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Report Title        **CAPITAL STRATEGY, INVESTMENT STRATEGY AND TREASURY  
MANAGEMENT STRATEGY 2024/25**

Report to            **CABINET            12 February 2024**  
**SCRUTINY        13 February 2024**  
**COUNCIL           22 February 2024**

**Responsible Cabinet Member: Carl Smith – Portfolio holder Governance, Finance and Major Projects**

**Responsible Officer: FINANCIAL SERVICES MANAGER**

**SUBJECT MATTER/RECOMMENDATIONS**

This report and document presents for approval the Council’s Capital Strategy, Investment Strategy and Treasury Management Strategy Statement for 2024/25.

These strategies provide a framework that gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

They also highlight how the Council’s decisions on capital spend has financial implications for the future and the financial planning of the Council.

**Recommendations:**

That Cabinet agree and RECOMMENDS to Council the following:

- The Capital Strategy for 2024/25
- The Investment Strategy for 2024/25
- The Treasury Management Strategy Statement for 2024/25, including:
  - a. The Treasury Investment Strategy (section 4)
  - b. Prudential Indications (section 5)
  - c. Operational Boundary and Authorised Limits (Appendix C)

## **1. INTRODUCTION AND BACKGROUND**

- 1.1. In accordance with statutory guidance, the Council is required to have a Capital Strategy, Investment Strategy and Treasury Management Strategy. These strategies are informed by and also inform a number of the Councils other strategy documents, including the following:
- Asset Management Strategy
  - Medium Term Financial Strategy.

## **2. CAPITAL STRATEGY 2024/25**

- 2.1. The Capital Strategy for 2023/24 is attached at appendix A and covers capital expenditure and financing, treasury management and commercial activities. It reflects how previous capital investment decisions and those taken as part of the 2024/25 budget setting have ongoing implications for the Council and its financial position in the future.

## **3. INVESTMENT STRATEGY 2024/25**

- 3.1. The Investment Strategy for 2024/25 is attached at appendix B and focuses on how the Council can support local services by making service or commercial investments.

## **4. TREASURY MANAGEMENT STRATEGY 2024/25**

- 4.1. The Council is required to determine annually its Treasury Management Strategy (TMS). The TMS for 2024/25 financial year is attached at appendix C and includes the following:
- Annual Treasury Investment Strategy
  - Operational Boundary and Authorised Limits
- 4.2. The Council continues to maintain an under-borrowed position, which means the capital borrowing need (the Capital Financing Requirement) has not been fully funded with external loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. The strategy is prudent as investment returns are low and counterparty risk is relatively high. An under- borrowing position is forecast to continue.
- 4.3. The Council is required to operate a balanced budget, whereby cash raised during the year will meet the 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 appetite, providing adequate liquidity initially before considering investment return.
- 4.4. The second main function of the treasury management service is the funding of the Council's planned capital plans. These capital plans provide a guide to the borrowing need of the Council, informing the longer- term cash flow planning, to ensure the Council can meet its capital spending obligations.
- 4.5. The management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet the Council risk or cost objectives.
- 4.6. The treasury strategy has been informed by the current capital programme and updates to the programme as included within the budget report which is being recommended elsewhere on the agenda.
- 4.7. The revenue implications of the strategy have been included in the General Fund and HRA budgets for 2024-25

## 5. FINANCIAL IMPLICATIONS

- 5.1. The strategies set out the framework for Treasury Management investments and capital investments made in respect of service and commercial investment. Decisions in relation to specific capital investments will be presented for approval through the decision-making process as per the constitution and the financial implications would be determined for the capital investments as part of the business case for approval.
- 5.2. The strategies are presented is in line with the approved 2024/25 budget as presented for approval in February 2024. As decisions are made in the year, this may impact on the strategies and the respective decision making and recommendations will take into account the strategies and recommend changes to them as applicable.

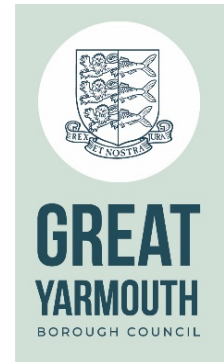
## 6. RISK IMPLICATIONS

- 6.1. These are detailed within the Strategy documents.

## 7. BACKGROUND PAPERS

- 7.1. Asset Management Strategy

Area for consideration Comment	Comment
Monitoring Officer Consultation	Via ELT
Section 151 Officer Consultation	Report Author
Existing Council Policies See background papers	Within report
Financial Implications Within existing budgets	As detailed in report
Legal Implications (including human rights)	
Risk Implications	As detailed in report
Equality Issues/EQIA assessment	N/A
Details contained in strategy	
Crime & Disorder	
Every Child Matters	



# Capital Strategy 2024/25

<b>Author</b>	<b>Finance</b>
<b>Version No.</b>	<b>2024/25</b>
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# CAPITAL STRATEGY 2024/25

## 1. INTRODUCTION

- 1.1. This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.
- 1.2. Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

## 2. CAPITAL EXPENDITURE AND FINANCING

- 2.1. Capital expenditure is where the Authority spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Authority has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year. Further details of the capital accounting policies of the Council are provided as part of the Statement of Accounts which are available at <https://www.great-yarmouth.gov.uk/article/2466/Budgets-and-spending>
- 2.2. In 2024/25, the Authority is planning capital expenditure of £77.92m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	<b>2022/23 actual</b>	<b>2023/24 forecast</b>	<b>2024/25 budget</b>	<b>2025/26 budget</b>	<b>2026/27 budget</b>
General Fund services	17.99	28.79	67.14	21.17	4.01
Council housing (HRA)	11.50	15.94	16.36	13.60	14.66
Capital investments	0.24	2.68	4.08	7.0	0.0
<b>TOTAL</b>	<b>29.73</b>	<b>47.41</b>	<b>87.58</b>	<b>41.77</b>	<b>18.67</b>

- 2.3. The main General Fund capital projects include:
  - Loans to and share purchase in the Council's wholly owned companies; Equinox Enterprise Ltd and Equinox Property Holdings.
  - The purchase of assets (e.g. vehicles and equipment) for lease to the Council's other subsidiary GYS Limited.
  - North Quay Redevelopment
  - Market Realm Redevelopment
  - Wintergardens Restoration
  - Conversion of former Palmers Department store to Learning Hub

- 2.4. The Council has secured Town Deal, Future High Streets and Levelling Up Funding for the regeneration of Great Yarmouth town centre. Funding of £54m has been confirmed and project budgets have been included in the programme. Details on costs, plans and timing of the projects within the funding envelope available are still subject to change. The capital programme will therefore be amended or updated during the year as projects develop further
- 2.5. The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately and includes the building and acquisition of new homes over the forecast period to replace sales under Right to Buy in line with government guidance. Programmed capital expenditure is also driven to maintaining and improve the overall stock currently held by the HRA, this is prepared over the medium term and reviewed and updated annually.
- 2.6. Capital investments include loans and shares made for service purposes and property to be held primarily for financial return in line with the definition in the *CIPFA Treasury Management Code*.
- 2.7. **Governance:** Heads of Service bid annually in October to include projects in the Council's capital programme. Bids are collated by finance who calculate the financing cost (which can be nil if the project is fully externally financed). The Council's Executive Leadership Team appraises all bids based on a comparison of service priorities against financing costs and identifies projects to be put forwards as part of the annual budget setting and those that will be considered separately via a subsequent business case. The final capital programme is then presented to Cabinet and Council in February each year as part of the approval of the budget for the coming financial year.
- 2.8. For full details of the Authority's capital programme, including the project appraisals undertaken, see: <https://www.great-yarmouth.gov.uk/article/2466/Budgets-and-spending>.
- 2.9. It should be noted that other capital projects may be brought forward during the financial year as business cases which are initially appraised by Executive Leadership Team before being passed for approval to Cabinet. Those capital projects costing over £100,000 would then go onto to Council for final approval. The business cases put forward to Executive Leadership Team have been considered for affordability by Finance and, if relating to an IT project, the IT Investment Group.
- 2.10. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Authority's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

General Fund	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
External sources	11.21	20.09	44.80	12.43	1.30
Own resources	1.04	3.81	8.73	0.0	0.0
Debt	5.98	7.57	17.68	15.74	2.71
<b>Total</b>	<b>18.23</b>	<b>31.47</b>	<b>71.21</b>	<b>28.17</b>	<b>4.01</b>
Housing Revenue Account	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
External sources	2.45	1.88	2.36	2.36	2.36
Own resources	7.26	10.86	9.55	7.22	7.43
Debt	1.79	3.20	4.45	4.02	4.87
<b>Total</b>	<b>11.50</b>	<b>15.94</b>	<b>16.36</b>	<b>13.60</b>	<b>14.66</b>
<b>TOTAL</b>	<b>29.73</b>	<b>47.41</b>	<b>87.58</b>	<b>41.77</b>	<b>18.67</b>

2.11. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of debt finance in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Own resources	1.560	2.044	2.280	2.556	2.638

2.12. The Authority's full minimum revenue provision statement is available here as part of the budget for the year: <https://www.great-yarmouth.gov.uk/article/2466/Budgets-and-spending>

2.13. The Authority's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to increase by £19.85m during 2024/25. Based on the above figures for expenditure and financing, the Authority's estimated CFR is as follows:



Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
General Fund services	74.27	77.72	86.17	93.25	93.02
Council housing (HRA)	91.31	94.51	98.96	102.98	107.84
Capital investments	2.15	4.22	11.18	17.29	17.60
<b>TOTAL CFR</b>	<b>167.73</b>	<b>176.45</b>	<b>196.31</b>	<b>213.51</b>	<b>218.45</b>

- 2.14. **Asset management:** To ensure that capital assets continue to be of long-term use, the Authority has an asset management strategy in place. The primary aim of the asset management strategy is to support the corporate priorities, achieve service requirements and comply with statutory duties by setting out the vision to improve the management and utilisation of the Council’s land and buildings. The strategy provides the basis for developing a more robust and integrated approach to asset management across the Council.
- 2.15. The asset management strategy promotes collaboration and visibility of resources as well as embedding a culture of scrutiny that will challenge the use, effectiveness and retention of the land and building assets of the council. The strategy outlines the vision and long-term approach to improve the recognition, management and utilisation of land and buildings.
- 2.16. The Council’s asset management strategy can be found here: [Corporate Asset Management Strategy 2018-2022](#)
- 2.17. **Asset Management Working group:** The purpose of the group is to monitor and manage asset projects for the Council. The group meets on a monthly basis. The group undertakes to review assets in relation to opportunities, developments and disposal ensuring the assets of the Council are used to the best effect. Any recommendations from the group are then formulated into report or business cases for the Consideration by the Executive Leadership team and then by Cabinet or Council as appropriate.
- 2.18. **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Authority plans to receive £16.1m of capital receipts in the coming financial year as follows:

Table 5: Capital receipts receivable in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
General Fund Asset sales	1.3	2.0	14.3	2.9	0.5
General Fund Loans etc repaid	0.2	0.1	0.1	0.1	0.1
Housing revenue Account Asset sales	2.6	1.5	1.7	1.3	1.4
<b>TOTAL</b>	<b>4.1</b>	<b>3.6</b>	<b>16.1</b>	<b>4.3</b>	<b>2.0</b>

### 3. TREASURY MANAGEMENT

- 3.1. Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Authority's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Authority is typically cash rich in the short-term as revenue income is received before it is spent, but cash poor in the long-term as capital expenditure is incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall borrowing.
- 3.2. Due to decisions taken in the past in relation to capital and financing decisions with the General Fund and the Housing Revenue Account, the Council currently has £122.5m borrowing at interest rates between 3.15% to 5.7% and £15.9m treasury investments at interest rates between 0.3% and 5.3%.
- 3.3. **Borrowing strategy:** The Authority's main objectives when borrowing is to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Authority therefore seeks to strike a balance between cheaper short-term loans (currently available at around 5.3% to 5.6%) and long-term fixed rate loans where the future cost is known but higher (currently 4.42% to 5.29%).
- 3.4. The Authority does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board
- 3.5. Projected levels of the Authority's total outstanding debt (which comprises borrowing, leases and transferred from local government reorganisation) are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Debt (incl. leases)	122.16	118.92	128.69	141.05	149.51
Capital Financing Requirement	167.73	176.45	196.31	213.51	218.45

- 3.6. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Authority expects to comply with this in the medium term.
- 3.7. **Liability benchmark:** To compare the Authority’s actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing.
- 3.8. **Affordable borrowing limit:** The Authority is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower “operational boundary” is also set as a warning level should debt approach the limit.
- 3.9. The liability benchmark, affordable borrowing limits and further details on borrowing are included within the treasury management strategy at: <https://www.great-yarmouth.gov.uk/policies>
- 3.10. **Treasury investment strategy:** Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.
- 3.11. The Authority’s policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which investments to buy and the Authority may request its money back at short notice.

Table 8: Treasury management investments in £millions

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Near-term investments	12.31	12.00	12.00	12.00	12.00
Longer-term investments	0.87	1.00	1.00	1.00	1.00
<b>TOTAL</b>	<b>13.18</b>	<b>13.00</b>	<b>13.00</b>	<b>13.00</b>	<b>13.00</b>

- 3.12. Further details on treasury investments are in the treasury management strategy <https://www.great-yarmouth.gov.uk/policies>.
- 3.13. The near-term investment balance incorporates the £10m investment balance that needs to be held to ensure the Council maintains its professional client status under the Markets in Financial Instruments Directive (MiFID II) requirements.
- 3.14. **Risk management:** The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.
- 3.15. **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Section 151 Officer and staff, who must act in line with the treasury management strategy approved by Council. The Section 151 Officer assesses our investment levels to ensure we retain our status as a professional client under MiFID II in order to provide security of capital, access to better investment returns and borrowing rates.
- 3.16. Quarterly reports on treasury management activity will be presented to Members during 2024/25. Cabinet is responsible for scrutinising treasury management decisions.

#### **4. INVESTMENTS FOR SERVICE PURPOSES**

- 4.1. The Council has investments in its subsidiaries (GYS Limited (in the form of leases), Equinox Enterprises Limited (EEL) and Equinox Property Holdings (EPH) in the form of loans), local charities, local businesses, and local residents (in the form of home improvement loans), to support local public services and stimulate local economic growth. The Council also holds shares in EEL & EEH.
- 4.2. Details of the loans and shares in subsidiaries can be found in the Councils Investment Strategy, which is available at <https://www.great-yarmouth.gov.uk/policies>
- 4.3. Details of the Council's discretionary Home Improvement loans are given with the Private Sector Housing Adaptation and Improvement (2021) policy which is available at [Private Sector Adaptations and Improvement Policy](#)
- 4.4. Home Improvement loans made are equity loan agreements, so the Council obtains a share of the equity of the borrower's home as collateral. This reduces the risk of the Council not recovering the loan amount from the borrower.
- 4.5. Discretionary loans to charities are decided by the Cabinet if the spend is below £100,000 or Council if over this amount. These loans incur interest charges which are set at a market rate to reflect the costs and the level of risks. These loans are equity loans to again to reduce the risk of a borrower defaulting on payment in line with the loan agreement.

#### **5. COMMERCIAL ACTIVITIES**

- 5.1. The Council has invested historically in commercial property and holds a significant asset base for financial gain and to support regeneration. Total commercial property investments are currently valued at £49m as at 31<sup>st</sup> March 2023. which provide a net return after all direct costs of £3m
- 5.2. The Council can accept a higher risk on its historic commercial investment than with treasury investments. The principal risk exposures include:
  - vacancies;

- fall in capital value;
  - lessee not complying with repairs and maintenance terms of lease agreement;
  - changes in demand for property types (e.g. offices, industrial)
- 5.3. These risks are managed by the Councils Property and Asset Management service and Finance.
- 5.4. **Governance:** Future decisions on historic commercial investments, including potential disposals, will be made following consideration of robust business cases for approval in line with the current decision-making governance arrangements. Future spend on historic commercial investments will be capital expenditure and will therefore also be approved as part of the capital programme.
- 5.5. The Authority also has commercial activities in its subsidiary companies Equinox Enterprises Limited (EEL) and Equinox Property Holdings Limited (EPH). The companies aim is to increase, regenerate and improve the standard of housing across the borough, whilst at the same time aiming to generate a return to at least break even. The Council receives a margin of earned debt interest from the loan facilities with EPH and EEL. All loans for EPH are secured against the properties purchased by the company. The Council will also receive a return on equity invested which reflects profits back from the company's operation of property sales and market rental income from housing acquired. This return is through dividends paid to the Council once profits and reserves of the companies allows.
- 5.6. Both Equinox companies regularly review risk using Corporate and Project Risk Registers. The company boards hold bi-monthly meetings throughout the financial year.
- 5.7. Equinox Enterprises Limited and Equinox Property Holdings Limited are required to agree their respective Business Plans annually. They also provide the Council as shareholder's regular update reports as presented to Cabinet.
- 5.8. The authority does not intend to make any future investment in commercial property assets for the primary purpose of generating a yield.

## 6. LIABILITIES

- 6.1. In addition to debt of £128.69m detailed above, the Authority is committed to making future payments to cover its pension fund deficit (valued at £15.5m as at 31st March 2023). It has also set aside £2.3m to cover risks of Non-domestic Rate appeals (as at 31st March 2023). At the time of writing, the Council has no contingent liabilities.
- 6.2. **Governance:** Decisions on incurring new discretionary liabilities are taken by Head of Service in consultation with the S151 Officer. The risk of liabilities crystallising and requiring payment is monitored by Finance and where significant would be reported as part of budget monitoring reports present quarterly to Cabinet. New liabilities exceeding £1m are reported to full council for approval/notification as appropriate.
- 6.3. Further details on liabilities and guarantees are included within the draft 2020/21 statement of accounts at <https://www.great-yarmouth.gov.uk/article/2466/Budgets-and-spending>

## 7. REVENUE BUDGET IMPLICATIONS

- 7.1. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget
Financing costs (£m)	£2.2	£3.6	£4.3	£4.7	£4.7
Net Revenue Stream (£m)	£12.8	£15.3	£16.1	£16.4	£14.0
Proportion of net revenue stream	17.34%	23.73%	26.73%	28.58%	33.84%

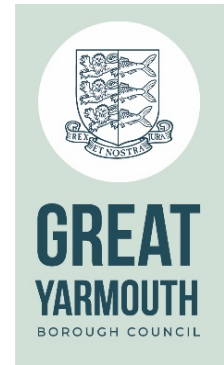
7.2. Further details on the revenue implications of capital expenditure are included in the 2024/25 revenue budget at <https://www.great-yarmouth.gov.uk/article/2466/Budgets-and-spending>

7.3. **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Section 151 Officer is satisfied that the proposed capital programme is prudent, affordable and sustainable because current and new capital funding decisions have been made in the context of the associated revenue implications.

## 8. KNOWLEDGE AND SKILLS

8.1. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Section 151 Officer is a qualified accountant with over 15 years' experience and the Finance Manager is a qualified accountant with over 10 years' experience. The Council's Property and Asset Management team includes 2 Charter Surveyors (MRICS) who are also registered valuers each with over 10 years' experience. The Council pays for relevant staff to study towards relevant professional qualifications including MRICS, ACCA and AAT.

8.2. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and PS Tax as VAT and tax advisers. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.



# Investment Strategy Statement 2024/25

<b>Author</b>	<b>Finance</b>
<b>Version No.</b>	<b>2024/25</b>
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# INVESTMENT STRATEGY 2024/25

## 1. INTRODUCTION

- 1.1 The Authority invests its money for three broad purposes:
- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),
  - to support local public services by lending to or buying shares in other organisations (service investments), and
  - to earn investment income (known as commercial investments where this is the main purpose).
- 1.2 This investment strategy meets the requirements of statutory guidance issued by the government and focuses on the second and third of the above categories.

## 2. TREASURY MANAGEMENT INVESTMENTS

- 2.1 The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate during 2024/25, with an average investment of £16m anticipated for the financial year.
- 2.2 **Contribution:** The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.
- 2.3 **Further details:** Full details of the Authority's policies and its plan for 2024/25 for treasury management investments are covered in a separate document, the treasury management strategy, available here: <https://www.great-yarmouth.gov.uk/policies>

## 3. SERVICE INVESTMENT LOANS

- 3.1 **Contribution:** The Council lends money (including finance leases to acquire assets) to its subsidiaries (GYS Limited, Equinox Enterprises Limited and Equinox Property Holdings) local charities, local businesses, and local residents (in the form of home improvement loans), to support local public services and stimulate local economic growth.
- 3.2 The loans made to Equinox Enterprises Limited and Equinox Property Holdings, as the subsidiaries of the Council, form part of investment in the company to provide an initial cash injection to enable the company to become established. The purpose of Equinox Enterprises Limited is to develop housing for sale (including affordable homes) and the purpose of Equinox Property Holdings is to provide quality rental housing in the borough. This supports the Council's objective within the Corporate Plan 2020-2025 to provide a mix of attractive good quality housing for all sectors of the workforce and community that is fit for purpose for all and meet both the borough's existing and future needs.
- 3.3 The Council is providing assets to its other subsidiary, GYS Limited, via finance leases to provide it with the fleet (e.g. refuse vehicles) and other equipment it requires to deliver its service to Council. The company delivers grounds maintenance, cleaning services including public toilets, streets, and beaches, and waste and recycling collection services.

- 3.4 Discretionary loans are granted to local charities and businesses, this will be following a decision by Cabinet and /or Council as applicable. In line with the Corporate Plan 2020-2025 these loans are granted to support the local charities and businesses that assist in improving the communities and facilities in the borough. The rates for service loans will be set at appropriate rates that reflect counterparty risks and duration.
- 3.5 The Council has a responsibility to address private sector housing that is in poor condition or needs adaptations to meet the needs of those with disabilities. The Council also has an objective within the Corporate Plan 2020-2025 to provide help early, when people need public health and care, to prevent avoidable problems and to help more people to help themselves as well as tackling challenges within communities. Home improvement loans help residents to redress housing issues that impact on their health. The home improvement loans are made from a recycling pot following repayment of loans made as part of prior year capital programme allocations.
- 3.6 **Security:** The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Authority, upper limits on the outstanding loans to each category of borrower have been set as follows:

Table 1: Loans for service purposes in £ millions

Category of borrower	31/3/23 Actuals			2024/25
	Balance owing	Loss allowance	Net figure in accounts	Approved Limit
Subsidiaries: GYS Limited, Equinox Enterprises Limited and Equinox Property Holdings	0.18	0.00	0.18	12.00
Local Charities	0.66	0.00	0.66	1.00
Local Businesses	0.11	0.00	0.11	0.20
Local Residents (Home Improvement Loans)	2.03	0.00	2.03	3.00
<b>TOTAL</b>	<b>2.98</b>	<b>0.00</b>	<b>2.98</b>	<b>16.20</b>

\*loans, except for those to local residents, will be subject to Council/Cabinet approval during the year if not already agreed.

- 3.7 Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments. It should be noted that both the loans to local charities and local residents are equity loan agreements, so the Council obtains a share of the equity of the borrower's property as collateral. This reduces the risk of the Council not recovering the loan amount from the borrower and occasionally generates a small surplus depending on the agreement type used. On occasions where a loan to a local business would clearly meet the service objectives of the council, loans would be given on market terms. These loans will be made with due attention to the risk to the council, and the rate of interest charged on the loan

will be commensurate with the security provided, the duration of the loan and the risk of default (i.e., non-repayment).

- 3.8 **Risk assessment:** The Authority assesses the risk of loss before entering, and whilst holding service loans by undertaking due diligence proportionate to the level of the loan being granted to mitigate as far as possible any risks of non-recovery. This will also include taking external advice as applicable, such as discussion with NP Law as part of the loan agreement process.

#### 4. SERVICE INVESTMENTS: SHARES

- 4.1 **Contribution:** The Council has shares in Equinox Enterprises Limited and Equinox Property Holdings as its subsidiaries. The Council invests in its subsidiaries to enable them to develop affordable and quality housing within the borough and with the aim of them providing a return on the investment. For information GYS Limited is a company limited by guarantee, so will have Members rather than shareholders and will therefore hold no share capital.

- 4.2 **Security:** One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

	31/3/23 Actuals			2024/25
Category of company	Amounts invested	Gains or losses	Value in accounts	Approved Limit
Equinox Enterprises Limited (Subsidiary)	2.23	0.00	2.23	3.00
Equinox Property Holdings (Subsidiary)	0.06	0.00	0.06	3.00

- 4.3 **Risk assessment:** The Authority assesses the risk of loss before entering into and whilst holding shares by undertaking the appropriate due diligence. As further contracts and opportunities are considered, the company's performance will inform the risk assessment.

- 4.4 **Liquidity:** Any new investment proposal will be considered for approval via the appropriate decision-making route in line with the council's Constitution.

- 4.5 **Non-specified Investments:** Shares are the only investment type that the Authority has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Authority's upper limits on non-specified investments. The Authority has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

#### 5. COMMERCIAL INVESTMENTS: PROPERTY

- 5.1 **Contribution:** The council owns a varied portfolio of commercial properties including seafront concessions, warehouses, workshops, offices and industrial units across the borough. These form a significant element of the council's asset management plan which is available here: <https://www.great-yarmouth.gov.uk/article/3222/Plans-and-performance>

Table 3: Property held for investment purposes in £ millions

Property	31/3/23 Actual		31/3/24 Expected	
	Gains or (losses)	Value in accounts	Gains or (losses)	Value in accounts
Offices	(1.0)	4.7	0.2	4.9
Corporate Estates	(0.2)	39.2	0.2	39.4
Seafront Concessions	0.0	4.7	0	4.7
<b>TOTAL</b>	<b>(1.3)</b>	<b>48.6</b>	<b>0.4</b>	<b>49.0</b>

5.2 **Security:** In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

5.3 A fair value assessment of the Authority’s investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2023/24 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

5.4 **Risk assessment:** The Council’s internal Property and Asset Management team includes members of the Royal Institution of Chartered Surveyors (MRICS) and they assess the risk of continuing to hold the current property investments. They do this in a number of ways including engaging external advisors, agents and reference to quality financial/property press when required. In doing this they assess the market that the investment is competing in, the nature and level of competition, along with expectations on how the market/customer needs will evolve over time, barriers to exit, and any ongoing investment requirements. The strategic objectives are designed to mitigate risk by:

- The Council’s fundamental aim of revenue income or a capital return;
- Having a portfolio approach to avoid concentration of risk in any one property, tenant or risk type.

The Council has not invested in commercial properties outside of the borough and does not intend to make any further investment in additional commercial property with the primary purpose of generating a yield. Changes within the prudential code have imposed restrictions on the Council’s ability to borrow for capital expenditure on developing or purchasing investment properties (i.e. primarily for yield) which have influenced this decision.

5.5 **Liquidity:** Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Authority do not rely on capital receipts to finance the capital programme. Any capital receipts received will be used to reduce the borrowing requirement within the financial year they are received.

## 6. LOAN COMMITMENTS AND FINANCIAL GUARANTEES

6.1 The Authority has committed to make up to £10.5m of loans to its subsidiaries Equinox Enterprises Limited (£7.5m, approved by Council 21<sup>st</sup> July 2022) & Equinox Property Holdings (£3m, approved by Council 23<sup>rd</sup> June 2022). These loans will be drawn down over the next three financial years in line with the companies' business plans and approval for further loans will be sought as required from 2024/25 onwards. The Council does not have any financial guarantees, nor does it intend to make any.

## 7. PROPORTIONALITY

7.1 The Authority achieves a balanced revenue budget incorporating surpluses generated from investment activity. Table 4 below shows the extent to which the expenditure planned to meet the service delivery objectives and/or the level that the Authority is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Plan. Should it fail to achieve the expected net profit, the Authority's contingency plans for continuing to provide these services would be to undertake further review of the delivery and potential savings or to use reserves in the short-term.

Table 4: Proportionality of Investments

	2022/23 Actual	2023/24 Forecast	2024/25 Budget	2025/26 Budget	2026/27 Budget
Gross service expenditure	67.72	78.91	74.95	78.69	82.63
Investment income	2.10	2.13	3.80	3.95	4.11
Proportion	3.10%	2.69%	5.07%	5.02%	4.98%

## 8. BORROWING IN ADVANCE OF NEED

8.1 Government guidance is that local authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. The Authority would not follow this guidance if it was financial advantageous and only after undertaking due diligence to consider risks involved. Currently the Council has not borrowed in advance of need.

## 9. CAPACITY, SKILLS AND CULTURE

9.1 **Elected members:** Elected members are provided with training by our external advisors, Arlingclose. The Treasury Management Strategy and quarterly updates are presented to members during the financial year and should any queries arise these would be responded to by officers or advisors as applicable.

9.2 **Statutory officers:** Regular meetings are held throughout the year with our external advisors, Arlingclose. Officers working on a daily basis with investment decisions attend courses offered by both Arlingclose and CIPFA throughout the year. Arlingclose provide daily updates of changes in the market as well as providing staff with a contact for queries that arise.

9.3 **Commercial decisions:** Future decisions on historic commercial investments, including potential disposals, will be made following consideration of robust business cases for approval in line with the current decision-making governance arrangements. Future spend on historic

commercial investments will be capital expenditure and will therefore also be approved as part of the capital programme. Where applicable the Council would seek to engage external professional advisors, for example financial, property and legal advice.

- 9.4 **Corporate governance:** The Asset Working Group is made up of both finance and, property and asset management officers, who initially consider the future of current investment commercial properties, such as disposals or additional spend required. Regular progress reports on decisions taken are also reviewed by the group.
- 9.5 After initial consideration business cases are completed for the disposal or improvements to property investments, including undertaking due diligence and considering risks, and these form the basis for reports presented to Cabinet for approval.
- 9.6 Other investment decisions are based on the Treasury Management Strategy, with any changes reported for approval as required to Cabinet.

## 10. INVESTMENT INDICATORS

- 10.1 The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority’s total risk exposure as a result of its investment decisions.
- 10.2 Total risk exposure: The first indicator shows the Authority’s total exposure to potential investment losses. This includes amounts the Authority is contractually committed to lend but have yet to be drawn down and guarantees the Authority has issued over third-party loans.

Table 5: Total investment exposure in £millions

Total investment exposure	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Treasury management investments	13.18	13.00	13.00
Service investments: Loans	2.98	6.09	14.36
Service investments: Shares	2.29	2.96	5.48
Commercial investments: Property*	48.58	49.00	49.50
<b>TOTAL INVESTMENTS</b>	<b>67.03</b>	<b>71.05</b>	<b>82.34</b>
Commitments to lend	0.00	0.00	0.00
<b>TOTAL EXPOSURE</b>	<b>67.03</b>	<b>71.05</b>	<b>82.34</b>

\* Through its significant asset base, the Council has invested historically in commercial property for financial gain and to support regeneration.

- 10.3 **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Authority’s investments are funded by usable reserves and income received in advance of expenditure.

Table 6: Investments funded by borrowing in £millions

Investments funded by borrowing	31.03.2023 Actual	31.03.2024 Forecast	31.03.2025 Forecast
Treasury management investments	0.00	0.00	0.00
Service investments: Loans	0.18	2.26	7.55
Service investments: Shares	1.97	2.04	3.70
Commercial investments: Property *	15.30	15.13	14.93
<b>TOTAL FUNDED BY BORROWING</b>	<b>17.45</b>	<b>19.43</b>	<b>26.18</b>

\* Commercial Investments – The portfolio of commercial investment properties are historic assets which the Council owns or has an interest in for which it is not possible to quantify the level of funding by borrowing. The figures quoted relate to the investments made since 2008/09.

10.4 **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 7: Investment rate of return (net of all costs)

Investments net rate of return	2022/23 Actual	2023/24 Forecast	2024/25 Forecast
Treasury management investments	2.67%	2.47%	4.95%
Service investments: Loans	2.95%	1.28%	1.32%
Service investments: Shares	0.00%	0.00%	0.00%
Commercial investments: Property	3.20%	3.28%	5.71%
<b>ALL INVESTMENTS</b>	<b>8.82%</b>	<b>7.02%</b>	<b>11.98%</b>

10.5 The treasury management investment returns above reflects the increase in interest rates that are expected to continue in the short term. The loan return is anticipated to increase from 2023/24 as new loans are provided to Equinox Enterprises Limited and Equinox Property Holdings, but the full effect of this will not be seen until after 2024/25. No dividends are due to be paid by any of the Council's subsidiaries in either 2023/24 or 2024/25.

Table 8: Other investment indicators

Indicator	2022/23 Actual	2023/24 Forecast	2024/25 Forecast
Debt to net service expenditure ratio	2.23%	4.29%	4.39%
Commercial income to net service expenditure ratio	46.18%	33.00%	35.28%



# Treasury Management Strategy Statement 2024/25

<b>Author</b>	<b>Finance</b>
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## Treasury Management Strategy Statement 2024/25

### 1. INTRODUCTION

- 1.1 Treasury management is the management of the Council’s cash flows, borrowing and investments, and the associated risks. The Council has borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council’s prudent financial management.
- 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 Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy: <https://great-yarmouth.gov.uk/policies>

### 2. CURRENT POSITION AND PROJECTION

- 2.1 On 31st December 2023, the Council held £122.5m of borrowing and £15.9m of treasury investments. Table 1 below provides a summary of the Council’s treasury portfolio as at the end of December 2023.

<b>Table 1 - Existing Investment &amp; Debt Portfolio Position</b>	<b>31/12/2023 Actual portfolio £m</b>	<b>31/12/2023 Average rate %</b>
<b>External borrowing:</b>		
Public Works Loan Board	£71.386	3.15-3.40%
Local authorities (long-term)	£1.026	4.44%
Local authorities (short-term)	£40.100	4.22-5.70%
LOBO loans from banks	£3.000	4.95%
Other loans	£7.000	3.35-3.98%
<b>Total external borrowing</b>	<b>£122.512</b>	
<b>Treasury investments:</b>		
Local authorities	£9.000	0.30-0.40%
Banks (unsecured)	£0.600	0.35%
Money market funds	£5.265	5.29-5.30%
Strategic pooled	£1.000	3.74%
<b>Total treasury investments</b>	<b>£15.865</b>	
<b>Net debt</b>	<b>£106.647</b>	

2.2 Future borrowing is shown below in the balance sheet analysis in table 2. The forecast changes in these sums have been informed by future housing revenue account and the general fund capital programmes and are detailed in the Capital Strategy.

<b>Table 2: Balance sheet summary and forecast</b>	<b>31.3.23 Actual £m</b>	<b>31.3.24 Estimate £m</b>	<b>31.3.25 Forecast £m</b>	<b>31.3.26 Forecast £m</b>	<b>31.3.27 Forecast £m</b>
General Fund CFR	£76.422	£81.948	£97.352	£110.539	£110.614
HRA CFR	£91.306	£94.507	£98.955	£102.976	£107.840
<b>Total CFR</b>	<b>£167.728</b>	<b>£176.455</b>	<b>£196.307</b>	<b>£213.515</b>	<b>£218.545</b>
Less: Other debt liabilities *	(£0.676)	(£0.531)	(£0.404)	(£0.273)	(£0.228)
<b>Loans CFR</b>	<b>£167.052</b>	<b>£175.924</b>	<b>£195.903</b>	<b>£213.242</b>	<b>£218.226</b>
Less: External borrowing **	(£121.486)	(£118.386)	£82.282	£82.173	£82.059
<b>Internal (over) borrowing</b>	<b>£45.566</b>	<b>£57.538</b>	<b>£113.621</b>	<b>£131.069</b>	<b>£136.167</b>
Less: Balance sheet resources	(£45.733)	(£31.727)	(£25.176)	(£18.320)	(£11.541)
<b>(Treasury investments) /or New borrowing</b>	<b>(£0.167)</b>	<b>£25.811</b>	<b>£88.445</b>	<b>£112.749</b>	<b>£124.626</b>

\* leases liabilities that form part of the Council's total debt

\*\* shows only loans to which the Council is committed and excludes optional refinancing

2.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.4 The Council has an increasing CFR due to the timings of the approved capital programme, but minimal investments and will therefore be required to borrow up to an additional £124.6m over the forecast period.

2.5 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 2 shows that the Council expects to comply with this recommendation during 2024/25, and Appendix C illustrates the Operational Boundary and Authorised Limits.

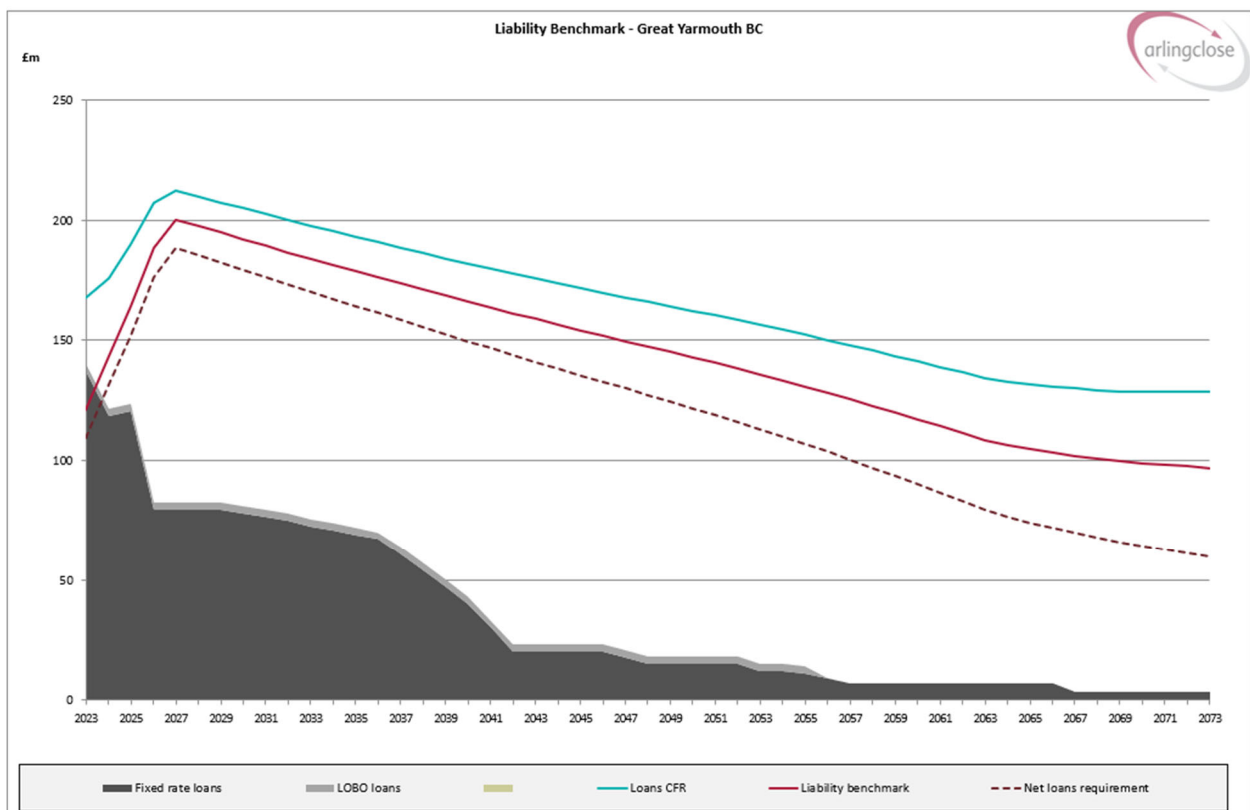
2.6 **Liability benchmark:** To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 2 above, but that cash and investment balances are kept to a minimum level of £12m at each year-end to maintain sufficient liquidity but minimise credit risk.

2.7 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

<b>Table 3: Prudential Indicator Liability benchmark</b>	<b>31.3.23 Actual £m</b>	<b>31.3.24 Estimate £m</b>	<b>31.3.25 Forecast £m</b>	<b>31.3.26 Forecast £m</b>	<b>31.3.27 Forecast £m</b>
Loans/CFR*	£167.052	£175.924	£195.903	£213.242	£218.226
External Borrowing	(£121.486)	(£118.386)	(£82.282)	(£82.173)	(£82.059)
Less: Balance sheet resources (including working capital)	(£45.733)	(£31.727)	(£25.176)	(£18.320)	(£11.541)
<b>Investments (New Borrowing)</b>	<b>(£0.167)</b>	<b>£25.811</b>	<b>£88.445</b>	<b>£112.749</b>	<b>£124.626</b>
Plus: Liquidity allowance	£12.000	£12.000	£12.000	£12.000	£12.000
<b>Liability benchmark</b>	<b>£11.833</b>	<b>£37.811</b>	<b>£100.445</b>	<b>£124.749</b>	<b>£136.626</b>

\*CFR above includes adjustments for long term liabilities.

2.8 Following on from the medium-term forecasts in table 3 above, the long-term liability benchmark assumes capital expenditure funded by borrowing in line with the current forecast capital programme, minimum revenue provision and income, expenditure and reserves all in line with the 2024/25 budget and forecasts. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing:



2.9 The chart above allows a comparison of current borrowing against the need to borrow, looking at both the amount (on the y axis) and the term (on the x axis). Where actual loans exceed the liability benchmark, the authority can make long-term investments for cash flow management or repay loans early; where the liability benchmark exceeds loans, the authority can take long-term borrowing or sell investments.

### **3 Borrowing Strategy**

- 3.1 The Council currently holds £122.5 million of loans (table 1), an increase of £20 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 2 shows that the Council expects to borrow up to £88.4m in 2024/25 if it used all of its internal resources (i.e. usable reserves and working capital shown in table 2). This net borrowing requirement will rise by £24.3m to £112.7m by 2025/26.
- 3.2 **Objectives:** The Council's chief 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.
- 3.3 **Strategy:** Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.
- 3.4 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.
- 3.5 The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.
- 3.6 Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
- 3.7 In addition, the Council may borrow further short-term loans to cover unplanned cash flow shortages.
- 3.8 Sources of borrowing: The approved sources of long-term and short-term borrowing are:
- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
  - UK Infrastructure Bank Ltd
  - any institution approved for investments (see below)
  - any other bank or building society authorised to operate in the UK
  - any other UK public sector body
  - UK public and private sector pension funds (except Norfolk Pension Fund)
  - capital market bond investors
  - UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- 3.9 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:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback
- similar asset based finance

3.10 **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 local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; 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 Council.

3.11 **LOBOs:** The Council holds £3m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost and with interest rates having risen recently, there is now a reasonable chance that lenders will exercise their options. If they do, the Council will take the option to repay LOBO loans to reduce refinancing risk in later years. The next date for this option is 2 November 2024.

3.12 **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.

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

#### 4 **TREASURY INVESTMENT STRATEGY**

4.1 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance average has been £16m, and similar levels are expected to be maintained in the forthcoming year.

4.2 **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.

- 4.3 **Strategy:** As demonstrated by the liability benchmark above, 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.
- 4.4 **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 Authority'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.
- 4.5 **Business models:** Under the new 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 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.
- 4.6 **Approved Counterparties:** The Council may invest its surplus funds with any of the counterparty types in table 4 below, subject to the limits shown.

<b>Table 4: Treasury investment counterparties and limits</b>			
<b>Sector</b>	<b>Time Limit</b>	<b>Counterparty limit</b>	<b>Sector limit</b>
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	2 years	£3m (per Council)	Unlimited
Secured investments *	5 years	£3m	Unlimited
Banks (unsecured) *	1 year	£1.6m	Unlimited
Building societies (unsecured) *	1 year	£1.5m	£1.5m
Registered providers (unsecured) *	5 years	£1.5m	£3m
Money market funds *	n/a	£5m	Unlimited
Strategic pooled funds	n/a	£3m	£6m
Other investments *	2 years	£1m	£2m

This table must be read in conjunction with the notes below

*\* 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 taken into account.*

*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 £1.5m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.*

- 4.7 **Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.
- 4.8 **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 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.
- 4.9 **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.
- 4.10 **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.
- 4.11 **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.
- 4.12 **Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the 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 are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
- 4.13 **Other investments:** This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.
- 4.14 **Operational bank accounts:** The Council may incur operational exposures, for example through 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 as low as possible without affecting operations. 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.

- 4.15 **Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Council’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:
- no new investments will be made,
  - any existing investments that can be recalled or sold at no cost will be, and
  - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 4.16 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.
- 4.17 The Council 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 Council’s treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 4.18 **Reputational aspects:** The Council 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.
- 4.18 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 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.
- 4.19 **Investment limits:** The Council’s revenue reserves available to cover investment losses are forecast to be £15 million on 31<sup>st</sup> March 2024 and £9 million on 31<sup>st</sup> March 2025. In order to reduce the risk of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £3 million, other than Money Market Funds which the limit set is £5 million, strategic pooled funds which the limit per fund is £3 million and for UK central government where there is no limit. A group of entities under the same ownership will be treated as a single organisation for limit purposes.
- 4.20 Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £1.5 million in operational bank accounts count against the relevant investment limits, allowing £100,000 retained for operational purposes.



- 4.21 Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries 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.

<b>Table 5: Additional investment limits</b>	<b>Cash limit</b>
Any group of pooled funds under the same management	£8m per manager
Negotiable instruments held in a broker's nominee account	£5m per broker
Foreign countries	£1.5m per country

- 4.22 **Cash Flow/Liquidity management:** The Council's officers maintain a detailed cash flow forecast for each coming year revising it as more information becomes available. This informs the short-term investments such as those to pay precept payments. The forecast is compiled on a prudent basis with receipts being under-estimated and payments over-estimated to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. The long-term investment strategy is based on the Council's medium term strategy.
- 4.23 The Council will spread its liquid cash over at least three providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

## 5 Treasury Management Prudential Indicators

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

5.2 **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 £000
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£200
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	(£200)

5.3 The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

5.4 **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	As at 31/12/23
Under 12 months	50%	0%	35%
12 months and within 24 months	50%	0%	0%
24 months and within 5 years	60%	0%	0%
5 years and within 10 years	80%	0%	7%
10 years and above	100%	0%	57%

5.5 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.

5.6 **Long-term treasury management investments:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2024/25	2025/26	2026/27	No fixed date
Limit on principal invested beyond year end	£6m	£6m	£6m	£1m

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

## 6. OTHER TREASURY MANAGEMENT ISSUES

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

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

6.3 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 Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting 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.

- 6.4 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.
- 6.5 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.
- 6.6 **Housing Revenue Account:** The policy on apportioning interest for HRA - on 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. Annually a calculation is performed to allocate interest between the General Fund and HRA.
- 6.7 **Markets in Financial Instruments Directive (MiFID II):** 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 with the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

## 7. Financial Implications

- 7.1 The budget for treasury investment income in 2024/25 is £775k based on an average investment portfolio of £16m. The majority of which is invested in low risk short term investments with interest rates between 0.30%-5.30%. A further £1m is invested in a long-term pooled investment fund where the value changes with market prices and have a notice period. The budget for debt interest paid for the General Fund is £2.012m and HRA is £4.175m in 2024/25. Actual levels of investments and borrowing, and actual interest rates are monitored during the year as part of the budget monitoring process.
- 7.2 **Other Options Considered** - The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Section 151 Officer believes that the strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses 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

Alternative	Impact on income and expenditure	Impact on risk management
		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

## **Appendix A**

### **Economic background and interest rate forecast**

The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, will be major influences on the Authority's treasury management strategy for 2024/25.

The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level for the rest of 2023, members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

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

Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

ONS figures showed the UK economy grew by 0.1% between July and September 2023. The BoE forecasts GDP will likely stagnate through 2024. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

The labour market appears to be loosening, but only very slowly. The unemployment rate rose slightly to 4.2% between June and August 2023, from 4.0% in the previous 3-month period, but the lack of consistency in the data between the two periods made comparisons difficult. Earnings growth remained strong, but has showed some signs of easing; regular pay (excluding bonuses) was up 7.3% over the period and total pay (including bonuses) up 7.2%. Adjusted for inflation, regular pay was 1.4% and total pay 1.3%. Looking forward, the MPR showed the unemployment rate is expected to be around 4.25% in the second half of calendar 2023, but then rising steadily over the forecast horizon to around 5% in late 2025/early 2026.

Having increased its key interest rate to a target range of 5.25-5.50% in August 2023, in August 2023, the US Federal Reserve appears now to have concluded the hiking cycle. It is likely this level represents the peak in US rates following a more dovish meeting outcome in December 2023. US GDP grew at an annualised rate of 4.9% between July and September 2023, ahead of expectations for a 4.3% expansion and the 2.1% reading for Q2. But the impact from higher rates has started to feed into economic activity and growth will weaken in 2024. Annual CPI inflation was 3.1% in November.

Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.4% in November 2023. Economic growth has been weak and GDP contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has increased rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

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

On an annual basis, CDS price volatility has so far been lower in 2023 compared to 2022, but this year has seen more of a divergence in prices between ringfenced (retail) and non-ringfenced (investment) banking entities once again.

Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

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

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

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

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

Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

A more detailed economic and interest rate forecast provided by Arlingclose is in Appendix B.

## **Appendix B**

### **Arlingclose Economic & Interest Rate Forecast – November 2023**

#### **Underlying assumptions:**

- UK inflation and wage growth remain elevated but, following a no-change MPC decision in November, Bank Rate appears to have peaked in this rate cycle. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy likely slides into recession and inflation falls more quickly.
- The much-repeated message from the MPC is that monetary policy will remain tight as inflation is expected to moderate to target slowly. In the Bank's forecast, wage and services inflation, in particular, will keep CPI above the 2% target until 2026.
- The UK economy has so far been relatively resilient, but recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will remain soft, offering little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.
- Employment demand is easing, although the tight labour market has resulted in higher nominal wage growth. Anecdotal evidence suggests slowing recruitment and pay growth, and we expect unemployment to rise further. As unemployment rises and interest rates remain high, consumer sentiment will deteriorate. Household spending will therefore be weak. Higher interest rates will also weigh on business investment and spending.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant policy loosening in the future to boost activity.
- Global bond yields will remain volatile, particularly with the focus on US economic data and its monetary and fiscal policy. Like the BoE, the Federal Reserve and other central banks see persistently high policy rates through 2023 and 2024 as key to dampening domestic inflationary pressure. Bond markets will need to absorb significant new supply, particularly from the US government.
- There is a heightened risk of geo-political events causing substantial volatility in yields.

#### **Forecast:**

- The MPC held Bank Rate at 5.25% in November. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate remain on the upside, but these diminish over the next few quarters and shift to the downside before balancing out, due to the weakening UK economy and dampening effects on inflation.
- Arlingclose expects long-term gilt yields to eventually fall from current levels (amid continued volatility) reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply.

	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
<b>Official Bank Rate</b>													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>3-month money market rate</b>													
Upside risk	0.00	0.25	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.40	5.40	5.40	5.30	5.15	4.80	4.30	4.10	3.80	3.50	3.25	3.05	3.05
Downside risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>5yr gilt yield</b>													
Upside risk	0.00	0.50	0.70	0.70	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.28	4.35	4.30	4.25	4.10	4.00	3.75	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>10yr gilt yield</b>													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.32	4.40	4.35	4.30	4.25	4.15	4.00	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>20yr gilt yield</b>													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.78	4.70	4.65	4.55	4.45	4.35	4.25	4.25	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
<b>50yr gilt yield</b>													
Upside risk	0.00	0.50	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20
Central Case	4.38	4.30	4.25	4.20	4.15	4.15	4.10	4.10	4.10	4.10	4.10	4.10	4.10
Downside risk	0.00	-0.55	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

PWLB Standard Rate = Gilt yield + 1.00%

PWLB Certainty Rate = Gilt yield + 0.80%

PWLB HRA Rate = Gilt yield + 0.40%

UK Infrastructure Bank Rate = Gilt yield + 0.40%



## Appendix C

### Operational Boundary and Authorised limits

Operational boundary	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Debt	£171.728	£180.455	£200.307	£217.515
Other long-term liabilities	£2.000	£2.000	£2.000	£2.000
<b>Total</b>	<b>£173.728</b>	<b>£182.455</b>	<b>£202.307</b>	<b>£219.515</b>

Authorised limit	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Debt	£174.728	£183.455	£203.307	£220.515
Other long-term liabilities	£2.000	£2.000	£2.000	£2.000
<b>Total</b>	<b>£176.728</b>	<b>£185.455</b>	<b>£205.307</b>	<b>£222.515</b>