

# **ANNUAL TREASURY MANAGEMENT STRATEGY STATEMENT** **2024/25**

## **(INCLUDING ANNUAL INVESTMENT STRATEGY 2024/25,** **PRUDENTIAL INDICATORS AND MINIMUM REVENUE PROVISION** **POLICY STATEMENT)**

### **1. INTRODUCTION**

1.1. Westmorland & Furness Council (“the Council”) is required by statute to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. The primary function of the Treasury section within the Finance team, is to manage the cash flow planning (both in the short and longer term) to ensure that the Council can meet its revenue and capital spending obligations. In terms of capital spending, this may involve arranging long or short term loans (i.e. borrowing), or using longer term cash balances, in lieu of external borrowing. Finance must:

- ensure the Council’s short term cash reserves are securely held (i.e. security of principal);
- ensure appropriate levels of cash are available to manage day to day payments (i.e. liquidity); and
- after both the above have been considered to maximise investment returns (i.e. income generation).

1.2. The Council follows the requirements of the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice for Treasury Management in Public Services (the CIPFA TM Code) and the Prudential Code for the management of its Treasury functions. CIPFA defines treasury management as:

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

1.3. The Treasury Management Strategy Statement (“TMSS”) for the year 2024/25 is the first document for the Council to approve since 1 April 2023, following local government reorganisation and consolidation of the four sovereign Councils that preceded Westmorland & Furness Council.

1.4. The CIPFA Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes – treasury management, service delivery, and commercial return. Risks on investments held for commercial return (primarily for financial return with no treasury management or direct service provision purpose) should be proportionate to an authority’s financial capacity – i.e. ‘plausible losses’ could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

- 1.5. The CIPFA TM Code and Prudential Code require that local authorities determine their Treasury Strategy and Prudential Indicators on an annual basis in advance of the new financial year. To ensure compliance with this requirement, this paper sets out the draft Treasury Strategy for operations during 2023/24 for consideration by Council. The report is separated into four sections:-

**Treasury Management Strategy (Section 2)** – This details the estimated value and rates at which borrowing may be undertaken to finance current and future capital spend. The main objective is to manage risk effectively while minimising interest costs. The value of the Capital Programme and how it is financed i.e. long term borrowing; revenue financing; grants; etc. is therefore intrinsically linked. As such borrowing strategies are dependent on the decisions made about the revenue and capital budgets and the two should be considered together.

**Annual Investment Strategy (Section 3)** – The Annual Investment Strategy sets out the policies which govern the management of the Council's investments. The Council's investment strategy is risk averse with security and liquidity of cash assets taking precedence over returns. To do this the Council uses a prescriptive list of counterparties with whom new investments can be placed. Money is placed across a range of the highest rated counterparties possible to maximise security.

**Capital Plans and Prudential Indicators (Section 4)** – The Local Government Act 2003 includes the requirement that Local Authorities have regard to the Prudential Code (the Code). The Code requires the Council to assess its capital investment plans and ensure they are affordable, prudent and sustainable. This must be substantiated by the production of a range of prudential indicators, which cover capital investment and treasury management plans for the forthcoming three years.

**Minimum Revenue Provision (MRP) Policy Statement (Section 5)** – This sets out how the Council will pay for the financing of capital assets by way of an annual charge to the revenue budget, hence the reason that approval of the annual budget must be considered in tandem to the Treasury Management Strategy and MRP Policy Statement.

- 1.6. In addition to the above, the Prudential Code requires that authorities have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes. This is being drafted and will be published separately. This TMSS deals solely with treasury management investments, the categories of service delivery and commercial investments ('non-treasury' investments) would be addressed as part of the Capital Strategy report.

## 2 TREASURY MANAGEMENT STRATEGY FOR 2024/25

2.1 The Treasury Strategy for 2024/25 covers the current debt and investment portfolios, interest rates, the borrowing strategy/policy and rescheduling, training, use of specialist advisors, and reporting.

### 2.2 Current Debt and Investment Portfolio

2.2.1 The following table details the Council's long term borrowing and investments as at 31 December 2023:

External borrowing and investments	Principal (at 31 Dec '23) £m	Average Interest Rate %	Average Life Years	Principal (as at 1 April 2023) £m	Average Interest Rate %	Average Life Years
Total External Borrowing	187.3	3.72	24.1	192.3	3.84	24.9
Total Treasury Investments	127.7	5.49	< 1 year	159.5	3.68	< 1 year
Net Debt	59.6			32.8		

2.2.2 Council borrowing is primarily sourced from the Public Works Loan Board (PWLB) at fixed rates determined at the time the borrowing was undertaken, and £13m taken from the Money Market. Annex A provides a graphical analysis and full list of the Council's debt portfolio, including the maturity profile and rates of interest.

2.2.3 Treasury activity and planning over recent years (including within the sovereign Councils) has provided a stable debt portfolio. This stability allows Westmorland & Furness Council to maintain an under-borrowed position, using temporary cash balances, instead of externalising borrowing. This policy will help reduce the interest cost of funding the capital programme whilst also reducing counterparty risk. An increased level of internal borrowing does however bring additional interest rate risk.

### 2.3 Prospects for Interest Rates

2.3.1 The Council has contracted with Link Group for the provision of treasury management advisory services. Link Group has provided the following forecast of future Bank Rate and PWLB borrowing rates as at 2 February 2024.

Interest Rate Forecasts								
Bank Rate	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Link	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%	3.00%
Cap Econ	5.25%	5.00%	4.50%	4.00%	3.50%	3.00%	3.00%	3.00%
<b>5Y PWLB RATE</b>								
Link	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.80%	3.70%
Cap Econ	4.50%	4.30%	4.20%	4.00%	3.90%	3.80%	3.80%	3.70%
<b>10Y PWLB RATE</b>								
Link	4.70%	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.90%
Cap Econ	4.50%	4.40%	4.20%	4.10%	4.10%	4.10%	4.10%	4.10%
<b>25Y PWLB RATE</b>								
Link	5.20%	5.10%	4.90%	4.80%	4.60%	4.40%	4.30%	4.20%
Cap Econ	5.10%	4.80%	4.60%	4.30%	4.40%	4.40%	4.50%	4.60%
<b>50Y PWLB RATE</b>								
Link	5.00%	4.90%	4.70%	4.60%	4.40%	4.20%	4.10%	4.00%
Cap Econ	4.70%	4.60%	4.50%	4.30%	4.30%	4.30%	4.40%	4.40%

2.3.2 The Monetary Policy Committee (MPC) raised the Bank Rate steadily to the current rate (as at 2 February 2024) of 5.25%. Link Group expect the MPC will keep the Bank Rate at 5.25% until later in 2024 to demonstrate its anti-inflation credentials, with rate cuts only starting when both the CPI inflation and wage/employment data are supportive of such a move. Link Group forecast that the Bank Rate will reduce to 3.75% by March 2025.

2.3.3 The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- In a decreasing interest rate environment, overall investment returns in 2024/25 are difficult to forecast, furthermore actual returns will be dependent upon the levels of cash available for investment;
- The policy of delaying new borrowing by running down available cash balances served some of the sovereign Councils well over the last few years. Whilst Westmorland & Furness Council will continue with this approach whilst available cash balances allow, this will be carefully monitored to avoid incurring higher borrowing costs, as in the future the Council will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt; and
- There can be a 'cost of carry' to new borrowing which causes an increase in the net interest budget, (i.e. incurring a short term revenue cost due to borrowing costs currently being higher than investment returns). As such the proposed strategy continues the measured approach to balancing this short term saving against forecast longer term costs, but with a continual review of the underlying interest rates.

## **2.4 Borrowing Strategy**

2.4.1 The Prudential Code only permits the Council to borrow in the long term to finance capital spend. In accordance with this the borrowing strategy details the Council's approach to funding the expected need detailed in the Capital Programme. The Treasury Management function ensures that the Council's cash is managed in accordance with the relevant professional codes and to ensure that sufficient cash is available to fund those plans. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

2.4.2 The Capital Programme 2024/25, which will be approved by full Council in March 2024 and reviewed quarterly by Cabinet, is set out in a separate appendix to the Medium Term Financial Strategy report.

2.4.3 The Council's prudent borrowing strategy has been influenced by the relationship between long and short-term interest rates. Whilst long term borrowing rates are expected to fall slowly, they are still higher than long term investment rates. This variance creates a 'cost of carry' for any new borrowing, if the cash borrowed is then temporarily held as investments.

2.4.4 This 'cost of carry' has effectively driven the borrowing strategy over the past decade during which the Council has maintained an under-borrowed position (i.e. rather than borrowing externally, the Council borrowed internally using

short term cash balances). It is projected that as at 31 March 2024 c. £73.4m of cash balances will be used in lieu of external borrowing.

- 2.4.5 The Council has loans of £6.0m maturing during 2023/24 (£5m matured in November 2023, £1m will mature in March 2024) which are not expected to be replaced with new borrowing. Looking ahead, a loan of £1.0m is due to mature during 2024/25. Consideration will be given as to the affordability of refinancing these loans if interest rates are favourable and the most effective means by which to arrange this borrowing.
- 2.4.6 The Director of Resources (Section 151 Officer) has delegated responsibility within the Constitution for the execution and administration of treasury management decisions including all borrowing, investment or financing decisions, including the use of short-term borrowing as a management tool for cash flow purposes. In accordance with this, the Director of Resources (Section 151 Officer) will continue to monitor this position and may decide to further externalise some of this requirement if it is felt that there are increasing risks relative to budgetary exposure. Aside from rising interest rates another key factor will be the expected use of cash over this period, i.e. predominantly the use of reserves.
- 2.4.7 Holding prudent levels of internal borrowing as proposed above, but keeping this and the market rates of interest under review, will enable the Council to continue to take tactical borrowing decisions by entering into long term loans when rates are comparatively low rather than being forced to refinance the borrowing when interest rates are at a higher rate.
- 2.4.8 Under normal circumstances the main sensitivities of the interest rate forecast are likely to be the two scenarios noted below. Officers will continually monitor market conditions and forecast rates in conjunction with the Council's advisors and:
- *if it was felt that there was a significant risk of a sharp **FALL** in long and short term rates, e.g. due to a marked increase of risks around relapse into recession or of risks of deflation, then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.*
  - *if it was felt that there was a significant risk of a much sharper **RISE** in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate borrowing will be taken whilst interest rates were still relatively cheap.*
- 2.4.9 In view of these factors in 2024/25 the Council will implement a strategy of using cash balances for internal borrowing whilst possible, but to also take tactical decisions to take external borrowing where considered appropriate in order to protect against rising interest rates in the future and as required for cash flow purposes. Such decisions are delegated in the Constitution to the Director of Resources (Section 151 Officer) who will approve new borrowing in consultation with the Council's external Treasury Management advisor. Any

new long term borrowing will be reported through quarterly reporting to the Cabinet as per the Medium Term Financial Plan.

2.4.10 As noted above, the ability to defer borrowing in this way is also limited by the actual use of reserves and balances (i.e. available cash). During 2024/25, this will be monitored against forecast levels on a regular basis.

2.4.11 In 2020, the Chancellor announced the current fixed margin (80 basis points) for PWLB borrowing rates above the Government's cost of borrowing, as measured by gilt yields. At the same time, a prohibition was introduced to deny access to borrowing from the PWLB for any local authority purchasing assets purely for yield (i.e. commercial projects, particularly property investment). The Council's Strategy confirms that future borrowing will continue to be undertaken in accordance with the Prudential Code.

2.4.12 The table in para 2.3.1 above sets out the current forecast rates for borrowing from the PWLB, and these are summarised in the table below. Should economic conditions lead to an expectation that borrowing rates will rise, then the Council will consider the affordability of externalising borrowing at that time.

	<b>Current</b> (02.02.24)	<b>2024/25</b> (Sep'24)	<b>2025/26</b> (Sep'25)	<b>2026/27</b> (Sep'26)
10 years	4.64%	4.40%	4.00%	3.70%
25 years	5.23%	4.90%	4.30%	4.10%
50 years	5.02%	4.70%	4.10%	3.90%

## 2.5 Policy on Borrowing in Advance of Need

2.5.1 As is the requirement under the Code, the Council will not borrow in advance of need simply to benefit from earning more interest on investing the cash than is being paid on the loan. Any decision to borrow in advance will be within the approved Capital Finance Requirement estimates and then only if value for money can be demonstrated and the cash can be invested securely until it is required.

2.5.2 In determining whether borrowing will be taken in advance of need the Council will;

- ensure that there is a clear link between the capital programme and maturity profile of existing debt which supports taking financing in advance of need;
- ensure that the ongoing revenue implications of the borrowing, and the impact on future plans and budgets have been considered;
- evaluate the economic and market factors which might influence the manner and timing of any decision to borrow;
- consider the merits (or otherwise) of other forms of funding; and
- consider the impact borrowing could have on investment balances if it results in increased exposure to counterparty risk.

## 2.6 Debt Rescheduling

2.6.1 As it is anticipated that short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from existing long term debt to short term debt.

However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

- 2.6.2 The reasons for any rescheduling of existing debt to take place will include:
- the generation of cash savings and / or discounted cash flow savings;
  - helping to fulfil the treasury strategy; and
  - to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).
- 2.6.3 The rescheduling options currently available are not considered viable within the current market conditions, but the situation will be kept under constant review.

## **2.7 Training**

- 2.7.1 The Director of Resources (Section 151 Officer) ensures that any Officer involved in the operation of the Treasury Management function, receives appropriate training relevant to their needs to ensure they fully understand their roles and responsibilities. Treasury staff will continue to attend regular courses and seminars provided by its Treasury advisors and CIPFA, and other ad hoc events including treasury software supplier forums.
- 2.7.2 In addition the Director of Resources (Section 151 Officer) ensures that elected Members who have responsibility for scrutinising the Treasury Management Strategy Statement have access to training to give them the appropriate skills to undertake this task.
- 2.7.3 To comply with requirements of the CIPFA Treasury Management Code, the Council will monitor and review knowledge and skills of treasury management officers and elected Members, and record attendance at training.

## **2.8 Treasury management advisors**

- 2.8.1 The Council recognises that there is value in employing external providers of treasury management advisors in order to acquire access to specialist skills and has commissioned Link Group in that role. However, the Council recognises that responsibility for treasury management decisions remains with the Council at all times.

## **2.9 Reporting Arrangements**

- 2.9.1 The Council follows the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management which lays down reporting requirements to ensure best practice. The minimum reporting requirements are for three main reports, which incorporate a variety of policies, estimates and actuals as follows:
- An annual Treasury Strategy in advance of the new financial year – **(this report)** which covers the annual Treasury and Investment Strategies, the Treasury and Capital Prudential Indicators and the Minimum Revenue Provision Policy Statement.

- A mid-year Strategy Review – This will update Members with the progress of the capital programme, amending prudential indicators as necessary, and will discuss whether the Treasury Strategy is still appropriate or requires revision.
- An annual review following the end of the year comparing actual activity to the strategy.

2.9.2 In addition to the minimum criteria set by CIPFA, the Cabinet will receive regular treasury management activity reports within the quarterly revenue monitoring reports.

### **3 ANNUAL INVESTMENT STRATEGY**

3.1 The Investment Strategy for 2024/25 covers the investment policy, creditworthiness policy and counterparty selection/limits, interest rates, and reporting.

#### **3.2 The Investment Policy**

3.2.1 The Council acts with regard to the Department for Levelling up, Housing and Communities' ("DLUHC") Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

3.2.2 In accordance with guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

3.2.3 In accordance with the Markets in Financial Instrument Directive II (MiFID II), all local authorities must be classified by financial institutions as a 'retail client' unless they are 'opted up' by firms to an 'elective professional client' status. Being a 'retail client' would result in the Council not being able to access the investment opportunities that it currently uses to implement the Treasury Management Strategy as approved annually by Council. To ensure the Council can continue to deliver on this strategy, the appropriate financial institutions have opted up the Council to elective professional client status. This approach is consistent with other local authorities with similar Treasury Management strategies. It should be noted that this European Directive remains in force following the UK's departure from the European Union.

#### **3.3 Creditworthiness Policy and Counterparty Selection**

3.3.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and



- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- 3.3.2 As with previous practice, credit ratings will not be the sole determinant of the quality of an institution and it is important to continually assess and monitor the financial sector in relation to the economic environments in which institutions operate. This total assessment will also take account of information that reflects the opinion of the markets. To this end the Council will continue to engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
- 3.3.3 Other information sources used will include, but not be limited to the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- 3.3.4 As at December 2023, the access to and availability of information regarding environmental, social, and governance (ESG) aspects within organisations is a fast developing area. This is one of the additional sources of information that will be used as part of the robust scrutiny process on potential counterparties for new investments, as it is important to the Council to avoid the reputational risk and adverse publicity resulting from poor governance. Should two investment options satisfy the security, liquidity and return requirements, and score the same for current creditworthiness, then the option showing the better reputational and / or environmental, social and governance scoring (if available) will be chosen.
- 3.3.5 The end product is a series of credit bands (provided by the Council's independent external advisors) which indicate the relative creditworthiness of counterparties. These bands are used by the Council to determine the recommended counterparty list, which includes limits on both period of investment and maximum value of deposits. These are detailed at 3.8.
- 3.3.6 Rating changes, rating watches (notification of a likely change), and rating outlooks (notification of a possible longer term change) are provided by the advisors as they occur and this information is always considered before dealing.
- 3.3.7 If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use for new investments will be suspended immediately. A risk assessment of the portfolio will immediately be undertaken, to consider other investments placed with the counterparty, to determine the necessity to request their immediate repayment, if possible.
- 3.3.8 The primary focus of the Investment Policy is to provide security of investments and to minimise risk. Investment instruments identified for use in the financial year are listed in 3.7 under the 'specified' and 'non-specified' investments categories.

### 3.4 Country, Group and Sector limits

3.4.1 Due care will be taken to consider the country, group and sector exposure of the Council's investments. In addition:

- Country limits:
  - where the country of registration of an institution has an average credit rating (i.e. an average sovereign credit rating) equal to, or better than that of the UK; it will enable the Council to consider the placement of investments on the same basis applied for UK-registered institutions (i.e. subject to the overarching counterparty criteria as set out at 3.7 and 3.8 below (Specified Investments, Non-Specified Investments and Counterparty Criteria); and
  - where an institution meets the approved counterparty status\* but the country of registration has an average credit rating below that of the UK; limit such investments in total to such rated non-UK countries to be no more than 20% or £20m (whichever is the lesser) of the portfolio.  
\* i.e. it meets the overarching counterparty criteria as set out at 3.7 and 3.8 below (Specified Investments, Non-Specified Investments and Counterparty Criteria).
- No more than 20% will be placed with any company or group of companies (subject to the overarching requirement with regards to credit ratings as set out at 3.7 and 3.8 below (Specified Investments, Non-Specified Investments and Counterparty Criteria)), and
- Sector limits will be monitored regularly for appropriateness.

### 3.5 Investment Strategy

3.5.1 Investments will be made with reference to the core cash balance and cash flow requirements and the outlook for short-term interest rates.

3.5.2 **Interest rate outlook:** The Bank Rate is currently at 5.25%. Link Group, the Council's external Treasury Advisor, is forecasting the rate to reduce during 2024/25. At March year-ends the interest rates (as at 2 February 2024) are forecast to be:-

- March 2024            5.25%
- March 2025            3.75%
- March 2026            3.00%

3.5.3 It should be noted that these are forecast rates and actual interest rates may differ from these projections. Should interest rates increase sooner than projected, the Council would receive better rates of return on its investments but the rate of new borrowing may also increase. Conversely, should interest rates fall or future forecast increases not materialise, the return on investments will reduce but the cost of borrowing may reduce (or remain low for longer).

3.5.4 The Council's average investment rate as at 31 December 2023 is 5.49%. The bank rate (base rate), currently 5.25%, is the key determinant as to the expected rate of return for the investment portfolio. It is expected that the bank rate will **average** in coming years as follows;

- 2024/25            4.55%
- 2025/26            3.10%
- 2026/27            3.00%

3.5.5 In an economic period where bank rates are decreasing, the average yield on investments received will decrease over time as deals mature. If bank rates are expected to rise, the reverse is true, and investment returns may increase, assuming cash balances remain sufficiently high to ensure opportunities for longer term investments.

3.5.6 To assess the performance of the investment portfolio in 2024/25, the Council will use the 7 day Sterling Overnight Index Average (SONIA) rate (compounded, backward-looking).

### 3.6 End of year Investment report

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

### 3.7 Investment instruments – Specified / Non-specified Investments

3.7.1 Specified investments: (All such investments will be sterling denominated, with maturities, meeting the minimum ‘high’ rating criteria where applicable).

	<b>Minimum allowable Credit Criteria</b>	<b>Use</b>
Debt Management Agency Deposit Facility – UK Government	N/A (Government Backed)	In-house. Max period 6 months.
UK Government Gilts	UK sovereign rating	In-house buy and hold. Max period 5 years.
UK Government Treasury Bills	UK sovereign rating	In-house buy and hold. Max period 5 years.
Gilt Funds	UK sovereign rating	In-house. Liquid.
Deposits - local authorities	High level of security	In-house. Max period of 5 years.
UK Part nationalised Banks (the ‘ring-fenced’ entity)	Advisor blue category	In house. Maturity per counterparty matrix.
Term deposits – banks and building societies	Advisor green category	In-house. Maturity per counterparty matrix.
Certificates of deposit issued by rated banks and building societies	Advisor green category	In-house. Maturity per counterparty matrix.
Bonds issued by multilateral development banks	AAA	In-house buy and hold. Max period 6 months.
Low Volatility Net Asset Value Money Market Funds (formerly called Money Market Funds)	AAA Credit score of 1	In-house – liquid
Ultra-Short-Dated Bond Funds (formerly called Enhanced Money Market Funds)	AAA Credit score of 1.5	In-house – liquid

3.7.2 Non-specified Treasury investments: These are any investments which do not meet the specified requirements above.

Non-specified Treasury investments have a maximum of £20m in aggregate and include an approved property fund and other approved investment funds as listed below:

Investment Fund	Limit	Use
Approved Local Authority Property Fund (CCLA)	Maximum of 50% of total investments; No maximum maturity period	As determined by S151 Officer
Approved Diversified Income Fund (CCLA)		

Other non-specified investments may include:

1. All specified investments with maturity periods in excess of 1 year;
2. Maturities of ANY period, instruments below.

	Minimum allowable Credit Criteria	Use
<b>Fixed term deposits with variable rate and variable maturities:</b> Structured deposits	Advisor green category	In-house. Maturity per counterparty matrix.

3.7.3 In addition, consideration may be given to offering commercial loans to third parties where the purpose of the loan is to provide community benefit. Such loans would be considered in accordance with the concept of security, liquidity and return. Loans would be made at commercial rates to ensure that such loans would not breach State Aid regulations.

3.7.4 Recipients of this type of investment are unlikely to be a financial institution and therefore unlikely to be subject to a credit rating as outlined in the creditworthiness policy above. In order to ensure security of the Council’s capital, financial due diligence must be completed prior to any loan or investment being agreed. The Council will use its external Treasury Management advisors to complete financial checks to ascertain the creditworthiness of the third party and associated risks to the Council. Where deemed necessary, additional guarantees will be sought. This may be via security against assets and/or through guarantees from a parent company.

	Maximum Term:	Maximum Loan:
<b>Third Party Commercial Loans</b>	364 days	£5,000,000 (Maximum of 5% of portfolio in total)

## Non-Treasury Investments

- 3.7.5 The Council recognises that investment in other financial assets taken for non-treasury management purposes requires careful investment management. Such activity includes loans supporting service outcomes and investments in subsidiaries.
- 3.7.6 In accordance with the TM Code, any investments that are not taken or held for treasury management purposes will be clearly identified and reported in the Capital Strategy detailing their service or commercial purposes including, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It is recognised that the risk appetite for these activities may differ from that for treasury management.

## Other Financial Instruments / Longer-duration Investments

- 3.7.7 The Council may explore other potential financial instruments with a longer duration to increase the return on the Council's cash holdings. Where it is considered that additional financial instruments may be appropriate for the Council, their use would be recommended for inclusion in an updated Treasury Management Strategy Statement and Council approval would be sought.

## **3.8 Counterparty Criteria and Limits**

- 3.8.1 The recommended counterparty criteria and limits are detailed below. These limits are applicable as at the time an investment commences. Colour coding relates to credit rating groups provided by the treasury advisors, Link Group.

<b>Bank of England</b> (Debt Management Deposit Account Facility DMADF) - No maximum limit or period.
<b>Local Authorities</b> – At the time the deposit is made, up to 20% of portfolio per counterparty, for period of up to 2 years.
<b>£20m Money Market Funds (Yellow)</b> – Low Volatility NAV Money Market Funds (LVMMF) with a matrix credit score of 1 or above. Subject to a maximum of £20m per MMF.
<b>£20m Short bond funds (Pink)</b> – Ultra-Short-Dated Bond Funds (USDBF) with a matrix credit score of 1.5 or better (i.e. 1, 1.25, or 1.5). Subject to maximum of £20m principal per USDBF (and per counterparty in total with any other MMF held).
<b>£20m 2 year max (Purple)</b> – At the time the deposit is made, up to 20% of portfolio per counterparty, for period of up to 2 years. Subject to maximum of £20m principal per banking group.
<b>£25m 1 year max (Blue)</b> – Deposit maximum of £25m per banking group for period of up to 1 year. <i>Part-nationalised UK banks must be the 'ring-fenced' entity.</i>
<b>£20m 1 year max (Orange)</b> – At the time the deposit is made, up to 20% of portfolio per counterparty, for period of up to 1 year. Subject to maximum of £20m principal per banking group.

**£15m 6 month max (Red)** – At the time the deposit is made, up to 15% per counterparty for period up to 6 months. Subject to maximum of £15m per banking group.

**£10m 3 month max (Green)** – At the time the deposit is made, up to 10% per counterparty for period up to 100 days. Subject to maximum of £10m per banking group.

## **4 CAPITAL PLANS AND PRUDENTIAL CODE INDICATORS**

### **4.1 Introduction:**

4.1.1 The key objective of the Prudential Code is to provide a framework for local authority capital finance to ensure that:

- capital expenditure plans are affordable and proportionate;
- all external borrowing and other long term liabilities are within prudent and sustainable levels;
- the risks associated with investments for commercial purposes are proportionate to their financial capacity, and;
- treasury management decisions are taken in accordance with professional good practice.

4.1.2 The Prudential Code specifies a range of indicators that must be used, and other factors that must be taken into account. They should be evaluated as a coherent entity, because changes in any one indicator often impact on others. They must also be considered in conjunction with other annual strategic financial plans, such as the annual revenue and capital budgets. The effects that any alternative options in these budgets might have on the indicators must also be considered before approval is given to the final financial strategic plan.

4.1.3 Proposals in the Capital Programme form the basis for the Prudential Indicators.

4.1.4 A schedule of all of the Prudential Indicators is attached at 4.3, a summary of which will be included in the Medium Term Financial Plan (MTFP).

### **4.2 Prudential Indicators – Affordability and Capital Programme**

4.2.1 **Affordability** - These indicators are calculated to help Members assess the overall affordability of the proposed Capital Programme by providing an indication of the impact it will have on the Council's overall resources.

4.2.2 **Capital Programme** - The Council's capital expenditure plans are a key driver to treasury management activity. This prudential indicator is a summary of the Council's draft capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

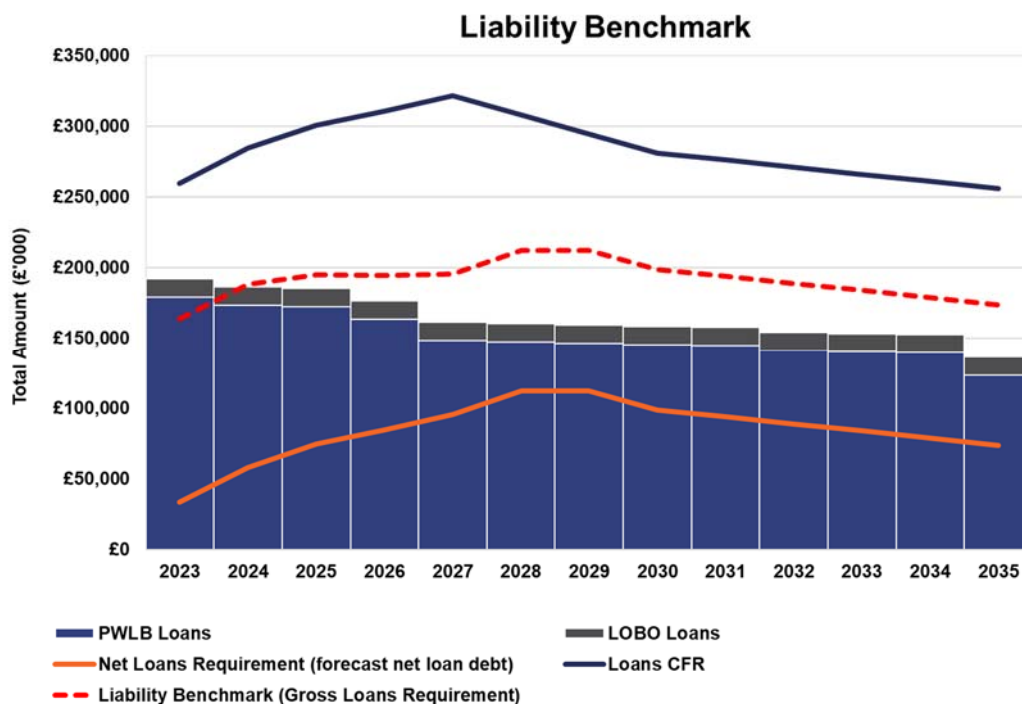
4.2.3 **The Council's Borrowing Need - Capital Financing Requirement** - The Council's Capital Financing Requirement (CFR) is the outstanding capital spend which has not yet been paid for from either revenue or capital resources, such as grants or property sales. It is essentially a measure of the Council's underlying need to borrow. Any capital spend which has not been paid for during the year, will increase the CFR. The CFR does not increase indefinitely,

as the Minimum Revenue Provision (MRP) (which is a statutory annual revenue charge) makes principal repayments in line with the life cycle of the assets financed from borrowing. The Council's gross debt over the next 3 years should not, except in the short term, exceed the estimated Capital Financing Requirement for the next 3 years. Although some flexibility is permitted for limited early borrowing, officers must ensure that long term borrowing is not undertaken for revenue purposes.

- 4.2.4 The CFR would include any other long term liabilities (e.g. Public Private Partnerships (PPP), Private Finance Initiatives (PFI), finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes within the CFR.
- 4.2.5 **Affordability – Ratio of Financing Costs to Net Revenue Stream** – This indicator shows the full revenue cost of projects in the draft capital programme financed by borrowing.
- 4.2.6 **Authorised Limit** – The Authorised Limit is the statutory limit determined under section 3(1) of the Local Government Act 2003, through which the Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. It represents a control on the absolute maximum level of borrowing and is a key control over treasury activity which ensures that, over the medium term, net borrowing will only be undertaken to finance capital spend. It is set to ensure that external borrowing doesn't exceed the Council's estimated CFR for the 3 years covered by the Medium Term Financial Plan, allowing some flexibility for limited early borrowing for future years where appropriate.
- 4.2.7 The limit reflects the level of borrowing which, while not desired, could be afforded in the short term to allow borrowing to cover for any extraordinary treasury activities. This additional headroom to borrow would be used in exceptional circumstances only.
- 4.2.8 **Limits to Borrowing – Operational Boundary** – This indicator sets the expected maximum amount of borrowing that would under normal circumstances be undertaken at any time during the financial year.
- 4.2.9 **Treasury Management Limits on Activity** – There are three debt related treasury activity limits. Their purpose is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance.
- 4.2.10 **Liability Benchmark** – During 2021/22 CIPFA consulted on revisions to the CIPFA TM Code and Prudential Code. The aim of the revisions is to strengthen the provisions within the Codes relating to commercial investment, focusing on sustainability and affordability, and to ensure the TM Code remains fit for purpose. The guidance issued by CIPFA requires full implementation of the revised code to be incorporated by local authorities from 2023/24. This

encompasses the inclusion of a new Treasury Management Prudential Indicator – the “Liability Benchmark” in the TMSS for 2023/24.

4.2.11 The Liability Benchmark chart is shown below.



### 4.3 The Council’s Prudential Indicators and Treasury Management Indicators 2024/25

4.3.1 Prudential Indicators are determined under Section 3(1) and (2) of the Local Government Act 2003 and produced in accordance with CIPFA's Prudential Code. The Prudential Indicators to 2028/29 are detailed below (and may be revised following finalisation of the Capital Programme).

		2024/25	2025/26	2026/27	2027/28	2028/29
<b>PRUDENTIAL INDICATORS - Affordability</b>		<b>Estimated</b>				
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
1	Estimates of proposed capital expenditure (excludes capitalisation directive and HRA)	96.227	117.386	69.202	71.461	48.627
	Estimates of proposed HRA capital expenditure	2.161	2.161	2.161	2.622	0.000
	<b>Total</b>	<b>98.388</b>	<b>119.547</b>	<b>71.363</b>	<b>74.083</b>	<b>48.627</b>
	Estimates of proposed capital expenditure funded by prudential borrowing (includes capitalisation directive)	28.178	22.421	23.793	30.169	13.727
		The current estimates of capital expenditure for the five forward years to 2028/29.				
2	Capital Financing requirement (CFR) General Fund (includes capitalisation directive)	251.053	263.120	275.323	292.901	293.293
	Capital Financing requirement (CFR) for HRA	26.544	25.465	24.386	23.307	22.228
	<b>Total - the borrowing need</b>	<b>277.597</b>	<b>288.585</b>	<b>299.709</b>	<b>316.208</b>	<b>315.521</b>
			The Capital financing requirement indicator is a measure of the Council's underlying need to borrow for a capital purposes.			
3	Ratio of Finance costs to Net Revenue Stream	%	%	%	%	%
		5.40%	6.79%	6.73%	6.60%	6.36%
			This indicator shows the proportion of income received from grant and Council Tax that is spent on paying for the consequences of borrowing to fund capital borrowings.			



PRUDENTIAL INDICATORS - Prudence		2024/25	2025/26	2026/27	2027/28	2028/29
4	<b>Authorised limit for external debt</b>	<b>Proposed</b>				
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
	Borrowing	293	305	317	335	335
	Other Long Term Liabilities	135	135	135	135	135
	Total	428	440	452	470	470
		The Authorised Limit and Operational Boundary are the monitoring tools against which the actual external borrowing of the Council will be managed. They are based on a prudent but not worst case scenario and include an allowance for unusual or unexpected cash flow movements but not catastrophic events.				

5 Operational boundary for external debt		2024/25	2025/26	2026/27	2027/28	2028/29
		<b>Proposed</b>				
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
	Borrowing	268	280	292	310	310
	Other Long Term Liabilities	125	125	125	125	125
	Total	393	405	417	435	435
		The Council is also requested to approve the Operational Boundaries for External Borrowing for the next five years as shown. This boundary is lower than the Authorised limit because it excludes the impact of unusual or unexpected cash flows.				

6 Upper Limit on Net Sums Borrowed		2024/25	2025/26	2026/27	2027/28	2028/29
		<b>Proposed</b>				
		<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
	Fixed Interest Rates	268	280	292	310	310
	Variable Interest Rates	100	100	100	100	100

7	<b>Upper Limit for total principal sums invested for over 1 year (per maturity dates)</b>	Lower of £20m or 20% of the portfolio at any time during the financial year
	The purpose of this indicator is to ensure that the Council has protected itself against the risk of loss arising from the need to seek early redemption of principal sums invested. Only core cash will be invested for periods greater than 1 year.	

8	Maturity Structure of fixed interest rates borrowing	Upper	Lower	Forecast
				31/03/24
	Under 12 months	30%	0%	0.5%
	12 months to 2 years	40%	0%	4.8%
	2 years to 5 years	40%	0%	9.1%
	5 years to 10 years	40%	0%	3.7%
	10 years and above	100%	100%	81.9%
The maturity of borrowing is determined by the earliest date on which the lender can require payment. The indicator is designed to exercise control over the Council having large concentrations of fixed rate debt needing to be replaced at any one time.				

## 5 MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

- 5.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement (CFR)) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).
- 5.2 Department for Levelling up, Housing and Communities (DLUHC) regulations the full Council to approve an MRP Statement in advance of each year. A

variety of options are provided to councils, so long as there is a prudent provision.

5.3 The Council is recommended to approve the following MRP Statement:

5.3.1 In the case of **capital spend incurred before 1 April 2008 and all spend financed by “supported” borrowing**; this will be charged on a 2% straight line basis, net of “Adjustment A”. This ensures that the debt will be repaid within 50 years.

5.3.2 In the case of all **capital spend financed by Prudential Borrowing**; this will be subject to MRP under option 3: Asset life method – equal instalments charged over the estimated life (*see note (a) below*) of the asset. MRP will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Directive).

a. *Estimated life* periods will be determined under delegated powers in accordance with the Council’s Accounting Policy on depreciation of assets. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

As some types of capital expenditure incurred by the Council are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Also, whatever type of expenditure is involved, it will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

5.3.3 In the case of **Finance leases (and any Public, Private Partnerships (PPP) or Public Finance Initiative (PFI) arrangements)**, the MRP will be calculated to match the capital repayment identified within the annual lease payments.

5.3.4 For **assets under construction**, MRP will not be applied until the earlier of entering external borrowing or when the asset comes into use. However if there is expected to be a significant delay between expenditure and the asset coming into use then we will consider, on a case by case basis, applying MRP sooner.

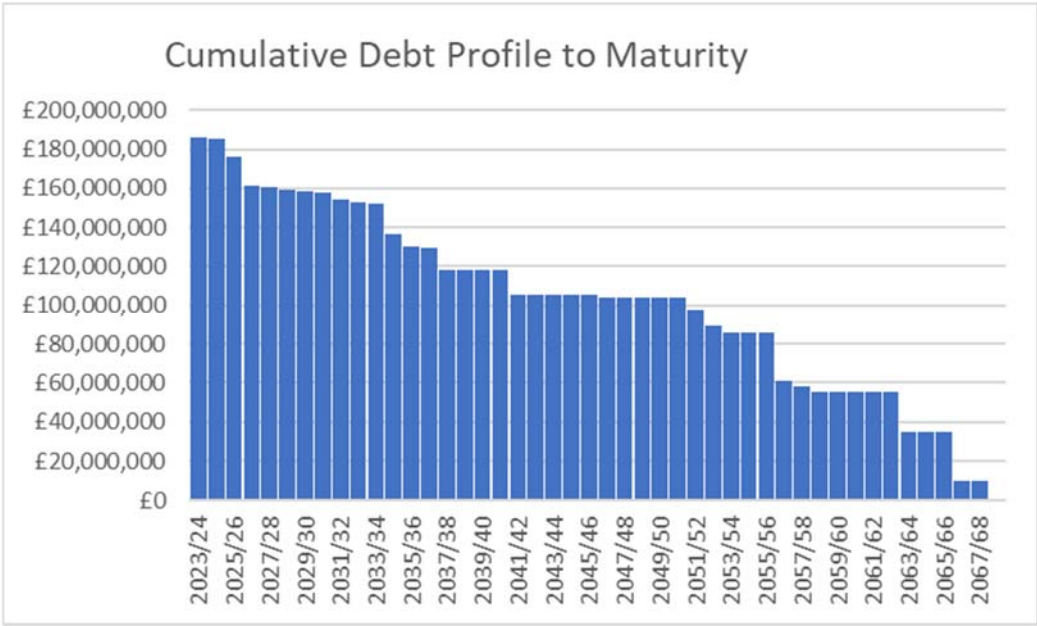
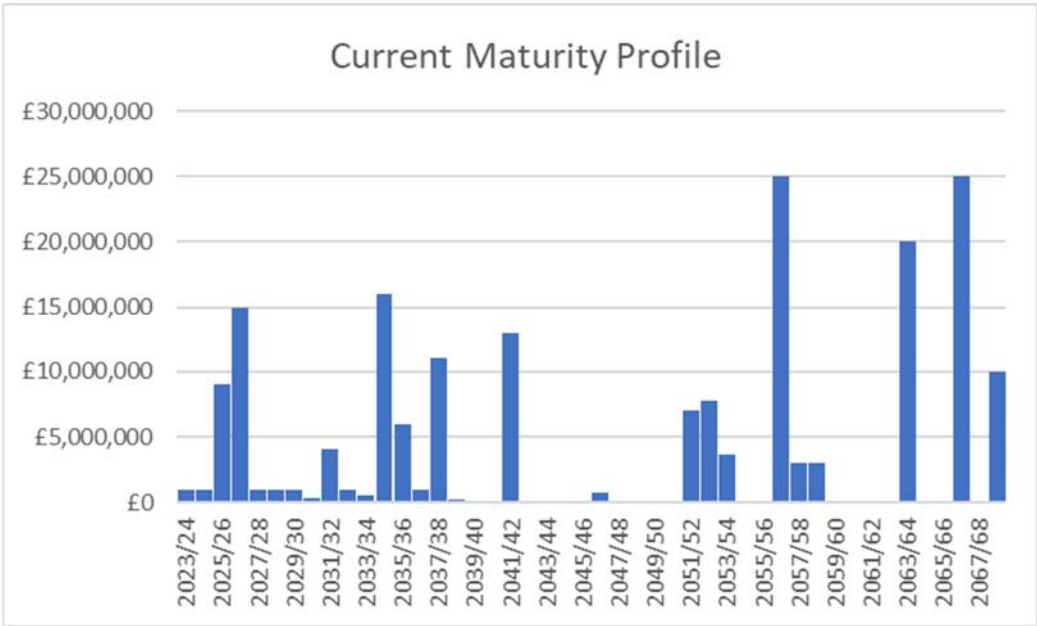
5.4 **MRP Overpayments** - A change introduced by the revised MHCLG MRP Guidance was the allowance that any charges made over the statutory minimum revenue provision (MRP), voluntary revenue provision or overpayments, can, if needed, be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until the 31 March 2021 the total overpayments were £4.95m.

## 5.5 Housing Revenue Account

- 5.5.1 There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made in accordance with the Accounts and Audit Regulations 2015 to maintain the major repairs reserve. The major repairs reserve controls an element of the capital resources required to be used on HRA assets or for capital financing purposes. The HRA Business Plan under self-financing includes a voluntary revenue provision to repay the debt on the account.

ANNEX A

**Long term borrowing (Debt Portfolio) at 31 December 2023**



## **Westmorland & Furness Council debt portfolio detail at 31 December 2023:**

<b>Lender</b>	<b>Original Loan Start Date</b>	<b>Maturity Date</b>	<b>Principal £</b>	<b>Interest Rate (%)</b>
PWLB	28/03/2012	28/03/2024	£1,000,000	2.70
PWLB	28/03/2012	28/03/2025	£1,000,000	2.82
PWLB	14/11/2001	14/11/2025	£3,000,000	4.50
PWLB	29/05/2003	15/11/2025	£5,000,000	4.45
PWLB	28/03/2012	28/03/2026	£1,000,000	2.92
PWLB	14/11/2001	13/11/2026	£14,000,000	4.50
PWLB	28/03/2012	28/03/2027	£1,000,000	3.01
PWLB	28/03/2012	28/03/2028	£1,000,000	3.08
PWLB	28/03/2012	28/03/2029	£1,000,000	3.15
PWLB	28/03/2012	28/03/2030	£1,000,000	3.21
PWLB	28/03/2012	28/03/2031	£350,000	3.26
PWLB	21/11/2005	01/10/2031	£4,000,000	4.25
PWLB	28/03/2012	28/03/2033	£1,000,000	3.34
PWLB	28/03/2012	28/03/2034	£500,000	3.37
PWLB	20/12/2004	15/05/2034	£16,000,000	4.50
PWLB	24/10/2005	01/10/2035	£6,000,000	4.45
PWLB	28/03/2012	28/03/2037	£1,000,000	3.44
PWLB	10/12/2007	15/11/2037	£10,000,000	4.49
PWLB	28/03/2012	28/03/2038	£1,000,000	3.46
PWLB	28/03/2012	28/03/2039	£239,000	3.47
FMS Wertm	25/01/2002	27/01/2042	£13,000,000	4.73
PWLB	25/08/2006	29/03/2047	£800,000	4.25
PWLB	07/08/2006	01/10/2051	£4,000,000	4.35
PWLB	04/01/2008	29/03/2052	£3,000,000	4.42
PWLB	10/10/2006	01/04/2052	£4,794,734	4.10
PWLB	02/08/2007	29/09/2052	£3,000,000	4.55
PWLB	12/06/2007	01/04/2053	£3,595,000	4.75
PWLB	08/03/2007	15/05/2056	£25,000,000	4.25
PWLB	07/05/2008	29/03/2058	£3,000,000	4.43
PWLB	09/10/2008	29/09/2058	£3,000,000	4.36
PWLB	10/06/2019	10/06/2063	£20,000,000	2.16
PWLB	28/03/2018	28/03/2067	£25,000,000	2.32
PWLB	31/05/2018	31/05/2068	£10,000,000	2.25
<b>TOTAL DEBT PORTFOLIO</b>			<b>£187,278,734</b>	<b>3.72%</b>

Note: The FMSWERTM borrowing above relates to market loans with FMS Wertmanagement Bank Germany. Initially taken from Depfa Bank Plc (Dublin) and subsequently transferred by the lender to FMS.

## Westmorland & Furness Council Investment Portfolio - as at 31 December 2023

The Council's investment portfolio with the average deposit rate as at 31 December 2023 is shown below.

The Council's investment strategy is to first provide security and adequate liquidity, before considering optimising investment return. The aim is for an appropriate balance of instant access, short-term investments (money-market funds 'MMF') for liquidity and longer, three to twelve month fixed term deposits (to earn higher rates). The Council is committed to this policy, but in certain conditions it lowers the potential interest rate available.

### Investment Portfolio as at 31 December 2023

Credit Limit Group / Counterparty	Country	Credit Rating	Deposit Type	Start Date	Maturity Date	Interest Rate (%)	Principal (£)
<b>LOCAL AUTHORITY 20% MAX, UP TO 2 YRS</b>							
STIRLING COUNCIL	UK	AA-	Deposit	28/09/2023	21/02/2024	5.45	2,500,000
STIRLING COUNCIL	UK	AA-	Deposit	28/09/2023	28/02/2024	5.45	2,500,000
ORKNEY ISLANDS COUNCIL	UK	AA-	Deposit	12/10/2023	12/03/2024	5.50	5,000,000
CENTRAL BEDFORDSHIRE COUNCIL	UK	AA-	Deposit	06/11/2023	07/05/2024	5.45	5,000,000
LB WALTHAM FOREST	UK	AA-	Deposit	23/11/2023	23/05/2024	5.60	5,000,000
<b>LIMIT £20m MAX - MONEY MARKET FUNDS</b>							
ABERDEEN MMF	UK	AAA	MMF	N/A	daily access	5.29	1,700,000
DEUTSCHE MMF	UK	AAA	MMF	N/A	daily access	5.33	11,000,000
FEDERATED PRIME MMF	UK	AAA	MMF	N/A	daily access	5.38	20,000,000
<b>LIMIT £25m MAX, UP TO 1 YEAR (LINK'S BLUE GROUP)</b>							
NATWEST FIXED TERM DEPOSIT	UK	A+	Deposit	07/09/2023	07/03/2024	5.69	5,000,000
NATWEST FIXED TERM DEPOSIT	UK	A+	Deposit	13/10/2023	13/03/2024	5.43	5,000,000
NATWEST FIXED TERM DEPOSIT	UK	A+	Deposit	27/10/2023	26/04/2024	5.44	5,000,000
<b>LIMIT £20m MAX, UP TO 1 YEAR (LINK'S ORANGE GROUP)</b>							
HELEBA - LANDESBANK HESSEN	GER	A+	Deposit	12/04/2023	11/04/2024	4.68	10,000,000
HELEBA - LANDESBANK HESSEN	GER	A+	Deposit	31/10/2023	30/10/2024	5.56	5,000,000
HELEBA - LANDESBANK HESSEN	GER	A+	Deposit	09/11/2023	08/11/2024	5.51	5,000,000
<b>LIMIT £15m MAX, UP TO 6 MTHS (LINK'S RED GROUP)</b>							
GOLDMAN SACHS INTERNATIONAL	UK	A+	Deposit	06/07/2023	05/01/2024	5.93	10,000,000
LLOYDS BANK CORPORATE MKTS	UK	A+	Deposit	20/10/2023	19/04/2024	5.61	5,000,000
LLOYDS BANK CORPORATE MKTS	UK	A+	Deposit	15/08/2023	15/02/2024	5.90	5,000,000
NATIONAL BANK OF CANADA	CAN	A+	Deposit	24/07/2023	24/01/2024	5.77	5,000,000
SANTANDER UK	UK	A+	Deposit	14/07/2023	12/01/2024	5.77	5,000,000
SMBC BANK INTERNATIONAL	UK	A-	Deposit	07/11/2023	07/02/2024	5.48	5,000,000
STANDARD CHARTERED BANK - SUSTAINABLE	UK	A+	Deposit	18/07/2023	18/01/2024	5.88	5,000,000
Average Rate and Total Specified Investments						<b>5.49</b>	<b>127,700,000</b>

<b>LEGACY - OTHER INVESTMENTS</b>							
CCLA LAMIT - PROPERTY FUND	UK			N/A	N/A	variable	4,022,375
CCLA DIVERSIFIED INCOME FUND	UK			N/A	N/A	variable	961,627
Total Non-Specified Investments							<b>4,984,002</b>
Total Treasury Investments							<b>132,684,002</b>