Appendix A: Enfield Council Treasury Management Strategy - 2025/26

Supporting information:

Treasury Management Strategy Statement 2025/26

1. Introduction

1.1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. Borrowing arises from spending on the Council's Capital Programme; this report should be considered alongside the Ten-Year Capital Programme. The Council has borrowed and/or invested substantial sums of money and is therefore exposed to potential financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

1.3. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet revenue cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

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

1.5. CIPFA defines treasury management as:

> *"The management of the local Council's borrowing, investments and cash flows, 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."*

1.6. Investments held for service purposes or for cashflow purposes are considered in Appendix C, the Investment Strategy.

2. External Context: Interest Rate Forecast

2.1. Although UK inflation remains at 2.5%, higher than the Government's long term target of 2% the Council's treasury management adviser Arlingclose forecasts that the Bank Rate, currently at 4.50%, will reduce. The Bank of England's Monetary Policy Committee are expected to cut rates in the medium term to stimulate the economy with rate cuts expected in 2025 until 3.75% by December 2025.

2.2. Long-term gilt yields, which correlate to the cost of the Council's new borrowing, are expected to eventually fall reflecting the lower medium-term path for Bank Rate. Short-term volatility is expected due to economic and political uncertainty.

2.3. For the purposes of setting the budget, it has been assumed that new treasury investments will be made at an average yield of 3.85%, and that new long-term loans will be borrowed at an average rate of 5.0%.

3. Local Context

3.1. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for internal borrowing or investment. The Council's current strategy is to use internal borrowing to reduce the total interest costs by delaying the need for external borrowing.

3.2. The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators. In considering the affordability of its capital plans, the Council is required to consider all of the resources currently available to it and estimated for the future, together with the totality of its capital plans, revenue income and revenue expenditure forecasts for the forthcoming year and the following two years.

3.3. On 31st December 2024, the Council held £1,290.7m of borrowing and had £110.6m of treasury investments. The forecasted position shown in Table 1 below.

Table 1: Forecast Capital Financing Requirement and Borrowing

£ MILLIONS	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m	2034/35 Forecast £m
General Fund CFR	1,018.3	1,058.4	1,052.6	1,024.9	998.7	691.6
HRA CFR	434.1	466.6	531.0	549.3	572.3	583.5
CFR - Loans	**1,452.4**	**1,525.0**	**1,583.6**	**1,574.2**	**1,571.0**	**1,275.1**
PFI and Finance lease liabilities*	67.5	243.2	458.8	656.0	595.4	183.0
CFR – Total	**1,519.9**	**1,768.2**	**2,042.4**	**2,230.2**	**2,166.4**	**1,458.1**
Gross external borrowing requirement (Liability benchmark)	**1,376.7**	**1,488.9**	**1,557.4**	**1,553.1**	**1,549.8**	**1,253.9**

**other credit arrangements held under separate lease and PFI contracts which form part of the Council's overall CFR; estimates based on mandatory implementation of IFRS16 from April 2024*

3.4. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £1,932.1million for 2025/26. The Annual Investment Strategy provides details of when this may be appropriate.

3.5. Although the Council's CFR is expected to increase to a peak of £2,230.2m in 2027/28, it is expected to reduce to £1,458.1 at the end of the 10-year forecast period in 2034/35 due to a rationalised capital programme, capital receipts from asset disposals and the repayment of PFI and lease liabilities.

3.6. As detailed in Table 2 below, The Council's 10-year programme is investing £2,192.0m of which £540.7m (25%) is expected to be funded through borrowing. Over the first 5 years, the programme invests £1,712.4m of which £378.7m (22%) is funded through borrowing.

Table 2: Capital Expenditure & Financing

£ MILLIONS	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 to 2034/35 £m	Total 10 Yr. £m
General Fund	365.4	368.5	299.1	63.6	47.6	204.5	1,348.70
HRA	128.2	132.5	133.3	94.6	79.6	275.1	843.3
Total Capital Expenditure	**493.6**	**501**	**432.4**	**158.2**	**127.2**	**479.6**	**2,192.00**
External Grants & Contributions	164	90.3	75.5	59.5	44.5	74.1	507.9
Section 106 & CIL	2.3	1.3	0	0	0	0	3.6
Capital Receipts	15.3	12.6	25.8	15.3	32.4	60.4	161.8
Right to Buy	5.5	4.5	11.4	7.5	5.1	5.1	39.1
HRA reserves	21.2	22	17.1	25.9	10.3	178	274.5
Other credit	189.8	237.3	237.3	0	0	0	664.4

£ MILLIONS	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 to 2034/35 £m	Total 10 Yr. £m
Borrowing	95.5	133	65.3	50	34.9	162	540.7
Total Financing	**493.6**	**501**	**432.4**	**158.2**	**127.2**	**479.6**	**2,192.00**

3.7. The 2025/26 net revenue impact on the General Fund of interest and MRP after recharges to the HRA; Companies and Meridian Water (capitalised) is £31.4m in line with the MTFP. This will be reviewed during 2025/26 in the context of the wider Council revenue budget pressures and the outcome of the current Meridian Water financial model review.

3.8. Table 3 below provides more details and estimates for the 10 years to 2034/35 together with estimates of the proportion of the Net Revenue Budget (General Fund) allocated to Capital Financing charges. These fall within the thresholds set out in the Capital Strategy appearing elsewhere on the agenda.

Table 3: Cost of Debt and Revenue Budgets

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Gross interest	44.1	48.8	57.4	58.3	56.0	53.0	52.0	50.9	51.1	50.8
Less: recharges and income:										
Investment Income	-4.3	-4.2	-4.0	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9	-3.9
Companies	-5.0	-5.3	-5.6	-5.6	-5.5	-5.4	-5.2	-4.9	-4.8	-7.1
HRA	-16.3	-18.1	-19.9	-19.9	-20.6	-20.5	-20.5	-20.2	-20.1	-22.1
Meridian Water	-8.5	-9.4	-10.4	-10.4	-8.5	-6.8	-2.8	-2.9	-3.1	-3.3
Schools	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Loan accounting and bank charges	1.1	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0
Contingency	1.1	3.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net interest – General Fund	**11.9**	**15.4**	**18.8**	**19.1**	**18.1**	**17.0**	**20.2**	**19.6**	**19.9**	**15.1**
MRP - policy	19.2	20.1	20.6	19.6	20.7	21.6	22.3	23.2	24.1	24.9
Capital Financing cost – General Fund (before transfers to reserves)	**31.1**	**35.5**	**39.4**	**38.7**	**38.8**	**38.6**	**42.5**	**42.8**	**44.0**	**40.0**
Transfer to Energetik reserves	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital Financing cost – General Fund (after voluntary adjustments)	**31.4**	**35.7**	**39.4**	**38.7**	**38.8**	**38.6**	**42.5**	**42.8**	**44.0**	**40.0**
Year on year budget movement:										
Budget b/fwd.	31.4	31.4	35.7	39.4	38.7	38.8	38.6	42.5	42.8	44.0
Increase (decrease) yr. on yr.	0.0	4.3	3.7	-0.7	0.1	-0.2	3.9	0.3	1.2	-4.0
Budget c/fwd.	31.4	35.7	39.4	38.7	38.8	38.6	42.5	42.8	44.0	40.0
Comparison to Budget approved 22 Feb 2024:										
Budget Feb 2024	35.4	39.4	43.1	40.7	34.8	27.9	25.7	23.0	22.0	22.0
Increase (decrease)	-4.0	-3.7	-3.7	-2.0	4.0	10.7	16.8	19.8	22.0	18.0
Net Revenue Budget (NRB) – General Fund	**353.7**	**363.7**	**373.7**	**383.7**	**393.7**	**403.7**	**413.7**	**423.7**	**433.7**	**443.7**
Capital Financing as proportion of NRB (before transfers to reserves) *	**8.8%**	**9.8%**	**10.5%**	**10.1%**	**9.9%**	**9.6%**	**10.3%**	**10.1%**	**10.1%**	**9.0%**

**expressed before transfers to reserves as these are the debt financing costs Council is obligated to fund before voluntary adjustments*

4. <u>Liability benchmark</u>

4.1. The liability benchmark represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

4.2. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than the amount of borrowing it needs to finance its programmes (i.e., its highest forecast CFR over the next three years). Table 4 sets out the position over the forecasted period and shows the Council's external debt is below the CFR.

Table 4: Prudential Indicator: Liability benchmark

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	£m	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Loans CFR	**1,525.1**	**1,583.6**	**1,574.3**	**1,571.0**	**1,438.0**	**1,413.0**	**1,361.3**	**1,331.0**	**1,337.4**	**1,275.1**
Balance sheet	-86.2	-76.2	-71.2	-71.2	-71.2	-71.2	-71.2	-71.2	-71.2	-71.2

Net Loans Requirement	**1,438.9**	**1,507.4**	**1,503.1**	**1,499.8**	**1,366.8**	**1,341.8**	**1,290.1**	**1,259.8**	**1,266.2**	**1,203.9**
Liquidity allowance	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Liability benchmark*	**1,488.9**	**1,557.4**	**1,553.1**	**1,549.8**	**1,416.8**	**1,391.8**	**1,340.1**	**1,309.8**	**1,316.2**	**1,253.9**

**excludes PFI / Finance leases as these have separate repayment arrangements*

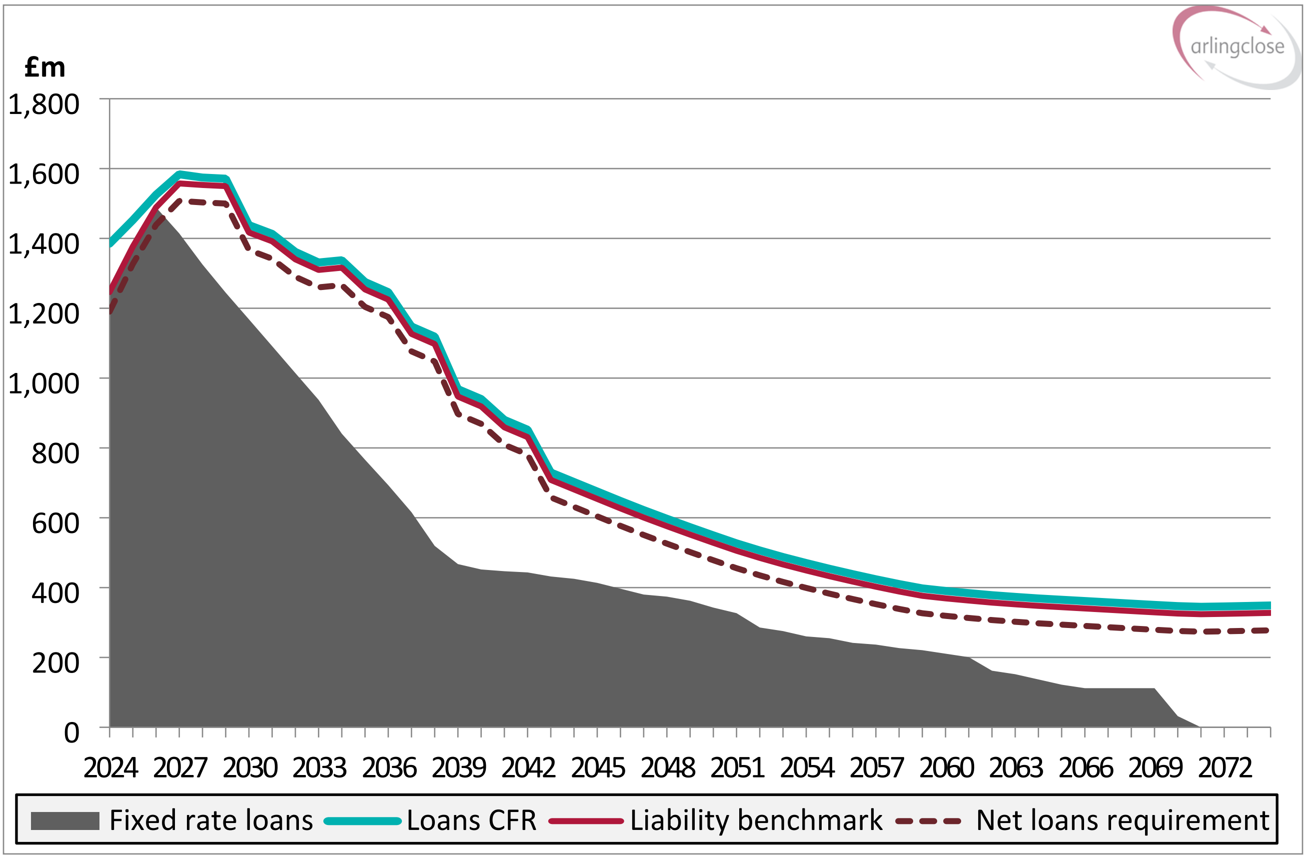
4.3. Balance Sheet Resources are based on the Council's forecast of its Useable Reserves and other resources and are assumed to remain stable in the longer term at £71m. A reduction in this estimate will result in higher borrowing and interest costs**.** Liquidity Allowance reflects the day-to-day working capital requirements of the Council.

4.4. Based on the current 10-year programme only (i.e. no further borrowing beyond the current 10 year programme) Chart 1 below provides a long term view of how the Council's loans (grey shaded area) compared to:

- Capital Financing Requirement
- Net Loans Requirements (CFR less balance sheet resources), and
- Liability Benchmark (above plus liquidity allowance)

4.5. If debt (grey shaded area) exceeds the liability benchmark (red lines), the Council has a cash surplus and is holding this on deposit. It is a measure of the Council's existing (and committed) loans portfolio compared with its forecast loan needs. This benchmark supports the Council to understand and manage its exposure to treasury risks.

Fig 1 Liability benchmark



5. Borrowing Strategy

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

5.2. **Strategy:** The Council's borrowing strategy continues to address the key issue of affordability without compromising the long-term stability of the debt portfolio. The Council will continue to use concessionary borrowing rates for the HRA announced 15th March 2023 which are available until June 2026.

5.3. During the recent period of interest rate volatility, the Council's borrowing strategy has been to manage interest rate risk, by borrowing when rates are favourable for imminent expenditure and refinance maturing debt. Relatively strong investment income (around 4.75% as at 31st December) reduces the holding cost of debt until it is required.

5.4. Uncertainty persists in the economy which has an impact on the magnitude and timing of capital receipts and expenditure. In this environment, our borrowing strategy is going to be 'little and often, minimising cash balances' e.g.:

(i) Closer focus and engagement with project managers on cash flow forecasting (focusing on large payments and the month ahead).
(ii) Keeping £50m cash available in short-term investments as a buffer, for example, to meet payroll runs.
(iii) When the balance goes below £50m and is forecast to stay below this level, borrowing the forecast amount required for the following two weeks using the Council's HRA headroom in order to secure concessionary rates from PWLB.
(iv) Ensuring debt repayments are spread to avoid over concentration in any given year

5.5. This strategy will reduce cash balances and give certainty about the quantum of long-term borrowing required. It also gives the Council flexibility to change plans without incurring the cost of holding debt that is not required.

5.6. The above strategy will assist the Council to in reducing net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

5.7. The Council has previously raised the majority of its long-term borrowing from the PWLB and short-term borrowing from other Councils. The Council will continue to horizon-scan and investigate potential alternative financing options, but PWLB is likely to remain the cheapest and lowest risk option for long term borrowing.

5.8. PWLB loans are no longer available to Councils planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.

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

i. HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
ii. National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)
iii. UK Infrastructure Bank Ltd
iv. any institution approved for investments (see below)
v. any other bank or building society authorised to operate in the UK
vi. any other UK public sector body
vii. UK public and private sector pension funds (except the London Borough of Enfield Pension Fund)
viii. capital market bond investors
ix. retail investors via a regulated peer-to-peer platform
x. UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues
xi. Mayor of London Energy Efficiency Fund (MEEF)
xii. Energy Efficiency Fund (LEEF)
xiii. European Investment Bank (EIB)
xiv. Insurance Funds

5.10. **Other sources of debt finance:** In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

i. Leasing and hire purchase
ii. Private Finance Initiative
iii. sale and leaseback
iv. similar asset-based finance

5.11. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to Councils. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

5.12. **LOBOs:** the Council does not hold any Lender's Option Borrower's Option loans.

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

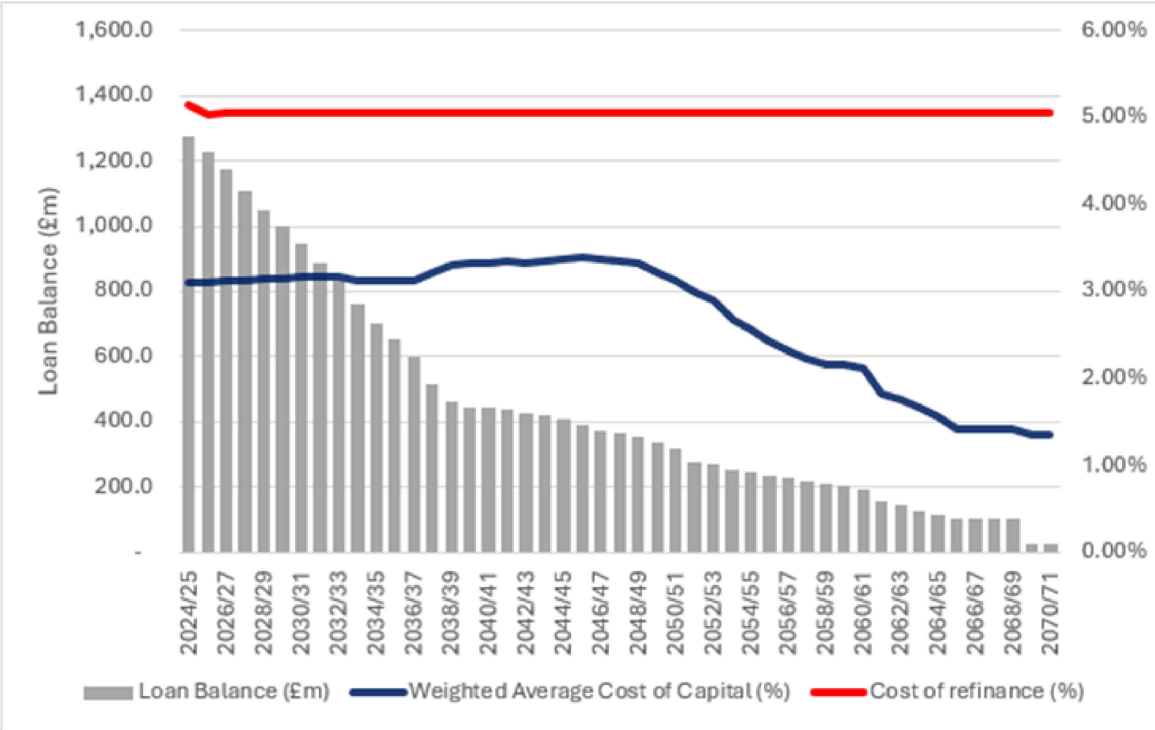
5.14. **Debt rescheduling: The PWLB allows Councils to repay loans before maturity. This** results in the Council either paying a premium (additional cost) to prematurely repay the loan or receiving a discount (refund of cost by PWLB). Premiums and discounts are calculated according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

5.15. As at 31st December the average interest payable to the Council's lenders was 3.11%. As this debt is repaid the Council will have to borrow for cash requirements at the higher rate of 5%. The increased rate payable will increase costs for the Council and the upward risk of rates increasing beyond 5% is termed refinancing risk.

5.16. Whilst the Council will seek to keep costs to a minimum whilst borrowing longer term to delay refinancing risk the amounts expected to the refinanced over the coming years will continue to be monitored.

5.17. Figure 2 below shows the cost of new debt is expected to be significantly higher than the average existing debt, it is required to replace.

Fig 2 Refinancing risk



6. Treasury Investment Strategy

6.1. Surplus cash is held in overnight Money Market Funds for ease of accessibility to meet short-term cashflow demands.

6.2. In addition the Council will loan up to £10m to other Councils following credit and reputational checks to shield against expected declines in rates.

6.3. The Council plans to have a zero daily current bank closing balance every day ensuring all surplus cash is always appropriately invested.

6.4. The level of cash deposit will fluctuate during the course of the year. For 2025/26 the Council aims to hold average cash balances of at least £50m to reflect the borrowing strategy as described in section 5. This represents a £15m increase from that approved in 2024 reflecting increased demands on the working capital of the Council.

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

6.6. **Strategy:** The Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

6.7. Currently, the Council invests all surplus cash overnight into Money Market Funds (no fixed period) with the exception of longer term loans to selected Councils. Given the recent high interest rate environment, the Council seeks to “lock in” returns to on long terms loans to mitigate against expected falls in rates.

6.8. The Council is required to have a £10m minimum investments at all times to keep its professional status and access to Money Market Funds and the wider capital markets which is commensurate with the level of longer term loans referenced above.

6.9. **ESG policy**: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors’ decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council’s ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

6.10. **Business models:** Under the IFRS 9 standard, the accounting for certain investments depends on the Council’s “business model” for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

6.11. **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types set out below, subject to the cash limits (per counterparty).

Table 5 - Approved Investment Counterparties and Limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other Government entities	25 years	£10m	Unlimited
Secured investments *	25 years	£10m	Unlimited

Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£10m
Registered providers (unsecured) *	5 years	£5m	£25m
Money market funds *	n/a	£25m	Unlimited
Strategic pooled funds	n/a	£10m	£50m
Real estate investment trusts	n/a	£10m	£25m
Other investments *	5 years	£5m	£10m

A group of banks under the same ownership will be treated as a single organisation for limit purposes.

Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors (see below)

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

6.13. For entities without published credit ratings, investments may be made either

(a) where external advice indicates the entity to be of similar credit quality; or

(b) to a maximum of £500,000 per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

6.14. **UK Government:** Sterling-denominated investments with or explicitly guaranteed by the UK Government, including the Debt Management Account Deposit Facility, treasury bills and gilts. These are deemed to be zero credit risk due to the Government's ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

6.15. **Local authorities and other government entities:** Loans to; bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk.

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

6.17. **Banks and building societies (unsecured)**: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

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

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

6.20. **Strategic pooled funds**: Bond, equity and property funds, including exchange traded funds, which offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date but can be either withdrawn after a notice period or sold on an exchange, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

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

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

6.23. **Operational bank accounts**: The Authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £800,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

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

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

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

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

6.27. **Reputational aspects:** The Authority is aware that investment with certain counterparties, while considered secure from a purely financial perspective, may leave it open to criticism, valid or otherwise, that may affect its public reputation, and this risk will therefore be taken into account when making investment decisions.

6.28. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested

6.29. Investments that are not for the purpose of treasury management activities (e.g., lending to wholly owned Council companies) are described in the separate Investment Strategy Report.

6.30. **Investment limits**: The Council will limit the risk of loss from a default from lending to any one organisation (other than the UK Government) will be £15 million. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Table 6: Additional investment limits

	Cash limit
Any group of pooled funds under the same management	£25m per manager
Investments held in a broker's nominee account	£25m per broker
Foreign countries	£10m per country

6.31. **Liquidity management:** The Council uses its own in-house cash flow forecasting model to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

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

7. Treasury Management Prudential Indicators

7.1. The Council measures and manages its exposures to treasury management risks using the following indicators.

7.2. **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	**Target**
Portfolio average credit score	6

7.3. **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within 3 months	£50m

7.4. **Interest rate exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	+£4.5m
Upper limit on one-year revenue impact of a 1% fall in interest rates	-£4.5m

Impact of 1% increase expected to be £1.16m on debt to be taken

7.5. The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at market interest rates. The effect of an increase in interest rates will be mitigated through the Council's risk budget.

7.6. **Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	30%	0%
12 months and within 24 months	35%	0%
24 months and within 5 years	40%	0%
5 years and within 10 years	45%	0%
10 years and above	100%	0%

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

7.8. **Long-term treasury management investments:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments (i.e., investments with duration in excess of 1 year) will be:

Price risk indicator	2025/26	2026/27	2026/27	No fixed date
Limit on principal invested beyond year end	£25m	£25m	£25m	£0m

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

7.9. The Council may lend up to £10m (in line with minimum balances required by MIFID regulations) to selected Councils for up to two years assuming satisfactory credit and reputational checks.

8. Related Matters

8.1. The CIPFA Code requires the Council to include the following in its treasury management strategy.

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

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

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

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

8.6. **Housing Revenue Account:** On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. New long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g., premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Where the value of the HRA loans pool is below the HRA capital financing requirement, interest on this "under-borrowing" will be charged to the HRA at the Authority's average return on investments. Interest on any "over-borrowing" above the HRA capital financing requirement, and on balances in the HRA, its earmarked reserves and the major repairs reserve will be credited to the HRA at the same rate.

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

Other Options Considered

8.8. The CIPFA Code does not prescribe any particular treasury management strategy for Local Authorities to adopt. The Executive Director (Resources) having consulted the Cabinet Member for Finance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed overleaf.

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

Section A – Existing Investment & Debt Portfolio Position

Table A1 – Existing Debt Portfolio Position as of 31st December 2024

Source & Ref	£m	Rate	From	To
Bfwd 1 Apr 2024	**1,250.2**	3.04%		
PWLB 730321*	25.0	4.31%	23-May-24	22-May-37
PWLB 737937*	5.0	4.34%	21-Jun-24	20-Jun-38
PWLB 737932	4.0	4.74%	21-Jun-24	20-Jun-31
PWLB 737934	1.0	4.74%	21-Jun-24	20-Jun-37
PWLB 750790*	20.0	4.22%	08-Aug-24	07-Aug-39
PWLB 751892*	20.0	4.05%	12-Aug-24	11-Aug-39
PWLB 760837*	10.0	3.93%	18-Sep-24	17-Sep-35
PWLB 761501	4.0	4.56%	20-Sep-24	19-Sep-34
PWLB 761503	1.0	4.33%	20-Sep-24	19-Sep-34
New debt taken	**90.0**	4.23%		
Repayments	-24.0			
30 Sep 2024	**1,316.2**	3.12%		
New debt taken	0.0			
Repayments	-20.5			
30 Nov 2024	**1,295.7**	**3.11%**		
New debt taken	0.0			
Repayments	-5.0			
31 Dec 2024	**1,290.7**			
Weighted Average Maturity (years)	**16.3**			
Weighted Average Rate %	**3.11%**			

**Taken from PWLB using HRA concessionary rates available until June 2026*

Table A2 – Existing Investments as of 31st December 2024

Investment Position £ MILLIONS	31st Mar 2024 £m	Investments £m	Repayments £m	31st Dec 2024 £m	Income return %	Term remaining (days)
Money Market Funds:						
Invesco	15	24.4	-14.4	25.00	4.76%	-
Deutsche	-	188.3	-188.3	-	4.70%	-
CCLA	-	45.3	-45.3	-	4.75%	-
Goldman Sachs	-	130.0	-130	-	4.69%	-
Ignis/Aberdeen	-	60.9	-35.9	25.00	4.78%	-
Prime Rate	24.6	15.7	-22.8	17.50	4.78%	-
AVIVA	16.5	8.5	0	25.00	4.78%	-
HSBC	-	136.6	-136.6	-	4.74%	-
Call Accounts:						
Lloyds	-	53.4	-45.3	8.10	4.62%	-
Santander	-	-	-	-	-	-
HSBC	-	-	-	-	0.01%	-
Handelsbanken	-	-	-	-	2.20%	-
Loans to other Local Authorities:						
Lancashire County Council	-	5	-	5.00	4.80%	251
Manchester City Council	-	5	-	5.00	4.50%	626
Total Cash Investments	**56.1**	**673.1**	**-618.6**	**110.6**	N/A	N/A
Weighted Average Rate %		N/A	N/A	N/A	4.75%	N/A

Section B

Additional Prudential Indicators

This report covers the requirements of the 2017 and 2021 CIPFA Prudential Code to set prudential indicators. This item should be approved by the full Council before the start of the new financial year which is a legislative requirement. The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Gross Debt and the Capital Financing Requirement

In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

Table B1 - Gross Debt and the Capital Financing Requirement

£ MILLIONS	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Loans CFR	**1,525.1**	**1,583.6**	**1,574.3**	**1,571.0**	**1,438.0**	**1,413.0**	**1,361.3**	**1,331.0**	**1,337.4**	**1,275.1**
PFI & Fin Leases	243.2	458.8	656.0	595.4	532.8	468.6	402.6	333.0	259.9	183.0
Total Capital Debt Requirement	**1,768.3**	**2,042.4**	**2,230.3**	**2,166.4**	**1,970.8**	**1,881.6**	**1,763.9**	**1,664.0**	**1,597.3**	**1,458.1**
Made up:										
Balance sheet	86.2	76.2	71.2	71.2	71.2	71.2	71.2	71.2	71.2	71.2
Net loans requirements	1,438.9	1,507.4	1,503.1	1,499.8	1,366.8	1,341.8	1,290.1	1,259.8	1,266.2	1,203.9
PFI & Fin Leases	243.2	458.8	656.0	595.4	532.8	468.6	402.6	333.0	259.9	183.0
Total Capital Debt Requirement	**1,768.3**	**2,042.4**	**2,230.3**	**2,166.4**	**1,970.8**	**1,881.6**	**1,763.9**	**1,664.0**	**1,597.3**	**1,458.1**

Prudential Indicator: Operational Boundary

The operational boundary is based on the Council's estimate of most likely, i.e., prudent, but not worst-case scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

Table B2 - Operational Boundary

£ MILLIONS	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/25
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Debt Required (Liability benchmark)	1,488.90	1,557.40	1,553.10	1,549.80	1,416.80	1,391.80	1,340.10	1,309.80	1,316.20	1,253.90
Other Long-Term Liabilities*	243.2	458.8	656.0	595.4	532.8	468.6	402.6	333.0	259.9	183.0
Operational Boundary	**1,732.10**	**2,016.20**	**2,209.10**	**2,145.20**	**1,949.60**	**1,860.40**	**1,742.70**	**1,642.80**	**1,576.10**	**1,436.90**

**IFRS 16 requires most operating leases to be recognised as financed leases from April 2024 – estimates are based on the results of an ongoing review which has yet to be finalised therefore these estimates are expected to increase*

Prudential Indicator: Affordable Borrowing / Authorised Limit

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

Table B3 - Affordable Borrowing / Authorised Limit

£ MILLIONS	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Operational Boundary	1,732.1	2,016.2	2,209.1	2,145.2	1,949.6	1,860.4	1,742.7	1,642.8	1,576.1	1,436.9
Headroom	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Total Authorised Limit	**1,932.1**	**2,216.2**	**2,409.1**	**2,345.2**	**2,149.6**	**2,060.4**	**1,942.7**	**1,842.8**	**1,776.1**	**1,636.9**

Prudential Indicator – Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long-term obligation costs net of investment income) against the net revenue budget and the gross revenue budget for the General Fund and the Housing Revenue Account, respectively. It also exemplifies the element of housing rental that relates to financing costs, this calculation is notional and assumes all other things are equal.

Both are expressed *before* financing charges for finance leases and PFI agreements as the interest and associated lease repayment costs are under separated credit arrangements which do not form part of the Council's external borrowing.

The indicator for General Fund is presented including charges, as required by the Treasury Management Code.

Table B4 - Ratio of Financing Costs to Net Revenue Stream

Estimated Ratio of Financing Costs to:	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2033/34	2034/35
General Fund Net Revenue Stream	8.8%	9.8%	10.5%	10.1%	9.9%	9.6%	10.3%	10.1%	10.1%	9.0%
Housing Revenue Account Gross Revenue Budget	21.6%	22.8%	23.7%	22.7%	22.1%	21.1%	20.4%	19.9%	19.5%	20.8%
General Fund Net Revenue Stream including Finance lease charges and PFIs	19.6%	27.8%	36.0%	34.8%	33.6%	32.3%	32.1%	31.3%	30.9%	29.2%

END