0.30% to 0.70% in 2024/25 and to continue to fall to a low point of between 3.50% to 3.90% by March 2027.** Again, all hinges on the inflation position as to the actual outcome for long term rates.

2.2.4. A more detailed overview of the future path of Interest Rates and Economic Commentary from Link Asset Services is shown in **Annex A.**

2.2.5. A summary of this economic outlook, that will set the backdrop to the Council's treasury management activity in 2024/25, is detailed below:

- **GDP** – As the MPC concentrate on inflationary pressures by holding Bank Rate at present, this, and the cost of living squeeze is having a detrimental effect on Growth. The MPC forecast GDP at 0.00% for 2024 (from 0.50%) and analysts think growth will be tepid at best, although a recession is now thought to be avoidable.

- **CPI inflation** – CPI inflation has fallen over 2023/24 as predicted, as high energy cap prices fall out of the data, and was 4% in December 2023. It is expected to fall to the 2% target level by June 2024, however concerns over services inflation and wage growth have the MPC thinking that it will be above this 2% level for the bulk of the next 3 years.. The inflation level is underpinning the interest rate forecasts for 2024/25 and beyond.

- **Labour Market/Wage Growth** – A challenge for the MPC is how tight the labour market is with unemployment still below 4% and current wage growth more than 6%. Wage pressures may cause inflation and hence rates to remain higher than predicted levels whilst at the same time labour shortages give little prospect to sustainable increases in economic growth.

2.2.6. The economic outlook and structure of market interest rates have several **key treasury management implications** for the year ahead as follows:

- Investment returns start the year at a peak of 5.25% and are expected to fall back over the year starting in August 2024 to reach a predicted level of 3.75% by the financial year end. **It is therefore advantageous to lock into longer term investment rates early in the year before the market prices in the predicted fall in rates, where sufficient liquidity permits**.
- Liquid investments such as Money Market Funds (MMFs) will see **yields fall as market yield falls**, however the MMF yields still compare favourably to call/ notice account yields when investing for liquidity purposes at present.
- Notice Account returns, which are variable, usually struggle to compete with fixed deposit returns in a falling interest rate environment, so use of them will be managed accordingly.
- The borrowing yield curve is still relatively flat with only a 0.50% spread over all periods. With long term rates expected to fall over 2024/25, **any external borrowing should be concentrated towards the end of the financial year**. The timing in the fall in rates will depend on the inflation position during 2024/25 and hence remains unpredictable.
- The gap between short term investment rates and long term borrowing rates is minimal at the time of writing, however as Base Rate is predicted to fall throughout 2024/25 and hence investment rates fall, **the cost of borrowing will end the year higher than investment rates and therefore a cost of carry**

will return, i.e.) a revenue loss between borrowing costs and investment returns, in the medium term.

2.3. Borrowing

2.3.1. Borrowing Requirement Estimates 2023/24 to 2026/27

The **long term borrowing requirement** plans for the Council come from the Council's **capital expenditure and financing plans** which form part of the Council Budget each year.

The **affordability, prudence and sustainability** of the capital expenditure and financing plans are assessed / demonstrated by setting a series of **Prudential Indicators and Limits** each year, as required by the CIPFA Prudential Code. **Annex B** shows these Prudential Indicators, actuals for 2022/23 and estimated for 2023/24 through to 2026/27. These are submitted with the Council Budget 2024/25 Report, due to be considered at the meeting of the County Council on 23rd February 2024. A more detailed explanation of the Prudential Indicators linked to borrowing is provided in 2.3.2 below.

2.3.2. Prudential Indicators Associated with Borrowing

PI 1 -Capital Expenditure and Financing Plans

The table below shows the Council's **capital expenditure plans** for the reporting period and the element of this expenditure which is not to be financed straight away from cash resource or grants, hence, to be financed at a future date by borrowing (**i.e. the borrowing requirement**). The table also shows the amount of external borrowing taken which is due to mature over the reporting period which impacts on the total indebtedness of the Council.

	Estimate 2023/24 £m	Estimate 2024/25 £m	Estimate 2025/26 £m	Estimate 2026/27 £m	Total £m
Capital Expenditure Plans (Gross)	193.155	144.706	61.400	68.586	**467.847**
New Borrowing Requirement	63.788	89.425	24.284	27.885	**205.382**
Maturing Borrowing Requirement	10.329	8.304	6.304	6.304	**34.241**

PI 2 - Capital Financing Requirement and PI 9 -Debt Liability Benchmark

The Capital Financing Requirement (CFR) is a measure of the amount of capital expenditure that the Council has already spent that has yet to be funded from cash resources. i.e., the Council's total indebtedness or **need to borrow for capital financing purposes**. Credit arrangements (finance leases and private finance initiatives) are also included in the CFR as they have the same practical impact as borrowing. The CFR is **increased** each year by the **new borrowing / credit arrangement requirement,** as highlighted in the table above, and **reduced** each year by the **Minimum Revenue Provision (MRP)**, or the Council's repayment of debt provision. (The Councils current policy for MRP is outlined in **Annex C**). The Councils current CFR based on its current borrowing requirement and MRP plans can be seen on the graph in **Annex D** – This is **the purple line** on the graph. This shows that the CFR gradually reduces from year 10 onwards as MRP repayment exceeds any borrowing requirement needed after this time. It also shows that the CFR is a long way above actual external borrowing taken (shown by the **blue** and **orange** bars), which highlights the level of borrowing requirement the Council has chosen to **finance internally** from its cash resource. (Internal Borrowing).

The **Debt Liability Benchmark** is a new Treasury Indicator introduced in the revised 2021 CIPFA Code, and it introduces the concept of focusing on **net indebtedness** when making decisions on how much external borrowing to undertake to meet the borrowing requirement plans of the Council. **Net indebtedness is the level of the Council's cash resource and reserves net of its borrowing liabilities.** This is shown on the graph in **Annex D** as the **green dashed line**. Add to this, the level of cash the Council is comfortable with for ongoing cash flow liquidity, and this results in the Debt Liability benchmark (the **red line** on the graph). (i.e., the level of debt you need to keep investments at the **chosen Liquidity Investment Benchmark** level which is shown as the yellow line on the graph, and has been set at £100m for the current time.

As indicated on the graph, the areas covered by the red boxes indicate where the level of the Council's external debt exceeds the Liability Benchmark in that year and hence no further external borrowing is needed in these years in order to increase internal borrowing and bring the cash balance of the Council down to the £100m chosen investment level benchmark.

The graph in Annex D shows that after taking into account the capital expenditure plans and borrowing plans in the PI1 table above, the **Council is in an overborrowed position in 2023/24** and hence no external borrowing will be taken in 2023/24 which will increase the Council's **internal borrowing level to around £252m and reduce its cash balance level to around £190m (including around £70m Pension Fund Cash).** This position reverses however from 2024/25 to an under borrowed position, whereby the Council will have to borrow at least £22.5m in 2024/25 to maintain the chosen liquidity investment position.

The Debt Liability Forecast will be recalculated for 2023/24 actuals along with the Council's outturn at the end of March 2024 and the position will be reviewed at this time and on an ongoing basis.

PI 3 - Affordable Borrowing Limit for 2024/2025 to 2026/2027

The Council has a statutory duty to determine and keep under review how much it can afford to borrow i.e., to determine its "**Affordable Borrowing Limit**" or the **Authorised Limit for External Borrowing** which is another Prudential Indicator.

The Borrowing Limit set must be affordable, prudent and sustainable so that the borrowing impact upon future council tax levels is acceptable and affordable to sustain a balanced budget. The limit includes both external borrowing and credit arrangements (finance leasing and PFI) and is set on a rolling basis for the forthcoming financial year and two successive financial years. Once set this limit should not be breached.

The Executive Director of Resources has responsibility to set the Authorised Borrowing Limit, to monitor the limit and to report to the **Executive Councillor with responsibilities for Resources, Communications and Commissioning**, if he is of the view that the limit is likely to be breached. The Executive Councillor has then to decide to take appropriate action for the limit not to be breached or to raise the limit if prudent to do so.

The Council's **Authorised Limit for External Debt for 2024/25 to 2026/27** is shown in the table below. The Council's actual external debt forecast as shown in the graph in **Annex D**, falls well within these limits set.

	2024/25 £million	2025/26 £million	2026/27 £million
Borrowing	585.758	561.085	540.202
Other Long Term Liabilities	*7.756	9.259	8.094
TOTAL	**593.514**	**570.344**	**548.296**

***Note:** Other Long Term Liabilities (OLTL) include Finance Lease agreements whose nature and terms are akin to borrowing and hence they are recorded as Long term Liabilities on the Balance Sheet of the Council. The **IFRS16 accounting standard on Leases** is effective for the financial year 2024/25 which will bring currently off balance sheet leased assets (operating leases) onto the balance sheet as finance leases, under certain conditions. Work is underway to identify applicable leases and these will be recorded on the balance sheet for the closing accounts for 2024/25. The Authorised Limit for OLTL for 2024/25 has therefore been increased to allow for an extra £2.5m plus £2m headway to accommodate for the adjustment as an initial estimate. Limits may need to be amended mid-year once the detailed impact is known.

PI 6 – Minimum Revenue Provision (MRP) Policy

Financing capital expenditure by borrowing allows the Council to incur capital expenditure that it does not immediately fund from cash resources. Instead, the Council sets cash resource aside from the Revenue Budget each year to repay the borrowing. This practice is referred to as making **minimum revenue provision (or MRP) for the repayment of debt.**

Regulation and Statutory Guidance requires the Council to produce a **Minimum Revenue Provision (MRP) Policy Statement** in advance of each year, which sets out options followed to calculate, as a minimum, a **prudent MRP charge.** Voluntary Revenue Provision (VRP), over and above the statutory MRP can be made if desired and this can be reclaimed in future years if deemed necessary or prudent.

The Council's MRP Policy Statement for 2024/25 is detailed in **Annex C**. This policy uses the **average life** and **straight-line repayment methods** to calculate the MRP charge, in accordance with the Guidance. The policy has been amended to be compatible with the proposed changes to Statutory Guidance on MRP that is currently under consultation with the Department of Levelling Up, Housing and Communities (DLUHC) and will become effective on 1st April 2024. There will be no significant financial impact to the level of the Council's MRP calculated as a result of the proposed changes.

The MRP and planned VRP charge calculated for 2023/24 to 2026/27, based on the borrowing requirement above, is shown in the table below:

	Estimate 2023/24 £m	Estimate 2024/25 £m	Estimate 2025/26 £m	Estimate 2026/27 £m
Minimum Revenue Provision (MRP)	21.540	21.070	28.132	29.730
Voluntary Revenue Provision (VRP)	0.000	0.000	0.000	0.000

The Council's policy at present is to **actually repay** external debt at the MRP level, (not just make a provision against revenue balances), and as a measure of **affordability** the following voluntary Prudential Indicator (No 6) has been set:

MRP and Interest as a percentage of the Councils Income will not exceed 10%

Annex B shows that projected MRP and Interest to 2026/27 is well under this 10% limit –see PI 6.
In future this policy may have to change to adapt to the new Liability Benchmark as a method of managing future debt levels.

PI 13 – Policy for Borrowing in Advance of Need
The Council has set a Voluntary Prudential Indicator (No 13) which sets an upper limit for borrowing in advance of need to 25% of the expected increase in CFR over a 3 year budget period as shown in Annex B.

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds. In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need, including adherence to the Debt Liability Benchmark indicator.

- ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- consider the merits and demerits of alternative forms of funding.
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

PI 12 - Interest Rate Exposure –Borrowing
Long term loans are usually secured at fixed rates of interest, to provide certainty over the cost of maintaining the loans over their lifetime. However up to **30%** of all borrowing could alternatively be secured at **variable rates of interest**. (This is a voluntary Prudential Indicator -Number 12) as shown in **Annex B**). This may be appropriate if, for example, funding is required for a relatively short period, or if the Council wishes to defer locking into fixed rate loans because the interest rate forecast indicates that interest rates will be lower than the prevailing rate in the near term.

2.3.3. **Debt Rescheduling**

Debt rescheduling involves repaying existing loans and replacing these with new loans at different terms for the prime objective of generating financial savings on interest paid.

The Council's Financial Strategy states that **'the Council will actively pursue debt rescheduling to the extent that it will generate financial savings without adding significantly to the overall debt burden**'.

Repaying debt early does incur a premium[1] or discount[2] depending on the current level of interest rates compared to the rate of interest on the debt repaid. The following strategy will be followed when undertaking any debt rescheduling:

- The timing of any rescheduling during the year will take place to minimise premium or maximise the discount available. This is achieved by repaying loans at a peak in current interest rate levels to reduce the amount of premium due and locking into replacement loans at a trough in current interest rates. This strategy can incur an interest cost due to the delay in replacing debt repaid or interest can be made by borrowing in advance of repaying debt. There is also a level of interest rate risk of any timing decision.
- Suitable loans will be selected for rescheduling that match out both premium and discounts, thereby eliminating the cash impact to the Council.

[1] A premium is incurred on repaying a loan early when the interest rate of the loan to be repaid is higher than the current rate available for the remaining duration of the existing loan.

[2] A discount is incurred on repaying a loan early when the interest rate of the loan to be repaid is lower than the current rate available for the remaining duration of the existing loan.

- Any positions taken via rescheduling will be in accordance with the borrowing strategy position outlined in 2.3.6 below.
- The appropriate timing of any rescheduling will be monitored throughout 2024/25 by the Council and Link Asset Services Ltd.

To date interest savings have been made by rescheduling existing PWLB EIP[3] loans into PWLB maturity[4] loans and some existing LOBO[5] debt has also been rescheduled into PWLB debt, at the request of the LOBO holder, to generate savings over the remaining term of the loan.

However, PWLB to PWLB debt restructuring is now much less attractive because of the large premiums that would be incurred due to the introduction by the PWLB in 2007 of a spread between the rates applied to new borrowing and repayment of debt.

2.3.4. **Borrowing Performance Benchmarks**

The performance of long-term borrowing undertaken will be assessed against the relevant **PWLB rate for the year** for the relevant loan type and interest rate banding. **CIPFA Treasury Management benchmarking** will also be considered to compare with other Councils average borrowing rates for the year. **Reducing or keeping increases to the average rate of the debt portfolio to a minimum** will also be a target indicator.

Short term borrowing will be assessed against the average **Sterling Overnight Index Average (SONIA),** or relevant equivalent, for the year. Short-term borrowing for cash flow purposes will be measured against the current **average yields on Money Market Fund investments.**

2.3.5. **Long Term Borrowing – Factors for Consideration for 2024/25**

- **Forecast for Long Term Interest Rates during 2024/25** – long term rates are expected to fall gradually by around 0.30% to 0.70% in 2024/25 and will be less volatile. However this is dependent on inflation reducing as expected. **(See 2.2.3 and Annex A).**

- **Target Rates for Borrowing (Source: Link Asset Services Ltd 5/2/2024) –** see below:

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[3] With EIP loans, an equal amount of principal is repaid on a half yearly basis throughout the term of the loan with interest calculated on the reducing balance, hence total payments reduce over the lifetime of the loan.

[4] With Maturity loans, only interest repayments are made during the life of the loan and repayment of principal is made in full at the end of the loan period.

[5] A LOBO is a 'Lender's Option, Borrowers Option' money market loan, whereby the Lender has the option to change the rate of a loan after a designated fixed period of time and the Borrower (LCC) has the option to accept this new rate or repay the loan. The fixed period of time is typically for 1 to 20 years and the total length of the LOBO is typically for 50 to 70 years.

Period	Target Rate
50 Years	4.00%
25 Years	4.20%
10 Years	3.90%
5 Years	3.70%

- **The Council's Debt Liability Benchmark for 2024/25** can be seen at **Annex D**. In 2024/25 the debt liability position shows an under borrowed position, whereby the Council will have to externally borrow another £22.5m to maintain the chosen liquidity investment position of £100m. Given the forecast of falling long term borrowing rates in 2024/25, any borrowing taken will be concentrated to the last quarter of the year. Any external borrowing taken during 2024/25, will fill gaps in the Council's existing maturity profile at the shorter end of the yield curve, at prevailing rates of interest.

- **Type of Debt**: An appropriate balance between PWLB and other types of fixed period debt from the market should be maintained in the debt portfolio. As such the following limits for **type of debt** against the total debt portfolio, should be followed:

Type of Debt	Limit
PWLB Debt	100%
Market Debt (Fixed term market institution debt).	20%
LOBO Debt	10%
Short Term (up to 10 years) Local Authority Debt	100%

2.3.6. **Long Term Borrowing Strategy 2024/25**

Given the factors detailed above, the following **borrowing strategy** will be adopted for 2024/25:

- **Regard will be made to the Debt Liability Benchmark for 2024/25 which is indicating that £22.5m external borrowing will be required to maintain the liquidity investment position of £100m at the planned capital expenditure plans for the year. The Benchmark will be revised for actuals and target changes and the results monitored throughout the year.**

- **Any new borrowing taken, if required, will be taken to fill gaps in the Council's existing maturity profile in the shorter end of the yield curve where the best value appears to be, with the aim of achieving an even spread of maturity profile and keeping an increase in the average cost of the Council's debt to a minimum.**

- **Target levels will be monitored, and timing of borrowing taken will be in the last quarter of the financial year and coincide with any**

reduced rate opportunity below the target levels identified at this time.

- **Consideration will be given to borrowing market loans, to fit into the above maturity strategy and limits, in order to take advantage of the lower rates offered on these loans.**

- **Short-term borrowing from the money markets or other local authorities will be considered if appropriate.**

- **Borrowing in advance of need will be undertaken during the year if considered appropriate in accordance with the Council's policy as detailed in 2.3.2, PI 13 above.**

2.3.7. To support the above strategy, prevailing interest rates and market forecasts will be continually monitored throughout the year and appropriate borrowing actions, including debt rescheduling if appropriate, will be taken in response to any sharp rise or fall in long- and short-term interest rates occurring throughout the year.

2.4. Investments

2.4.1. **Annual Investment Strategy for Treasury Investments 2024/25**

Regulation and Statutory Guidance requires the Council to produce an **Annual Investment Strategy** in advance of each year which indicates the type of treasury and non-treasury investments permitted against a given level of risk adopted for each type. This is shown in **Annex E**.

(Note: The Investment Strategy for Non-Treasury Investments is reported separately within the Capital Strategy Report 2024/25, as Non-Treasury Investments have a different risk profile to that of Treasury Investments).

The Council's **risk level** adopted for its Treasury Investments is **low** to achieve the following investment priorities:

- **the security of capital and**
- **the liquidity of its investments**

The Council will aim to achieve the optimum return on its treasury investments commensurate with proper levels of security and liquidity.

The Treasury Investment Strategy outlines the **Specified** and **Non-Specified Investments** that the Council deems acceptable given the level of risk it has adopted. Authorised counterparties, lending limits and maturity limits are set using credit worthiness methodology from Link Asset Services Ltd and an approved **Counterparty Investment Lending List** is formulated from this methodology. **(See Annex F**). These limits increase depending on the level of average Investment Balance at any time. All treasury investments will be made in accordance with the Annual Investment Strategy and Approved Lending List and any breaches during the year will be reported to the Executive Director of Resources.

2.4.2. **Interest Rate Exposure re Investments PI 12**

As a general guide, term deposits are usually at a **fixed rate** of interest, whereas amounts invested on call (to maintain sufficient liquidity in the investment portfolio) are usually at **variable rates** of interest. Fixed investments of up to 2 years are considered acceptable to good quality counterparties, limits permitting, where above market rates are achievable and sufficient liquidity is available, as a way of enhancing investment return. In a forecast rising interest rate scenario, fixed deposits should be pegged to coincide with the forecast increase periods at market levels. **There are no upper limits set to variable rate investments.**

2.4.3. **Short Term and Long-Term Cash Flow Management**

Liquidity of Investments – PI 11

Liquidity is defined as having adequate, but not excessive cash resources, borrowing arrangements and overdraft or standby facilities to ensure that funds are available, always, for the achievement of the Council's objectives.

The Council's investment level is forecast to be around **£200 million** including Pension Fund cash in 2024/25, of which around **£100 million** can be identified as 'core' balances which will be available to invest for longer periods of investment. The remaining balance of cash is cash-flow driven.

After taking external borrowing to meet the Debt Liability Benchmark in 2024/25, then the level of investment should be maintained at the cash flow driven level of around £100 million (net of Pension Fund Cash) by the end of the financial year.

The following measures and limits have been put in place to manage the liquidity of the Council:

- The Council will seek to maintain **liquid short-term deposits** of at least **£25m** available within a week's notice.
- **Prudential Indicator Number 11** has been set to place an upper limit to investments made over 365 days to **£40m.** (See **Annex B**).
- **Temporary Borrowing for Liquidity Purposes -** Temporary short-term borrowing will be taken instead of drawing on investments, when cheaper to do so, in order to minimise the loss of interest from withdrawing funds at higher rate from call or deposit accounts to maintain liquidity.

2.4.4. Treasury Investment Performance Benchmark

The target investment return for investments for 2024/25 is the **Sterling Overnight Index Average or SONIA rate**. This rate has replaced the LIBOR/LIBID reference rate that ceased on 31st December 2021. SONIA is the risk-free rate for sterling markets administered by the Bank of England. It represents the **average overnight rate that banks and financial institutions will lend overnight to each other during Sterling Clearing Operations.** This is a relative benchmark which moves with the markets, however the rate is not representative of what general Money Market participants, such as the Council, can achieve, due to size and available counterparties. It is also just an average rate with no Bid/Offer spread. (The LIBOR/LIBID spread was around 0.12%). Being an overnight rate it also moves immediately to a change in Bank Rate and therefore in times when the Bank Rate is increasing significantly there will always be a time lag for actual return achieved to catch up to the benchmark rate and vice versa when interest rates fall rapidly.

To make the SONIA rate into a relevant benchmark to use, it will be adjusted by -0.10% to simulate a Bid/Offer spread rate. The adjusted benchmark will be reviewed during 2024/25 for its appropriateness and adjusted if required.
Investment performance will also be compared against **benchmarking data provided by Link Asset Services.**

2.4.5. Investments –Factors for Consideration for 2024/25

- **Forecast for Short Term Interest Rates during 2024/25 -** Bank Rate is forecast to fall from its current peak of 5.25%, starting in August 2024 and ending the year at 3.75%. However this is dependent on inflation reducing as forecast (**See 2.2.2 and Annex A**).

- **Reduced Investment Level -**Cash available for strategic Investment will fall over the year as the Debt Liability Benchmark is followed and investment liquidity levels are reached.

- **Annual Investment Strategy for Treasury Investments** – permitted counterparties, types of investments and all limits, as detailed in the Annual Investment Strategy, and amended, when necessary, should be adhered to throughout the year.

- **ESG Investments** – Any Economic, Social and Governance (ESG) Investments will be considered, provided they meet the counterparty criteria and risk parameters as set out in the Annual Investment Strategy.

2.4.6. Treasury Investment Strategy for 2024/25

Given these factors above, the following **investment strategy** will be adopted for 2024/25:

- **For the element of the Council's investment portfolio that represents 'core' balances, investments will be made in all periods of 3 months to 2 years, to acceptable counterparties, to lock into rates in excess of the predicted base rate level.**

- **Extensive use of Bank Business Reserve Accounts and Money Market Funds[6] will be made, that offer returns close to or in excess of base rate level, for the Council's 'core' cash and cash flow generated balances.**

- **Investment in Certificates of Deposit[7], Treasury/LA Bills[8], Dated Bonds held to maturity[9] and Repo[10] will also be considered where appropriate.**
- **Short dated deposits (overnight to 6 months) will also be made for the Council's cash-flow generated balances in order to benefit from compounding of interest.**

In addition to the above strategy, prevailing interest rates and market forecasts will be continually monitored throughout the year and appropriate investment actions will be taken in response to any sharp rise or fall in long and short-term interest rates occurring throughout the year.

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[6] Pooled investment vehicles offering returns equivalent of up to 1 month cash deposits whose assets comprise of cash type investments such as Certificates of Deposit, Commercial Paper and Cash Deposits.
[7] A bearer instrument which certifies that a sum of money has been deposited with the bank issuing the certificate at a fixed yield and on the stated maturity date the deposit is repaid with interest. The maturity length is typically from 1 month to 1 year.

[8] Short term securities issued by HM Treasury on a discounted basis i.e. issued below 100, with 100 being received on maturity with the difference equalling the interest return.

[9] A debt security instrument that governments, supranationals, and companies sell to investors (issue) to finance a variety of projects and activities. The investor buys the bond and receives fixed or variable coupons (interest) in return. Bonds can be dated (mature/repayable on a certain date) or non-dated (never mature). Bonds are tradeable (can be bought and sold) and hence the price of a bond fluctuates over its life. The total yield (return) on a bond for investor equals the npv of the cashflows (e.g. price paid, coupons received, nominal value received on maturity).

[10] A Repo is a form of securitised lending based on a Global Master Repo Agreement (GMRA 2000). Collateral is pledged against each loan made under a Repo Agreement, usually consisting of Gilts or Treasury Bills or acceptable Corporate Bonds. This collateral passes to the Lender in the case of a default of the loan with the original Counterparty.

2. Legal Issues:

Equality Act 2010

Under section 149 of the Equality Act 2010, the Council must, in the exercise of its functions, have due regard to the need to:

Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act.

Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it.

Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The relevant protected characteristics are age; disability; gender reassignment; pregnancy and maternity; race; religion or belief; sex; and sexual orientation.

Having due regard to the need to advance equality of opportunity involves having due regard, in particular, to the need to:

- Remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic.
- Take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it.
- Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to tackle prejudice, and promote understanding.

Compliance with the duties in section 149 may involve treating some persons more favourably than others.

The duty cannot be delegated and must be discharged by the decision-maker. To discharge the statutory duty the decision-maker must analyse all the relevant material with the specific statutory obligations in mind. If a risk of adverse impact is identified consideration must be given to measures to avoid that impact as part of the decision making process.

The report details the Treasury Management Strategy for treasury investments and borrowing and the Council's policy for investing surplus cash for the year 2024/25. There are no equalities implications that need to be taken into account by the Executive Councillor.

Joint Strategic Needs Analysis (JSNA and the Joint Health and Wellbeing Strategy (JHWS)

The Council must have regard to the Joint Strategic Needs Assessment (JSNA) and the Joint Health & Well Being Strategy (JHWS) in coming to a decision.

The report details the Treasury Management Strategy for treasury investments and borrowing and the Council's policy for investing surplus cash for the year 2024/25. There are no JSNA or JHWS implications that need to be taken into account by the Executive Councillor.

Crime and Disorder

Under section 17 of the Crime and Disorder Act 1998, the Council must exercise its various functions with due regard to the likely effect of the exercise of those functions on, and the need to do all that it reasonably can to prevent crime and disorder in its area (including anti-social and other behaviour adversely affecting the local environment), the misuse of drugs, alcohol and other substances in its area and re-offending in its area.

The report details the Treasury Management Strategy for treasury investments and borrowing and the Council's policy for investing surplus cash for the year 2024/25. There are no Crime and Disorder implications that need to be taken into account by the Executive Councillor.

3. Conclusion

The Treasury Management Strategy, determining appropriate borrowing and treasury investment decisions, and the Annual Investment Strategy, outlining the Council’s policy for treasury investments, has been set for 2024/25 considering the anticipated economic environment and movement of interest rates for the year ahead. These strategies reflect the latest requirements of the CIPFA Code of Treasury Management, the CIPFA Prudential Code and the MHCLG Guidance on Local Government Investments. Based on officer recommendation, this report is presented to the Leader of the Council (Executive Councillor: Resources, Communications and Commissioning) for approval in order to comply with Financial Regulations.

4. Legal Comments:

The Council's Financial Regulations require the Council to annually produce a Treasury Management Strategy setting out expected treasury activities in accordance with the requirements of the CIPFA Code of Practice. CIPFA published revised Treasury Management and Prudential Codes on 20th December 2021 and this Treasury Management Strategy incorporates the requirements of these revised Codes. The strategy statement must be submitted to the Leader of the Council (Executive Councillor: Resources, Communications and Commissioning) for approval prior to the commencement of each financial year.

The Financial Regulations also require the production of an Annual Investment Strategy to ensure that Section 15 (1) of the Local Government Act 2003 is complied with, that is that all authorities must "have regard to guidance on investment issued by the Secretary of State" when investing their surplus cash. The strategy also must also be approved by the Leader of the Council (Executive Councillor: Resources, Communications and Commissioning).

This report enables the Council to meet its legal obligations in accordance with the Financial Regulations. The recommendations are lawful and within the remit of the Leader of the Council (Executive Councillor: Resources, Communications and Commissioning).

5. Resource Comments:

This report sets out the Council's Treasury Management Strategy and Investment Strategy for Treasury Investments for the year ahead. The Council requires a Treasury Management Strategy and Investment Strategy for Treasury Investments for the year ahead in order to comply with Financial Regulations.

6. Consultation

a) Has Local Member Been Consulted?

n/a

b) Has Executive Councillor Been Consulted?

Yes

c) Scrutiny Comments

The Overview & Scrutiny Management Board is responsibile for monitoring and scrutiny of the operation of the treasury management policies and practices and as such will consider this report at their meeting on 29th February 2024 and pass any comments to the Executive Councillor with responsibility for Resources, Communications and Commissioning prior to making a decision.

d) Risks and Impact Analysis

Risk & Impact Analysis for Treasury Management forms TMP1 of the Treasury Management Practices, as required by the CIPFA Code of Practice 2021. A Risk Register which details the main risks for Treasury Management has been completed and is reviewed annually. Both the TMPs and the Risk Register are held in the Treasury Files held on IMP at County Offices.

7. Appendices

These are listed below and attached at the back of the report	
Annex A	Interest Rate Forecast and Economic Commentary -Link Asset Services. 8th January 2024.
Annex B	Prudential Indicator Table 2022/23 to 2026/27
Annex C	Minimum Revenue Provision Policy Statement for Repayment of Debt 2024/25.
Annex D	Liability Benchmark 2024/25.
Annex E	Annual Investment Strategy for Treasury Investments 2024/25.
Annex F	Authorised Lending List Effective 1st April 2024 and Definition of Credit Ratings and Credit Default Swaps.

8. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
County Council Budget 2024/25 – 23rd February 2024	Agenda for Council on Friday, 23rd February, 2024, 10.00 am (moderngov.co.uk)
LCC Treasury Management Policy Statement and Treasury Management Practices.	Decision - Treasury Management Strategy Statement & Annual Investment Strategy (moderngov.co.uk)

This report was written by Karen Tonge, who can be contacted on 01522 553639 or karen.tonge@lincolnshire.gov.uk.

ANNEX A

Interest Rate Forecast – Link Asset Services Ltd (8 January 2024)

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Prospect for Interest Rates and Economic Commentary – Link Asset Services Ltd

- Our central forecast for interest rates was previously updated on 7 November 2023 and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least mid-2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and when there is a likelihood of the overall economy enduring at least a slowdown or mild recession over the coming months (although most recent GDP releases have surprised with their on-going robustness).

- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

PWLB RATES

- The short and medium part of the gilt curve has rallied since the start of November 2023 as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is circa 70 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is **even.**

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- **Geopolitical risks,** for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- Despite the tightening in Bank Rate to 5.25%, the **Bank of England allows inflationary pressures to remain elevated** for a long period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- **The pound weakens** because of a lack of confidence in the UK Government's pre-election fiscal policies, which may prove inflationary, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields compensating.

ANNEX B

Prudential Indicator Table 2022/23 to 2026/27

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS		2022-23 Actual	*2023-2024 Original Estimate*	2023-2024 Updated Estimate	2024-25 Estimate	2025-26 Forecast	2026-27 Forecast
PRUDENCE INDICATORS:							
CAPITAL EXPENDITURE							
1) Capital Expenditure							
The Council will set for the forthcoming year and the following two financial years estimates of its capital expenditure plans and financing:							
Gross Capital Expenditure	**£m**	**196.279**	***136.879***	**193.155**	**144.706**	**61.400**	**68.586**
Net Capital Expenditure	**£m**	**101.566**	***82.657***	**106.164**	**94.625**	**29.483**	**33.042**
Capital Financing							
Borrowing	**£m**	61.316	*77.496*	63.788	89.425	24.284	27.885
Grants & Contributions	**£m**	94.713	*54.223*	86.991	50.081	31.917	35.544
Capital Receipts, Reserves & Revenue	**£m**	40.250	*5.161*	42.377	5.201	5.198	5.157
Total Capital Financing	**£m**	**196.279**	***136.879***	**193.155**	**144.706**	**61.400**	**68.586**
2) Capital Financing Requirement							
The Council will make reasonable estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years:							
Opening CFR	**£m**	645.920	*742.554*	677.199	719.447	790.302	786.454
Add Additional Borrowing	**£m**	61.316	*77.496*	63.788	89.425	24.284	27.885
Add Additional Credit Liabilities (PFI & Finance Leases)	**£m**	0.000	*0.000*	0.000	2.500	0.000	0.000
Less Revenue Provision for Debt Repayment (MRP)	**£m**	20.694	*26.551*	21.540	21.070	28.132	29.730
Less Revenue Provision for Debt Repayment (VRP)	**£m**	9.343					
Capital Financing Requirement	**£m**	**677.199**	***793.499***	**719.447**	**790.302**	**786.454**	**784.609**
EXTERNAL DEBT							
The Council will set for the forthcoming year and the following two financial years an authorised limit and operational boundary for its total gross external debt, gross of investments, separately identifying borrowing from other long term liabilities:							
3) Authorised Limit for External Debt							
Borrowing	**£m**	659.512	*578.736*	548.590	585.758	561.085	540.202
Other Long Term Liabilities	**£m**	11.017	*11.018*	8.931	7.756	9.259	8.094
Total Authorised Limit	**£m**	**670.529**	***589.754***	**557.521**	**593.514**	**570.344**	**548.296**
4) Operational Boundary for External Debt							
Borrowing	**£m**	644.521	*563.736*	533.590	570.758	546.085	525.202
Other Long Term Liabilities	**£m**	9.017	*9.018*	6.931	5.756	7.259	6.094
Total Operational Boundary	**£m**	**653.538**	***572.754***	**540.521**	**576.514**	**553.344**	**531.296**
5) Gross Borrowing and the Capital Financing Requirement							
The Council will ensure that gross long term borrowing does not, except in the short term, exceed the total capital financing requirement in the preceding year plus the estimates of any additional capital financial requirement for the current and next two financial years. This is to ensure that over the meduim term borrowing will only be for a capital purpose.							
Medium Term Forecast of Capital Financing Requirement	**£m**	684.965	*790.903*	786.454	784.609	780.289	797.969
Forecast of Long Term External Borrowing and Credit Arrangements	**£m**	475.962	*528.900*	464.428	535.200	531.279	529.356
Headroom	**£m**	**209.003**	***262.003***	**322.026**	**249.409**	**249.010**	**268.613**

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS		2022-23 Actual	*2023-2024 Original Estimate*	2023-2024 Updated Estimate	2024-25 Estimate	2025-26 Forecast	2026-27 Forecast
AFFORDABILITY INDICATORS:							
6) Financing Costs & Net Revenue Stream							
The Council will estimate for the forthcoming year and the following two financial years the proportion of financing costs to net revenue stream (NRS), including dedicated schools grant (DSG). The Council will also set the following voluntary indicator limit: minimum revenue provision and interest not to exceed 10% of net reveunue stream (NRS) including dedicated schools grant (DSG).							
Proportion of Financing Costs to NRS (Incl DSG)	%	**5.26%**	***4.08%***	**3.24%**	**3.35%**	**4.45%**	**4.48%**
Proportion of MRP & Interest Costs to NRS (Incl DSG) -Limit 10%	%	**5.69%**	***4.95%***	**4.27%**	**3.99%**	**4.85%**	**4.89%**
(Voluntary Indicator)							
PROPORTIONALITY INDICATORS:							
7) Net Income from Commerical and Service Investments to Net Revenue Stream							
The Council will set for the forthcoming financial year and the following two years a limit of 3% for Net Income from Commerical and Service investments as a proportion of Net Revenue Stream (NRS) including Dedicated School Grant (DSG). This is to manage financial exposure to the Council from potential loss of income from these investments.							
Net Income from Non-Treasury Investments (Including County Farms)	£m	2.362	*1.992*	2.317	2.200	2.089	1.987
Net Revenue Stream (NRS) including Dedicated School Grant (DSG).	£m	836.234	*909.999*	905.832	991.526	994.036	1015.493
Proportion of Net Commerical and Service Investment Income to Net Revenue Stream -Limit 3%	%	**0.28%**	***0.22%***	**0.26%**	**0.22%**	**0.21%**	**0.20%**
8) Limit for Maximum Usable Reserves at Risk from Potential Loss of Investments							
The Council will set for the forthcoming financial year and the following two years a limit of no more than 10% of General Reserves to be at risk from potential loss of total investments. (Voluntary Indicator).							
General Reserves	£m	**16.400**	***16.400***	**16.400**	**16.400**	**16.400**	**16.400**
Sums at Risk (Based on Expected Credit Loss Model)	£m	0.029	*0.052*	0.028	0.027	0.025	0.024
Proportion of Usable Reserves at Risk from Potential Loss of Investments -Limit 10%	%	**0.18%**	***0.32%***	**0.17%**	**0.17%**	**0.16%**	**0.15%**
TREASURY INDICATORS:							
9) Liability Benchmark							
The Council will estimate and measure the debt liability benchmark (or Gross Loans Requirement), for the period that covers the debt maturity profile, for a given level of liquidity (or Investment Liquidity Benchmark). This will be compared to Existing External Debt outstanding to show the Under or Over Borrowed position. This position will be explained and mar as required. A chart showing the Debt Liability Benchmark for the total debt maturity length will be included in the Treasury Management Strategy for 2023/24.							
Investment Liquidity Benchmark	£m	100.000	*100.000*	100.000	100.000	100.000	100.000
Debt Liability Benchmark	£m	325.406	*448.570*	411.101	472.659	477.168	482.949
Existing External Borrowing	£m	469.030	*458.672*	458.672	450.083	443.508	436.970
Under / Over (-) Borrowed Position	£m	-143.624	*-10.102*	-47.571	22.576	33.660	45.979
10) Maturity Structure of borrowing							
The Council will set for the forthcoming financial year and the following two years both upper and lower limits with respect to the maturity structure of its borrowing: (Fixed & Variable Rate Borrowing).							
Upper limit							
Under 12 months	%	2.30%	*25.00%*	25.00%	25.00%	25.00%	25.00%
12 months and within 24 months	%	1.80%	*25.00%*	25.00%	25.00%	25.00%	25.00%
24 months and within 5 years	%	9.50%	*50.00%*	50.00%	50.00%	50.00%	50.00%
5 years and within 10 years	%	5.70%	*75.00%*	75.00%	75.00%	75.00%	75.00%
10 years and above	%	80.70%	*100.00%*	100.00%	100.00%	100.00%	100.00%
Lower limit							
All maturity periods	%	0.00%	*0.00%*	0.00%	0.00%	0.00%	0.00%
11) Long Term Treasury Management Investments							
The Council will set an upper limit for each forward year period for the maturing of long term treasury investments, longer than 365 days and including longer term instruments with no fixed maturity date. (Excludes Non Treasury Investments for Commercial and Service Reasons).							
Upper limit for total principal sums invested for over 365 days and no fixed maturity (per maturity date)	£m	**1.260**	***40.000***	**40.000**	**40.000**	**40.000**	**40.000**
12) Interest Rate Exposures (Variable)							
The Council will set for the forthcoming year and the following two financial years,an upper limits to its exposure to effects of changes in interest rates on variable rate borrowing and investments. (Voluntary Indicator).							
Upper limit for variable interest rate exposures							
Borrowing	%	0.00%	*30.00%*	30.00%	30.00%	30.00%	30.00%
Investments	%	26.00%	*100.00%*	100.00%	100.00%	100.00%	100.00%
13) Borrowing in Advance of Need							
The Council will set for the forthcoming financial year and the following two years upper limits to any borrowing undertaken in advance of need.							
Borrowing in advance of need limited to percentage of the	%	**0.00%**	***25.00%***	**25.00%**	**25.00%**	**25.00%**	**25.00%**
expected increase in CFR over 3 year budget period	£m	**0.000**	***-0.649***	**16.752**	**-1.423**	**-0.663**	**4.218**
(Voluntary Indicator)							

Minimum Revenue Provision Policy Statement for Repayment of Debt 2024/25

In accordance with statutory guidance and regulations issued by the Department for Levelling Up, Housing and Communities (DLUHC), the Council has a duty to make to make a **prudent revenue provision for the repayment of debt**, and as such the Council adheres to the draft Statutory Guidance on Minimum Revenue Provision (MRP), issued in December 2023 which comes into force on 1st April 2024.

Any changes within the draft Statutory Guidance have been followed in this policy and are consistent with the Council's current policies, hence will have no significant financial impact on the level of prudent MRP to be charged in 2024/25.

In making its prudent provision, the Council includes all capital expenditure financed by debt, that increases its Capital Financing Requirement (CFR) , with the exception of non-commercial loans made for a capital purpose for service reasons, where no MRP will be charged for these loans unless an actual or expected credit loss is made on the loans within the year. The CFR is calculated as set out in CIPFA's Prudential Code.

In accordance with Council policy, capital receipts are only used for new capital investment or set aside to reduce the Council's underlying need to borrow. Capital receipts are not used to set off MRP provision.

The Council ensures that debt is repaid over a period that is commensurate with the period over which the capital expenditure provides benefit.

A prudent MRP is achieved by applying the following methodology in its calculation:

Borrowing	MRP Repayment Basis	Change to Previous Year
Pre 1st April 2008 Debt	This element of the Capital Financing Requirement is being repaid on a full repayment method based on a standard asset life of 50 years which equates to a flat rate of 2% per year until the debt is fully repaid over 50 years.	Consideration to moving to **Asset Life Annuity method** removed, in line with Statutory Guidance to remain with existing repayment option for borrowing taken prior to 1st April 2008 for Supported capital expenditure. No impact to MRP charged.
Unsupported Debt-2008/09 onwards	This element of the Capital Financing Requirement is being repaid using the **Asset Life EIP method**. Whereby equal instalments of principal debt repayment are repaid over the asset lives of the assets financed from borrowing. Consideration may be made to moving to the **Asset Life Annuity method** at a future date if deemed appropriate and prudent.	

Borrowing	MRP Repayment Basis	Change to Previous Year
Debt used to finance assets whose benefit increases as time passes (e.g. Infrastructure - Major New Road Schemes).	This element of the Capital Financing Requirement is being repaid using the **Asset Life Annuity method**. Whereby a fixed repayment of debt consists of primarily all interest in early years and principal repayment increases in later years. This method therefore has the advantage of linking MRP to the flow of benefits from an asset where the benefits of those assets are expected to increase in later years, related to the time value of money. .	
Credit Arrangements	MRP is met by a charge equal to the element of rent/charge that goes to write down the balance sheet liability.	
Assets financed by borrowing when if sold, the income is classed as a capital receipt.	For capital expenditure incurred, financed by borrowing, that increased the CFR whose subsequent sale resulted in a capital receipt that reduced the CFR, MRP will be made on the capital expenditure over the life of the asset financed.	Clarification of expenditure included removed as all expenditure included except for Non-Commercial Loans made for Capital purpose for service reasons. No impact to MRP Charged
Loans made for a Capital Purpose for Service Reasons	Borrowing taken to finance loans given will not be included when making the MRP charge as loan repayments made will reduce the loan burden over time. MRP will be provided however, if an actual or expected credit loss for the loan given is realised in the year. The MRP charge in this situation must not be lower than the credit loss amount, but can be reduced by any previous amounts provided to write down the CFR on the loan.	New methodology in line with revised Statutory Guidance. Minimal impact to MRP charged, if credit loss is realised, due to low value of loans portfolio.
Loans made for a capital purpose for Commercial loans made primarily for return.	MRP must be charged on borrowing taken to finance loans given for Commerical loans made primarily for return, however this type of loan is against Council policy and hence the Council has no such applicable loans.	New methodology in line with revised Statutory Guidance. No impact to MRP charged.
Capitalised Expenditure Under Regulation 16 (2)(b) & 25(1) of LGA 2003	The **Asset Life method** is used to calculate MRP on all **capitalised expenditure**, using maximum asset lives as stated in **Statutory Guidance on MRP**.	

Revenue provision is chargeable in the **first financial year after the relevant capital expenditure is incurred**.

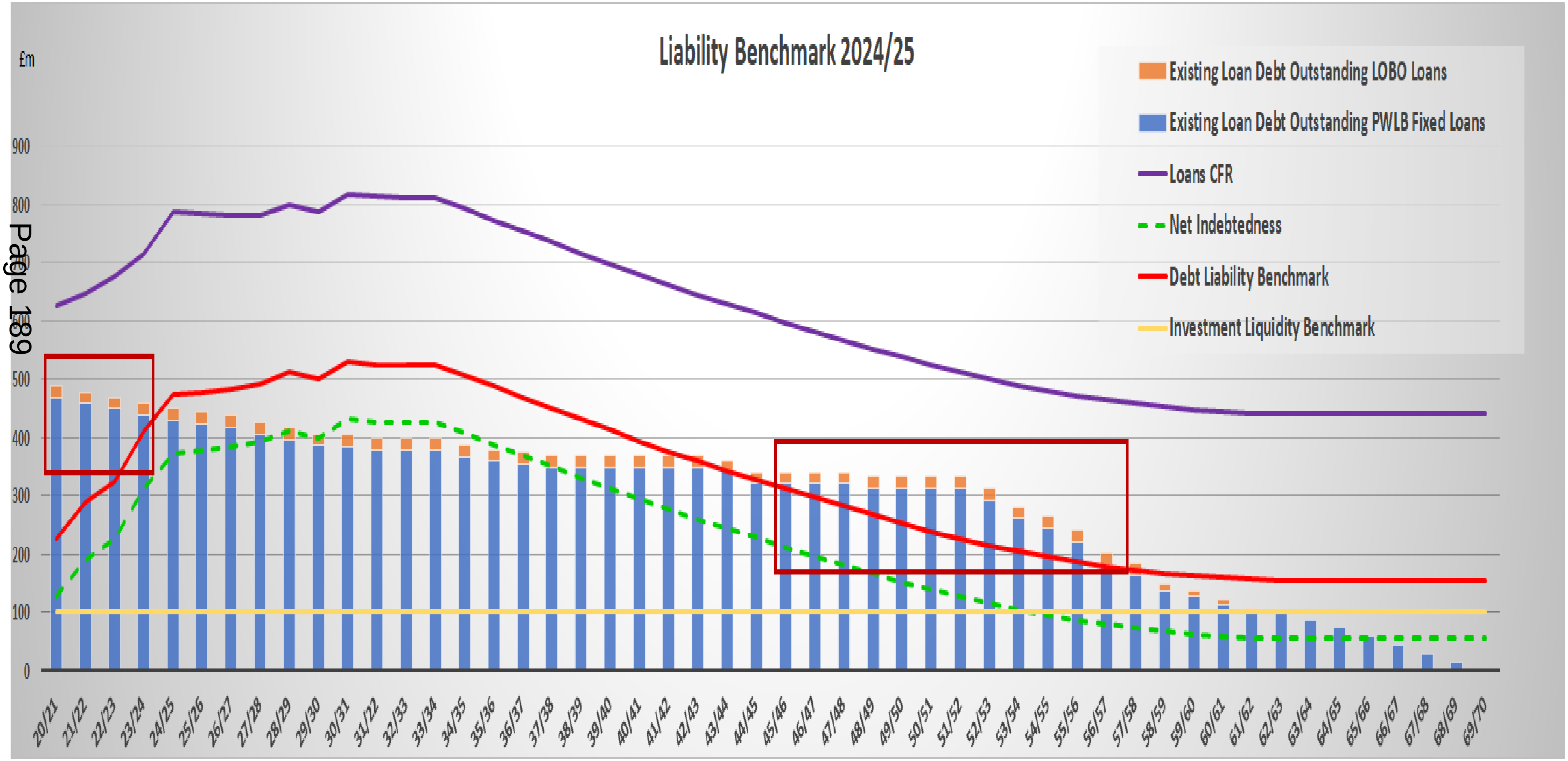
The guidance also allows Councils not to start charging MRP **until an asset becomes operational**.

Where it is practical or appropriate to do so, the Council may make **voluntary revenue provision (VRP)**, (Make more MRP than is calculated prudent in any given year), or **apply capital receipts** to reduce debt over a shorter period. Any VRP made can be used to offset MRP in following years. There are no plans for making a VRP within the 2024/25 budget.

The table below shows the estimates for asset lives per type of asset used under the Asset Life MRP policy detailed above. Professional advice has been used to ascertain these asset lives.

Type of Asset	Estimated Asset Life in Years
Land	50
Construction	50
Matched Funding	25
Repair & Maintenance	20
Infrastructure (New Road Schemes)	120
Road Maintenance	20
Bridges	120
Integrated Transport	20
Waste Transfer Plant	40
Heavy Engineering Equipment	30
Vehicles	4
Long Life Specialist Vehicles	7
Equipment	5
IT	4
IT -Broadband	10
ERP Finance System	10
Mosaic	10
Investment Properties held for Commercial Reasons	50
Capitalised Expenditure:	
Loans & Grants Made for Capital Purposes	Useful life of assets which loan is used to purchase.
Share Capital	20

Annex D



Liability Benchmark 2024/25
£m
900
800
500
400
300
200
100
0
Existing Loan Debt Outstanding LOBO Loans
Existing Loan Debt Outstanding PWLB Fixed Loans
Loans CFR
Net Indebtedness
Debt Liability Benchmark
Investment Liquidity Benchmark
20/21
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22/23
23/24
24/25
25/26
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ANNEX E

Annual Investment Strategy for Treasury Investments 2024/25

This report details the Council's **Investment Policy** for its Treasury Investments for 2024/25 and has regard to the following:

- MHCLG's Guidance on Local Government Investments 2018.
- CIPFA Treasury Management Code of Practice and Guidance Notes 2021.

The Government extended the meaning of 'investments' in their Guidance in 2018 to include both **financial (treasury related)** and **non-financial (non-treasury related)** investments. The revised CIPFA Treasury Management Code, issued in December 2021, further breaks down investments made into 3 purposes namely, **treasury management, service delivery or commercial return**. This Annual Investment Strategy applies to the Councils **treasury related investments only**. The investment strategy dealing with the Council's non-treasury related investments and loans is included in the Capital Strategy which is considered along with the Council Budget for 2024/2025.

The above guidance from MHCLG and CIPFA place a high priority on the management of risk when making investments. The **risk appetite** of the Council for its treasury investments is **low**, its priorities being **security first, liquidity second and then return.** The intention of the Treasury Strategy is to provide security of investment and minimisation of risk.

This prudent approach to risk is defined by the Council by using the following means:

- **Minimum acceptable credit criteria** – applied to generate a list of highly creditworthy investment counterparties. This also enables diversification and this avoidance of concentration risk. Key Ratings used to monitor counterparties are the **short term** and **long-term** ratings from credit rating agencies.

- **Other Information sources** – continual assessment of financial sector in relation to economic and political environments in which Counterparties operate using the following sources:

  ~ 'Credit default swap' pricing.

  ~ Financial press / Internet.

  ~ Share price websites.

The Secretary of State, within the MHCLG Guidance, has defined investments into two categories as follows:

- **Specified Investments -** Investments of no more than one year with a high level of credit quality.

- **Non-Specified investments - Investments** that are more complex, longer than one year, or with a lower credit quality that results in higher risk than Specified Investments.

The Council has determined its Specified and Non-Specified Investments for 2024/25 as shown in the table below:

Characteristics/Type	Counterparty Categories
Specified Investments	
• Sterling deposits. • Up to and including one year. • Offering high security / high yield. • Fixed, callable or forward term deposits as appropriate[1], Certificates of Deposit, Treasury/ Local Authority Bills, Dated Bonds and Repo.	• UK Government/ Supranational/ Multilateral Development Banks. • Local Authorities. • Bodies or Investment Schemes meeting the Councils **minimum acceptable credit rating criteria for Specified Investments** (Includes Banks, Building Societies, Corporates, and Money Market Funds CNAV, LVNAV).
Characteristics/Type	**Counterparty Categories**
Non-Specified Investments	
• Sterling deposits. • Period greater than 12 months up to a maximum of 2 years. • Higher risk than Specified Investments. • Fixed, callable or forward term deposits as appropriate, Certificates of Deposit, Treasury/ Local Authority Bills, Dated Bonds and Repo.	• UK Government/ Supranational/ Multilateral Development Banks. • Local Authorities. • Bodies or Investment Schemes meeting the Councils **minimum acceptable credit rating criteria for Non-Specified Investments** (Includes Banks, Building Societies, Corporates and Enhanced Money Market Funds VNAV).

Creditworthiness Policy

The Council uses the **creditworthiness service** provided by Link Asset Services Ltd, its treasury management advisor, to assess the risk level of its Counterparties. This service has been progressively enhanced and now uses a sophisticated modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and

[1] Fixed Deposit : Investment fixed for specific term at specific rate.
Callable Deposit : Investment whereby borrower has option to pay back deposit at specific intervals.
Forward Deposit : Investment whereby period, rate and amount are agreed in advance of a future date. The forward period plus the deal period to be within the maturity limit allowed.

Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- Credit watches and credit outlooks from credit rating agencies.
- Credit default swap (CDS) spreads to give early warning of likely changes in credit ratings.

This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a **weighted scoring system** for which the result is a series of **colour coded bands** which indicate the relative creditworthiness of counterparties.

Limits for amount and duration of investment are then assigned to each colour banding. Maximum amount limits have been assigned to different levels of balances which enable the Council to be more risk sensitive to both falling and increasing balances going forward. Details can be seen in the table below:

Link Weighted Colour Band	**Maximum Duration**	**Maximum Amount Based on Average Cash Balance of Up To:**			
		£450m	**£300m**	**£200m**	**£100m**
Specified Investments					
Blue*	1 Year	£50m	£50m	£40m	£25m
Orange	1 Year	£30m	£25m	£20m	£15m
Red	6 Months	£25m	£20m	£15m	£10m
Green	100 Days	£20m	£15m	£10m	£5m
Non Specified Investments					
Purple	2 Years	£30m	£25m	£25m	£15m
Yellow**	2 Years	£30m	£25m	£20m	£15m

* Nationalised/ Part Nationalised UK Banks
** MMF's/ Government/ Local Government

Minimum Credit Rating Criteria			
Any Two of Three	**Fitch**	**Standard & Poors**	**Moodys**
Sovereign	AA-	AA-	Aa3
Long Term	A	A	A2
Money Market Funds	AAA	AAAm	Aaa/MR1

Additional Minimum Rating Criteria/Limits in Place

In addition to the Link's creditworthiness recommendations, the Council has also set **further minimum credit requirements** that restrict the number of acceptable counterparties further to meets its low risk appetite. (See previous table and below).

- **A minimum Sovereign (Country) Rating* from a minimum of two rating agencies of AA, where rated by all three credit rating agencies. (Being our home nation the UK is excluded from this limit). Discretion applies if rated by less than three credit rating agencies.**

- **A minimum Long Term Rating** from a minimum of two rating agencies of A or equivalent, where rated by all three credit rating agencies. Discretion applies if rated by less than three credit rated agencies.**

- **A limit of a maximum of no more than 20% of total investments to be placed with any one bank/group, corporate or building society sector - to ensure diversification of investments. (With exception of Part UK Nationalised Banks*** which are deemed to bear same low risk as UK Government).**

*Sovereign Rating
Credit Rating Agencies have removed the effect of Sovereign Support from an entities individual rating. This now makes it more important to focus solely on the ratings of an entity itself within an investment strategy. A minimum Sovereign limit of AA- is in line with Link's creditworthiness policy and will allows greater depth and diversification to the Council's Counterparty list, while still maintaining the tenets of security and liquidity.

** Long Term Rating
The definition of an A rating is 'High Credit quality with low expectation of credit risk, with a strong capacity for timely payment of financial commitments'. Ratings can also be assigned a "+" or "–" to denote the relative status within a rating category, but the category still has the same definition regardless of a "+" or "-". For reference, Link's credit worthiness matrix uses a minimum Long Term Rating level of A-.

*** Nationalised or semi nationalised UK Banks:-
As a result of the banking crisis which started in 2008, Governments across the world had to inject capital directly into banks to support their capital ratios and to avoid failure of financial institutions. Several banks were nationalised or part nationalised in this way.

These nationalised banks in the UK have credit ratings which do not conform to the credit criteria usually used by Councils to identify banks which are of high credit worthiness. As they are no longer separate institutions in their own right, their individual ratings, which assess their stand-alone financial strength, are impaired. However, it is considered that institutions that have been nationalised or part nationalised effectively take on the creditworthiness of the Government itself and as such UK nationalised or semi nationalised banks are included within the Councils acceptable investment criteria and will continue to do so as long as they remain semi nationalised. At the time of writing, the only UK Bank falling into this category is now the Royal Bank of Scotland Group, which includes National Westminster Bank.

Barclays Bank plc

Barclays Bank plc is the Councils banker at present and therefore the Council have an intra-day financial exposure to Barclays bank on a daily basis. This intra-day exposure will not be included with limits set for Barclays as part of the Annual Investment Strategy. When it is not financially viable to make an investment, a cash balance will be left at the bank overnight, so long as Barclays Bank remains on Link's recommended Counterparty list.

Authorised Lending List

The Executive Director for Resources has delegated responsibility to produce an '**Approved Lending List**' of acceptable counterparties to whom the Council will lend its surplus cash and this is derived from the credit criteria above.

Annex F shows this Lending List as at 1st April 2024 together with definitions of credit ratings, watches and credit default swaps. The limits on the Lending List are set in ranges depending on the level of average cash investment balance.

Monitoring

The credit ratings of counterparties are monitored on an ongoing basis. 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 CDS prices of Counterparties against the iTraxx benchmark[2] and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or suspension from the Council's lending list.

The Council is satisfied that this service gives an improved level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources. However sole reliance will not be placed on the use of this external service. In addition, this Council will also use market data and other market information, from various sources such as the internet, portals, brokers, government, CIPFA etc.

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[2] iTraxx Senior Financials Index that measures the "average" level of the most liquid financial CDS prices in the CDS market.

Additions to Non-Specified Investment List

Proposals to invest in any other non-specified investment will be referred to the Executive Director for Resources for approval after first seeking the advice of the Council's treasury advisors, Link Asset Services Ltd. If approved by the Executive Director, a recommendation for the change to the Annual Investment Strategy will be sought from the Executive Councillor for Resources and Communications.

Liquidity of Treasury Investments

Prudential Code Indicator (No 11) sets a voluntary total limit for investments over 365 days at any one time as **£40 million**, see Annex C. This limit reflects a prudent proportion of the Council's estimated level of core cash balances available to invest for longer periods. The Executive Councillor for Resources and Communications will be informed on any occasion when investments are lent for over 12 months.

In determining the amount of funds that can prudently be committed for more than 12 months, consideration will be given to the following factors:

- Long Term Cash Flow Forecasts of the Council and Balance Sheet Review - 3 years ahead showing :
    - Projected core cash balances over the term of proposed investment.
    - Foreseeable spending needs over the term of proposed investment.
    - Level of provision for contingencies.
    - Acceptable level of reserves.

Annex F

LINCOLNSHIRE COUNTY COUNCIL LENDING OF TEMPORARY SURPLUSES

Country			Lending Limit £m	Maturity Limit	# Watch/ Outlook Adjusted		FITCH IBCA Credit Rating Long Term	Sovereign	For Treas CDS Overlay
	1	Other Local Authorities	25 each	24 Months					
	2	Debt Management Account Deposit Facility	50	6 Month					
	3	UK Banks :							
		# HSBC Group	25	365 Day					
UK		HSBC Bank PLC (NRFB)	25	365 Day	365 Day	SB	AA-	AA-	365 Day
		HSBC 31 Day Notice Account	25	365 Day					
		# RBS Group - Part Nationalised	50	365 Day					
UK		National Westminster Bank PLC (RFB)	50	365 Day	365 Day	SB	A+	AA-	365 Day
UK		The Royal Bank of Scotland Plc (RFB)	50	365 Day	365 Day	SB	A+	AA-	365 Day
UK		# LloydsHBOS Group	20	365 Day					
		Lloyds Bank Plc (RFB)	20	6 Months	6 Months	SB	A+	AA-	6 Months
		Bank of Scotland PLC (RFB)	20	6 Months	6 Months	SB	A+	AA-	6 Months
UK		Barclays Bank PLC (NRFB)	20	6 Months	6 Months	SB	A+	AA-	6 Months
UK		Nationwide Building Society	20	6 Months	6 Months	SB	A	AA-	6 Months
UK		Santander Uk PLC	20	6 Months	6 Months	SB	A+	AA-	6 Months
UK		Standard Chartered Bank	20	6 Months	6 Months	SB	A+	AA-	6 Months
	4	Other Banks							
AUS		Australia and New Zealand Banking Group Ltd.	25	365 Day	365 Day	SB	A+	AAA	365 Day
AUS		Commonwealth Bank of Australia	25	365 Day	365 Day	SB	A+	AAA	365 Day
AUS		National Australia Bank Ltd.	25	365 Day	365 Day	SB	A+	AAA	365 Day
AUS		Macquarie Bank Ltd.	20	6 Months	6 Months	SB	A	AAA	6 Months
AUS		Westpac Banking Corp.	25	365 Day	365 Day	SB	A+	AAA	365 Day
		# BNP Paribas Group	25	365 Day					
BEL		BNP Paribas Fortis	20	6 Months	6 Months	SB	A+	AA-	6 Months
FRA		BNP Paribas	25	365 Day	365 Day	SB	A+	AA-	365 Day
CAN		Bank of Montreal	25	365 Day	365 Day	SB	AA-	AA+	365 Day
CAN		Bank of Nova Scotia	25	365 Day	365 Day	SB	AA-	AA+	365 Day
CAN		Canadian Imperial Bank of Commerce	25	365 Day	365 Day	SB	AA-	AA+	365 Day
CAN		National Bank of Canada	25	6 Months	365 Day	SB	A+	AA+	365 Day
CAN		Royal Bank of Canada	25	365 Day	365 Day	SB	AA-	AA+	365 Day
CAN		Toronto-Dominion Bank	25	365 Day	365 Day	SB	AA-	AA+	365 Day
DEN		Danske A/S	20	6 Months	6 Months	SB	A+	AAA	6 Months
FRA		Credit Industriel et Commercial	25	365 Day	365 Day	SB	A+	AA-	365 Day
FRA		Societe Generale	20	6 Months	6 Months	PO	A-	AA-	6 Months
FIN		Nordea Bank Abp	25	365 Day	365 Day	SB	AA-	AA+	365 Day
FIN		OP Corporate Bank plc	25	365 Day	365 Day	SB	AA-	AA+	365 Day
GER		DZ BANK AG Deutsche Zentral-Genossenschaftsbank	25	365 Day	365 Day	SB	AA-	AAA	365 Day
GER		Landesbank Hessen-Thueringen Girozentrale	25	365 Day	365 Day	SB	A+	AAA	365 Day
NETH		BNG Bank N.V.	25	24 Months	24 Months	SB	AAA	AAA	24 Months
NETH		Cooperatieve Rabobank U.A.	25	365 Day	365 Day	SB	A+	AAA	365 Day
NETH		ING Bank N.V.	25	365 Day	365 Day	SB	AA-	AAA	365 Day
SING		DBS Bank Ltd.	25	365 Day	365 Day	SB	AA-	AAA	365 Day
SING		Oversea-Chinese Banking Corp. Ltd.	25	365 Day	365 Day	SB	AA-	AAA	365 Day
SING		United Overseas Bank Ltd.	25	365 Day	365 Day	SB	AA-	AAA	365 Day
SWITZ		UBS AG	25	365 Day	365 Day	SB	A+	AAA	365 Day
SWE		Skandinaviska Enskilda Banken AB	25	365 Day	365 Day	SB	AA-	AAA	365 Day
SWE		Swedbank AB	25	365 Day	365 Day	SB	AA-	AAA	365 Day
		# Svenska Group	25	365 Day					
SWE		Svenska Handelsbanken AB	25	365 Day	365 Day	SB	AA	AAA	365 Day
UK		Handelsbanken Plc	25	365 Day	365 Day	SB	AA	AA-	365 Day
		Svenska Handelsbanken - 35 Day Notice Account	25	365 Day	365 Day				365 Day
		Svenska Handelsbanken- 10 Day Notice Account	25	365 Day	365 Day				365 Day
		Svenska Handelsbanken- Call Account	25	365 Day	365 Day				365 Day
USA		Bank of New York Mellon, The	25	24 Months	24 Months	SB	AA	AA+	24 Months
USA		Bank of America N.A.	25	365 Day	365 Day	SB	AA	AA+	365 Day
USA		JPMorgan Chase Bank N.A.	25	365 Day	365 Day	SB	AA	AA+	365 Day
	5	AAA Money Market Funds							
		# MMF Group	200	24 Months					
		HSBC Global Liquidity Fund	25	24 Months			AAA		
		Morgan Stanley Sterling Liquidity Fund	25	24 Months			AAA		
		Deutsche Managed Sterling Fund	25	24 Months			AAA		
		Insight GBP Liquidity Fund	25	24 Months			AAA		
		Aberdeen Standard Liquidity Fund	25	24 Months			AAA		

Group Limit of applies where indicated.

** A maximum of 20% of total funds to be held in the Building Society Sector.

** No more than 20% of total funds to be held in any one institution or group,excluding Govt/MMFs.

Any adverse press comments concerning borrowers/potential borrowers should be referred to M Grady / S Maycock / K Tonge / T Spencer

Revised: 1st April 2024

Definition of Credit Ratings and Credit Default Swap Spreads

Credit Ratings:

Long Term Rating (Fitch)

The Long Term rating assesses the borrowing characteristics of banks and the capacity for the timely repayment of debt obligations which apply to instruments of up to 5 years duration.

Long Term Ratings range from AAA, AA, A to DDD, DD, D. Only Institutions with Ratings of A+ and above are acceptable on the Councils Lending List as follows:

AAA - Highest Credit Quality - lowest expectation of credit risk. Exceptionally strong capacity for timely payment of financial commitments. Highly unlikely to be adversely affected by foreseeable events.

AA - Very High Credit Quality - Very low expectation of credit risk. Very strong capacity for timely payment of financial commitments. Not significantly vulnerable to foreseeable events.

A - High Credit Quality - Low expectation of credit risk. Strong capacity for timely payment of financial commitments. More vulnerable to adverse foreseeable events than the case for higher ratings.

"+" Or "-" may be appended to a rating to denote relative status within major rating categories.

Sovereign Ratings (Fitch)

The Sovereign (Governments of Countries) Rating measures a sovereign's capacity and willingness to honour its existing and future obligations in full or on time. It looks at factors such as:

- Macroeconomic performance and prospects;
- Structural features of the economy that render it more or less vulnerable to shocks as well as political risk and governance factors;
- Public finances, including the structure and sustainability of public debt as well as fiscal financing;
- The soundness of the financial sector and banking system, in particular with respect to macroeconomic stability and contingent liability for the sovereign; and
- External finances, with a particular focus on the sustainability of international trade balances, current account funding and capital flows, as well as the level and structure of external debt (public and private).

Sovereign Ratings range from AAA, AA, A to DDD, DD, D. Only countries with a Sovereign Rating AA- are acceptable on the Councils Lending List.

Credit Rating Watches and Outlooks issued by Credit Rating Agencies

Rating Watches -indicate that there is a heightened probability of a rating change in the short term either in a positive or negative direction. A Rating Watch is typically event-driven and, as such, it is generally resolved over a relatively short period.

Rating Outlooks -indicate the direction a rating is likely to move over a one- to two-year period reflecting a position not yet reached but if trends continue will do so hence triggering a rating move.

Money Market Fund Rating (Moodys)

Aaa/MR1+ - this rating denotes the lowest expectation of default risk. It is assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events. Funds rated MR1+ are considered to have the lowest market risk.

Credit Default Swap (CDS) Spreads

A CDS is effectively a contract between two counterparties to 'insure' against default. The higher the CDS price of a counterparty, the higher the supposed risk of default. The CDS level therefore provides a perceived current market sentiment regarding the credit quality of a counterparty and generally the movement in the CDS market gives an early warning of the likely changes in credit ratings of a counterparty.

Link has employed a benchmark system which compares the CDS spread of a counterparty against a pre-determined benchmark rate (iTraxx Senior Financial Index) to produce a CDS status overlay of 'In Range', 'Monitoring' or 'Out of Range' and this status is used to further determine the creditworthiness of the counterparty.