This Report will be made public on 23 January 2024

Folkestone & Hythe District Council

Report Number **C/23/81**

To:	**Cabinet**
Date:	**31 January 2024**
Status:	**Key Decision**
Corporate Director:	**Lydia Morrison – Interim Director Governance and Finance**
Cabinet Member:	**Councillor Tim Prater, Deputy Leader and Cabinet Member for Finance and Governance**
Subject:	**TREASURY MANAGEMENT STRATEGY STATEMENT 2024/25**

SUMMARY:

This Treasury Management Strategy Statement sets out the Council's proposed strategy for its treasury management activities for 2024/25, including Treasury Management Prudential Indicators.

REASONS FOR RECOMMENDATION:

Cabinet is asked to agree the recommendations set out below because: -

a) The Council must have regard to CIPFA's Code of Practice for Treasury Management in the Public Services when carrying out its duties under Part 1 of the Local Government Act 2003, including approving an annual Treasury Management Strategy Statement in advance of the financial year.
b) The Council's Financial Procedure Rules require an annual plan and strategy for treasury management to be approved in advance of the financial year.

RECOMMENDATIONS:

1. **To receive and note Report C/23/81.**
2. **To approve the strategy for treasury management in 2024/25 set out in the report.**
3. **To approve the Treasury Management Prudential Indicators for 2024/25 set out in the report.**
4. **To recommends to Full Council that the proposed Treasury Management Strategy and Annual Investment Strategy for 2024/25, including the prudential indicators be approved.**
5. **To note the Council's Approach to Environmental, Social and Governance (ESG) Considerations for Investments (Para 5.10 – 5.11)**

1. INTRODUCTION

1.1 Treasury management is the management of the authority's cash flows, borrowing and investments, and the associated risks. The authority has borrowed and invested 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 risk are therefore central to the authority's treasury management strategy and its prudent financial management.

1.2 Treasury risk management at the authority 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). The Code requires the authority to approve a treasury management strategy before the start of each financial year. This report fulfils the authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. The authority's own Financial Procedure Rules also require an annual plan and strategy for treasury management to be approved in advance of each financial year.

1.3 Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy which Cabinet is due to consider as part of this agenda ahead of it being submitted to full Council for approval on 28 February 2024.

2. ECONOMIC BACKGROUND AND PROSPECT FOR INTEREST RATES

2.1 Economic Background

2.1.1 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.

2.1.2 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September, November and then again in December. In December, 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%.

2.1.3 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.

2.1.4 Office for National Statistics (ONS) figures showed CPI inflation was 3.9% in November 2023, a reduction of 0.7% from the previous month and lower than the 4.3% expected. Core CPI inflation fell to 5.1% from 5.7%, again lower than the 5.6% predicted. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling, but taking until early 2025 to reach the 2% target and then falling below target during the second half 2025 and into 2026.

2.1.5 ONS figures showed the UK economy contracted 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.

2.1.6 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 has 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.

2.1.7 Having increased its key interest rate to a target range of 5.25-5.50% 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.

2.1.8 Eurozone inflation has declined steadily since the start of 2023, falling to an annual rate of 2.9% in October 2023. Economic growth has been weak, and GDP was shown to have contracted by 0.1% in the three months to September 2023. In line with other central banks, the European Central Bank has been increasing rates, taking its deposit facility, fixed rate tender, and marginal lending rates to 3.75%, 4.25% and 4.50% respectively.

2.2 Credit Outlook

2.2.1 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.

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

2.2.3 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.

2.2.4 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.

2.2.5 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.

2.2.6 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.

2.3 Interest Rate Forecast (December2023)

2.3.1 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.

2.3.2 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.

2.3.3 A more detailed economic and interest rate forecast provided by Arlingclose is in appendix 1.

2.3.4 For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 4.64%, and that new long-term loans will be borrowed at an average rate of 6.50%.

3. THE COUNCIL'S FORECAST BORROWING AND INVESTMENT POSITION

3.1 On 31st December 2023, the authority held £106.7m of borrowing and £25m of treasury investments. This is set out in further detail in appendices 2 (borrowing) and 3 (investments) to this report. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance Sheet Summary and Forecast

	31.3.23 Actual £m	**31.3.24 Estimate £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**
General Fund CFR	16.8	16.8	16.2	20.4	24.5
HRA CFR	47.4	48.0	53.5	59.0	63.7
Investments CFR	77.2	87.0	93.0	104.2	115.0
Total CFR	**141.4**	**151.8**	**162.7**	**183.6**	**203.2**
Less: External borrowing	(107.1)	(106.5)	(63.2)	(45.2)	(41.5)
Internal borrowing	34.3	45.3	99.5	138.4	161.7
Less: Balance Sheet resources	(58.6)	(45.2)	(39.3)	(36.8)	(36.8)
Treasury Investments (-) or / New Borrowing (+)	**(24.3)**	**0.1**	**60.2**	**101.6**	**124.9**

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

3.3 The movement in table 1 is based on the projected outturn for the current financial year, the draft revenue and capital budgets being proposed for 2024/25, the proposed General Fund and HRA Medium-Term Capital Programmes and information taken from the latest approved Medium Term Financial Strategy for 2024/25 and 2027/28. The authority has an increasing CFR arising from its planned capital investment and will therefore be required to borrow up to a further £124.9m over the forecast period, including replacing existing maturing debt.

3.4 CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2024/25.

3.5 Liability Benchmark

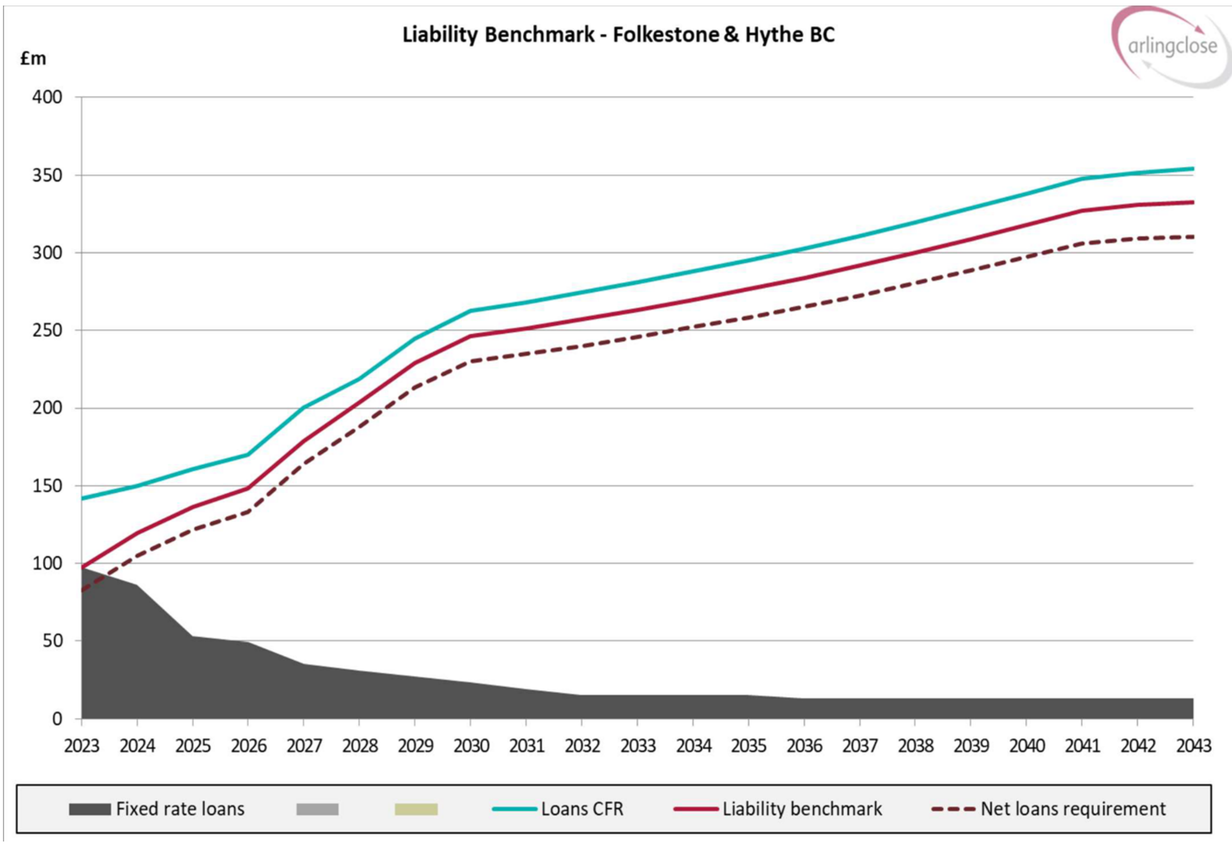
3.5.1 To compare the authority's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £15m at each year-end, in line with strategic investment objectives and cash flow requirements.

3.5.2 The liability benchmark is an important tool to help establish whether the authority 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 authority 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.

Table 2: Prudential Indicator – Liability Benchmark

	31.3.23 Actual £m	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
CFR	141.4	151.8	162.7	183.6	203.2
Less: Balance Sheet resources	(58.6)	(45.2)	(39.3)	(36.8)	(36.8)
Net loans requirement	82.8	106.6	123.4	146.8	166.4
Plus: Liquidity allowance	15.0	15.0	15.0	15.0	15.0
Liability Benchmark	**102.8**	**126.6**	**143.4**	**166.8**	**186.4**

3.5.3 Following on from the medium-term forecasts in table 2 above, the long term liability benchmark assumes further capital expenditure funded by borrowing after 31 March 2027 for Otterpool Park, FOLCA phase 2 (Folkestone town centre regeneration) and new leisure centre in the district, minimum revenue provision on new capital expenditure based on asset life. The liability benchmark currently excludes any future capital contributions or receipts from the Otterpool Park development to be used to reduce the CFR while the council explores a joint venture approach to delivering the project. The benchmark assumes the income, expenditure and reserves all increase by inflation of 2.5% a year. This is shown in the chart below:



3.5.4 The Council, despite having an increasing need to borrow as defined by the Loans CFR, can manage this borrowing requirement using existing balance sheet resources (balances, reserves, cash flow surpluses) through what is known as “internal borrowing”. The Liability Benchmark, calculated in accordance with CIPFA’s best practice, suggests that this internal borrowing position can be maintained for the foreseeable future.

4. BORROWING STRATEGY

4.1 The authority currently holds £106.7 million of loans, a small reduction of £0.4m on the previous year, as part of its strategy for funding previous years’ capital programmes. The balance sheet forecast in table 1 shows that the authority expects to borrow up to a further £60.2m over the period to 31 March 2025, including replacing maturing debt. The authority may however borrow to pre-fund future years’ requirements, providing this does not exceed the forecast authorised limit for borrowing of £190 million for 2024/25. The authorised borrowing limit will be considered in more detail as one of the prudential indicators for capital expenditure which will be included in the Capital Strategy for 2024/25 report to Cabinet as part of this agenda before going to full Council for approval on 28 February 2024.

4.2 Objectives

4.2.1 The authority’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 authority’s long-term plans change is a secondary objective.

4.3 Strategy

4.3.1 Given the significant reductions to public expenditure, in particular to local government funding, the authority’s borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term interest rates are currently at a 15-year high but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium-term to use internal resources or to borrow short-term loans instead. However, short-term loans must be regularly refinanced at the new market rate, leaving the authority exposed to the risk of interest rate rises.

4.3.2 By doing so, the authority 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 authority with this ‘cost of carry’ and breakeven analysis. Its output may determine whether the authority 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.

4.3.3 The forecast of interest rates for borrowing from the PWLB for 50 years is a much flatter curve with these not expected to change much from their current levels. Therefore, it may still be appropriate for the authority to use longer term borrowing where it fits its capital investment plans, including those for the HRA.

4.3.4 The authority has previously used the PWLB as its main source of long-term borrowing. However over recent years the authority has borrowed from other local authorities for periods typically up to two years at rates significantly cheaper than the PWLB at that time. The authority will consider borrowing long-term loans from the PWLB as well as 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 authority intends to avoid this activity in order to retain its access to PWLB loans.

4.3.5 Alternatively, the authority 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.

4.3.6 In addition, the authority may borrow further short-term loans to cover unplanned cash flow shortages.

4.4 Sources of Borrowing

4.4.1 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 the Kent County Council Pension Fund)
- capital market bond investors.
- retail investors via a regulated peer to peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

4.4.2 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.

4.4.3 The **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 full Council.

4.5 Short-term and Variable Rate Loans

4.5.1 These loans leave the authority exposed to the risk of short-term interest rate rises and are therefore subject to interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section 7.2 below).

4.6 Debt Rescheduling

4.6.1 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 authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

5. TREASURY INVESTMENT STRATEGY

5.1 The authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the 9 months to 31 December 2023, the authority's investment balance has ranged between £19 million and £33 million with the average being £26.7 million. The average investment balance held is expected to reduce slightly to around £25 million in the coming year as the council uses more of its reserves to meet its approved capital expenditure plans and also continues to use some of its cash balances in lieu of external borrowing (i.e. internal borrowing).

5.2 Objectives

5.2.1 The CIPFA Code requires the authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The authority'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 authority 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 authority aims to be a responsible investor and will consider the environmental, social and governance (ESG) issues when investing.

5.3 Strategy

5.3.1 As demonstrated by the liability benchmark above, the authority 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.

5.3.2 The CIPFA Code does not permit local authorities to both borrow and invest long-term for cash flow management. But the authority may make long-term investments for treasury risk management purposes, including to manage interest rate risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value rises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

5.4 Business Models

5.4.1 Under the new IFRS 9 standard, the accounting for certain investments depends on the authority's "business model" for managing them. The authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

5.5 Approved Counterparties

5.5.1 The authority may invest its surplus funds with any of the counterparty types in table 3 below, subject to the cash limits (per counterparty) and the time limits shown. The limits being proposed for 2024/25 are unchanged from those applicable for 2023/24. Green energy bonds are proposed to be added to the list of approved counterparties for the first time and is explained further in the notes below.

Table 3: Approved Investment Counterparties and Limits for New Investments effective from 1 April 2024

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	3 years	Unlimited	n/a
Local authorities & other government entities	3 years	£5m	Unlimited
Secured investments*	3 years	£5m	Unlimited
Banks (unsecured) *	13 months	£3m	Unlimited
Building societies (unsecured) *	13 months	£3m	£6m
Registered providers (unsecured) *	3 years	£3m	£15m
Money market funds *	n/a	£5m	Unlimited

Strategic pooled funds	n/a	£5m	£25m
Real estate investment trusts	n/a	£5m	£15m
Green Bonds	3 years	£2m	£5m
Other investments *	3 years	£3m	£9m

Table 3 must be read in conjunction with the notes below.

5.5.2 ***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.

5.5.3 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 £5m per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

5.5.4 **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 3 years.

5.5.5 **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.

5.5.6 **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.

5.5.7 **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.

5.5.8 **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 authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

5.5.9 **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 authority 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 authority's investment objectives will be monitored regularly.

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

5.5.11 **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 authority's investment at risk.

5.5.12 **Operational bank accounts:** The authority may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and the authority will endeavour to keep its end of day balances below £0.5m per bank. However, unexpected cash flow transactions may mean this level could be breached and would need rectifying on the next working day. 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 authority maintaining operational continuity.

5.5.13 **Green Bonds:** Green bonds are a type of debt, usually unsecured corporate or government bond. On issuing this type of bond, a company — private or public — receives funds that must be used exclusively to finance or refinance (partly or fully) projects with a positive impact on the environment. Green bonds raise funds for new and existing projects which deliver environmental benefits, and a more sustainable economy. 'Green' can include renewable energy, sustainable resource use, conservation, clean transportation, and adaptation to climate change.

5.6 Risk Assessment and Credit Ratings

5.6.1 Credit ratings are obtained and monitored by the authority’s treasury adviser, who will notify changes in ratings as they occur. 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.

5.6.2 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as “rating watch negative” or “credit watch negative”) 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.

5.7 Other Information on the Security of Investments

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

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

5.7.3 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the authority 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 authority’s cash balances, then the surplus will be deposited with the UK Government, via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

5.8 Investment Limits

5.8.1 The authority's revenue reserves available to cover investment losses are forecast to be about £21.5 million at 31 March 2024 and £21.4 million on 31 March 2025. In order that no more than 25% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

5.8.2 Credit risk exposures arising from non-treasury investments, financial derivatives, and balances greater than £0.5m in operational bank accounts count against the relevant investment limits.

5.8.3 Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries, and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

Table 4: Additional Investment Limits

	Cash limit
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£5m per country

5.9 Liquidity Management

5.9.1 The authority uses spreadsheet forecasts to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the authority's medium term financial plan and cash flow forecast.

5.9.2 The authority will spread its liquid cash over at least four 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.

5.10 Environmental, Social and Governance Policy

5.10.1 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 authority 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.

5.10.2 **Folkestone & Hythe District Carbon Action Plan** - The Council has committed to reducing its own carbon footprint to a net zero target by 2030 and will take the opportunity to be an influencer of change within the district and plans to support local communities, organisations and businesses in the implementation of measures designed to reduce the CO2e footprint to net zero by 2030 of the district as a whole.

5.10.3 This Carbon Action Plan sits within the framework provided by the council's draft Corporate Plan 2021-30, 'Creating Tomorrow Together' that sets out guiding principles and service ambitions that have helped influence the Carbon Action Plan which has been developed alongside it. The purpose of which is to identify an evidence-based pathway to deliver cleaner growth, and specifically, strategies and actions to eliminate poor air quality, reduce fuel poverty and deliver an affordable, clean, and secure energy supply.

5.10.4 Implementing carbon reduction actions and specific targeted measures may have a significant cost as well as many benefits (social, economic, environmental). Sourcing of funding to deliver the Carbon Action Plan objectives for the Council's own estate and to support / encourage the transition across the district will require careful and deliberate targeting of funds.

5.11 The Council's Approach to Environmental, Social and Governance (ESG) Considerations for Investments

5.11.1 ESG considerations specifically, and ethical considerations more generally, are topics of increasing interest within treasury management. Investment guidance, both statutory and from CIPFA, makes clear however that all investment must adopt the principals of security, liquidity, yield, and that ESG issues, although important, must play a subordinate role to those priorities.

5.11.2 Historically, the council has not included ethical criteria when determining its investment criteria. The investment environment can be very fast moving, so there is a need to ensure that any investment criteria are objective, such as credit ratings. It is difficult to gain an objective assessment of the ethical standing of a potential counterparty, particularly to a tight timescale.

5.11.3 Ethical considerations are difficult to evaluate objectively and would also need to be applied to the counterparty list after taking into account security and liquidity issues. The council's current counterparty list is, due to the high credit quality criteria used by the council, very small, and therefore does not encompass solely those organisations which promote themselves as ethical. Cash deposits with banks and money market funds are more difficult to apply ESG and ethical criteria against because the underlying assets are simply those of appropriate financial institutions, although they will have their own ESG policies in place. However, pooled funds and other structured investment products use defined asset classes, such as equities, bonds, and property, providing greater objectivity for ESG and ethical investment considerations.

5.11.4 Furthermore, the council will not knowingly invest directly in businesses whose activities and practices pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the council's mission and values. This would include avoiding direct investment in institutions with links to:

- Human rights abuse (e.g. child labour, political oppression);
- Environmentally harmful activities (e.g. pollutions, destruction of habitat, fossil fuels);
- Socially harmful activities (e.g. tobacco, gambling).

5.11.5 A small, but growing, number of financial institutions are promoting ESG products and Arlingclose Treasury Management Advisers are currently looking at how these can be incorporated into its creditworthiness assessment service. This is still very much an evolving area and should any investment in ESG products be undertaken by the Council, this would require to be within the approved counterparty and creditworthiness criteria, and with regard to the views of our treasury advisors on any proposals.

5.11.6 ESG criteria attached to investments can include a range of different factors depending on the region where their core activities take place and the commercial sector they occupy. The following are criteria that the Fitch Rating Agency takes into consideration:

- **Environmental Category:** Emissions and Air Quality; Energy and Waste Management; Waste and Hazardous Material; Exposure to Environmental Impact;
- **Social Category:** Human Rights; Community Relations; Customer Welfare; Labour Relations; Employee Wellbeing; Exposure to Social Impacts;
- **Governance Category:** Management Structure; Governance Structure; Group Structure; Financial Transparency.

5.11.7 The Council does invest in pooled fund and therefore does not fully have influence over the activities of companies that part-ownership might provide. However, as an investor the council can take the following approach:

a. For direct investments, the Council will seek to ensure that counterparties (excluding the UK Government and other UK Local Authorities) have 'Responsible Investment Policies or Environmental, Social and Governance (ESG) policies' in place prior to investing.
b. For indirect investments, the council will seek to ensure that any fund managers used have their own responsible investment policies or have signed up to widely recognised policies such as the United Nations Principles for Responsible Investment.
c. The Council recognises that it has no control or influence over where its counterparties themselves lend money or invest once an investment has been made by the Council.

5.11.8 The investment guidance, both statutory and from CIPFA, makes clear that all investing must adopt SLY principles – security, liquidity, and yield: ethical issues must play a subordinate role to those priorities. Arlingclose continue to investigate ways to incorporate these factors into their creditworthiness assessment service, but with a lack of consistency, as well as coverage, they will continue to review the options and will update the Council as progress is made.

6. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

6.1 The authority measures and manages its exposures to treasury management risks using indicators and those proposed for 2024/25 are outlined below for approval. The latest position for the indicators in 2023/24 against the existing approved target is also shown below.

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

	2023/24 Target	**31/12/2023 Actual**	**2024/25 Target**
Portfolio average credit rating	A	A+	A

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

	2023/24 Target	**31/12/2023 Actual**	**2024/25 Target**
Total cash available within 3 months	£5m	£8.1m	£5m

6.4 **Interest Rate Exposures** - This indicator is set to control the authority's exposure to interest rate risk. The upper limits of a 1% rise or fall in interest rates will be:

	2023/24 Target	**31/12/2023 Actual**	**2024/25 Target**
Upper limit on one year revenue impact of a 1% **rise** in interest rates	£191,000	£190,000	£180,000
Upper limit on one year revenue impact of a 1% **fall** in interest rates	(£191,000)	(£190,000)	(£180,000)

6.5 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. The change in the limits for 2024/25 are consistent with the authority's projected borrowing required for the year.

6.6 **Maturity Structure of Borrowing -** This indicator is set to control the authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

	31/12/23 Actual	**2024/25 Upper**	**2024/25 Lower**
Under 12 months	21.0%	30%	0%
12 months and within 24 months	6.7%	40%	0%
24 months and within 5 years	7.7%	50%	0%
5 years and within 10 years	3.9%	80%	0%
10 years and above	12.1%	100%	0%

6.7 Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The borrowing is measured against the authority's authorised borrowing limit.

6.8 **Long-term Treasury Management Investments -** The purpose of this indicator is to control the authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price Risk Indicator	**2024/25**	**2025/26**	**2026/27**	**No Fixed Date**
Limit on principal invested beyond year end	£15m	£5m	£5m	£20m

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

7. OTHER ITEMS

7.1 The CIPFA Code requires the authority to include the following in its Treasury Management Strategy.

7.2 Policy on Use of Financial Derivatives

7.2.1 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).

7.2.2 The authority will only use standalone financial derivatives (such as swaps, forwards, futures, and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be 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.

7.2.3 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

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

7.3 Policy on Apportioning Interest to the HRA

7.3.1 On 1st April 2012, the authority notionally split each of its existing long-term loans into General Fund and HRA pools. Since then, new long-term loans borrowed are assigned in their entirety to one pool or the other (General Fund or HRA). Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) are charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) result in a notional cash balance which may be positive or negative. This balance is measured over the financial year and interest transferred between the General Fund and HRA at the authority's average interest rate on treasury investments excluding strategic pooled funds, adjusted for credit risk if a net investment balance and the authority's average rate of borrowing if a net borrowing balance. This policy will continue for 2024/25.

7.4 Markets in Financial Instruments Directive

7.4.1 The authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers, and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the authority's treasury management activities, the Interim Director Governance and Finance believes this to be the most appropriate status.

8. FINANCIAL IMPLICATIONS

8.1 The net revenue cost of the council's treasury management borrowing, and investment activity based on information at budget setting time is estimated to be:

Description	2023/24 Estimate	2024/25 Estimate	Variance
Revenue Budgets	£'000	£'000	£'000
Interest on Borrowing	6,348	7,246	898
Less Capitalised Interest	(1,889)	(2,781)	(892)
HRA Element	(1,907)	(1,661)	246
GF Borrowing Cost	**2,552**	**2,804**	**252**
Investment income	(1,162)	(1,338)	(176)
HRA Element	311	219	(92)
GF Investment income	**(851)**	**(1,119)**	**(268)**
Net Cost (GF)	**1,701**	**1,685**	**(16)**

8.2 The main reasons for the projected net reduction in the General Fund borrowing cost of £16k in 2024/25 compared to 2023/24 are:

		£'000
i)	Impact of higher interest rates on net GF borrowing costs	252
ii)	Impact of higher interest rates on treasury management investments	(268)
Net reduction		**(16)**

9. OTHER OPTIONS CONSIDERED

9.1 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Interim Director Governance and Finance, having consulted the Cabinet Member for Finance and Governance, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed 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

Alternative	Impact on income and expenditure	Impact on risk management
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

10. RISK MANAGEMENT ISSUES

10.1 Inherently, treasury management is concerned with the management of risk, e.g. interest rate risk, market risk, credit risk and liquidity risk. The strategies in this Report are developed to minimise the impact of risk changes whilst at the same time providing a framework for the council to reduce its net interest costs.

10.2 Specific risks to be addressed are as follows:

PERCEIVED RISK	SERIOUSNESS	LIKELIHOOD	PREVENTATIVE ACTION
Interest Rate Risk (rates moving significantly different to expectations)	High	Medium	With an increasing borrowing requirement rising interest rates would be detrimental. The council would need to consider taking out fixed borrowing to help mitigate this risk and/or use further internal borrowing if resources are available. Falling interest rates would be broadly beneficial to the council given the increasing borrowing requirement.
Market Risk (adverse market fluctuations affect value of investment capital)	Medium	Low	A limit is placed on the value of principal exposed to changes in market value.
Credit Risk (risk to repayment of Capital)	High	Medium	The council's investment criteria restricts counterparties to those of the highest quality and security.
Liquidity Risk (risk that cash will not be available when needed)	Medium	Medium	Council's investment portfolio structured to reflect future liquidity needs. Temporary borrowing is also available to meet short term liquidity issues.

PERCEIVED RISK	SERIOUSNESS	LIKELIHOOD	PREVENTATIVE ACTION
Changes to the Capital Programme and/or revenue streams	High	Medium	Cash flows are calculated monthly and regular projections are made to identify changes to the council's funding requirements. Prudential borrowing to support capital expenditure can be used for schemes expected to provide a financial benefit to the council. There may be some slippage in capital expenditure between years and the impact will be monitored.

11. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

11.1 Legal Officer's Comments (AK)

There are no legal implications arising directly out of this report. Part 1 of the Local Government Act 2003 gives the Council the power to borrow and to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs. It also requires the Council to act prudently when carrying out these activities, including an obligation to determine and keep under review how much money it can borrow. In addition, the Council is required by the Local Government Finance Act 1992 to produce a balanced budget. Generally, the Council must take into account its fiduciary duties to local tax payers and its continuing obligation to ensure it has the funding required to perform its statutory undertakings.

11.2 Finance Officer's Comments (DL)

The report has been prepared by Finance and the relevant financial implications are contained within it.

11.3 Diversities and Equalities Implications (DL)

The report does not cover a new service/policy, or a revision of an existing service or policy therefore does not require an EIA.

11.4 Climate Change Implications (xx)

There are no direct climate change implications arising from this report. However, the report outlines Environment, Social and Governance (ESG) investment considerations required as part of the revised CIPFA Treasury Management Code. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing. Where practical, when making investment decisions ESG will be considered and counterparties with integrated ESG policies and commitments to carbon.

11.5 Communications and Engagement Implications (xx)

12. CONTACT OFFICER AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officers prior to the meeting:

Dani Loxton – Senior Finance Specialist (Capital and Treasury)
Tel: 01303 853583 Email: daniella.loxton@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

Arlingclose's Treasury Management Strategy Statement Template 2024/25

Appendices
Appendix 1 – Arlingclose Interest Rate Forecast at December 2023
Appendix 2 – Borrowing portfolio at 31 December 2023
Appendix 3 – Investment portfolio at 31 December 2023

Appendix 1 – Arlingclose Economic & Interest Rate Forecast – December 2023

Underlying assumptions:

i) UK inflation and wage growth remain elevated but have eased over the past two months fuelling rate cuts expectations. Near-term rate cuts remain unlikely, although downside risks will increase as the UK economy likely slides into recession.

ii) The MPC's message remains unchanged as the Committee seeks to maintain tighter financial conditions. Monetary policy will remain tight as inflation is expected to moderate to target slowly, although some wage and inflation measures are below the Bank's last forecasts.

iii) Despite some deterioration in activity data, the UK economy remains resilient in the face of tighter monetary policy. Recent data has been soft but mixed; the more timely PMI figures suggest that the services sector is recovering from a weak Q3. Tighter policy will however bear down on domestic and external activity as interest rates bite.

iv) Employment demand is easing. 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 and business spending will therefore be weak.

v) 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.

vi) Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.

vii) Global bond yields will remain volatile. Markets are currently running with expectations of near-term US rate cuts, fuelled somewhat unexpectedly by US policymakers themselves. Term premia and bond yields have experienced a marked decline. It would not be a surprise to see a reversal if data points do not support the narrative, but the current 10-year yield appears broadly reflective of a lower medium- term level for Bank Rate.

viii) There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Interest Rate Forecast:

i) The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.

ii) 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.

iii) The immediate risks around Bank Rate have become more balanced, due to the weakening UK economy and dampening effects on inflation. This shifts to the downside in the short term as the economy weakens.

iv) Long-term gilt yields are now substantially lower. Arlingclose expects yields to be flat from here over the short-term reflecting medium term Bank Rate forecasts. Periodic volatility is likely.

Interest Rate Forecast

	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
Official Bank Rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	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
3-month money market rate													
Upside risk	0.00	0.00	0.25	0.25	0.50	0.50	0.50	0.50	0.50	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
5yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.77	3.75	3.75	3.75	3.70	3.60	3.50	3.50	3.40	3.30	3.30	3.30	3.35
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
10yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.72	3.75	3.80	3.80	3.80	3.80	3.80	3.80	3.75	3.65	3.60	3.65	3.70
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
20yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	4.16	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.20	4.25
Downside risk	0.00	-0.25	-0.75	-0.85	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00
50yr gilt yield													
Upside risk	0.00	0.25	0.75	0.85	0.85	0.90	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	3.76	3.80	3.85	3.90	3.90	3.90	3.90	3.90	3.90	3.90	3.95	3.95	3.95
Downside risk	0.00	-0.25	-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 2 – Treasury Management Loans Borrowed at 31 December 2023

Lender	Loan No	Loan Type	Start Date	Maturity Date	Principal Outstanding 31/12/2023	Interest Rate	Broker Name	Long Term	Short Term
					£	%			
Public Works Loan Board	430141	Annuity	09/11/1973	01/11/2033	3,313.59	11.38		3,313.59	
Public Works Loan Board	488942	Fixed	12/08/2004	07/08/2034	2,000,000.00	4.80		2,000,000.00	
Public Works Loan Board	492233	Fixed	28/09/2006	15/03/2054	2,000,000.00	4.05		2,000,000.00	
Public Works Loan Board	493698	Fixed	10/08/2007	07/08/2055	2,500,000.00	4.55		2,500,000.00	
Public Works Loan Board	493914	Fixed	10/09/2007	07/02/2053	2,500,000.00	4.55		2,500,000.00	
Public Works Loan Board	494027	Fixed	31/10/2007	15/03/2044	2,000,000.00	4.65		2,000,000.00	
Public Works Loan Board	494028	Fixed	31/10/2007	15/03/2045	2,000,000.00	4.65		2,000,000.00	
Public Works Loan Board	494029	Fixed	31/10/2007	15/03/2046	2,141,190.00	4.65		2,141,190.00	
Public Works Loan Board	500537	Fixed	28/03/2012	28/03/2031	4,010,000.00	3.26		4,010,000.00	
Public Works Loan Board	500538	Fixed	28/03/2012	28/03/2028	4,000,000.00	3.08		4,000,000.00	
Public Works Loan Board	500540	Fixed	28/03/2012	28/03/2025	4,000,000.00	2.82		4,000,000.00	
Public Works Loan Board	500541	Fixed	28/03/2012	28/03/2029	4,000,000.00	3.15		4,000,000.00	
Public Works Loan Board	500542	Fixed	28/03/2012	28/03/2030	4,000,000.00	3.21		4,000,000.00	
Public Works Loan Board	500543	Fixed	28/03/2012	28/03/2027	4,000,000.00	3.01		4,000,000.00	
Public Works Loan Board	500546	Fixed	28/03/2012	28/03/2024	4,000,000.00	2.70		0.00	4,000,000.00
Public Works Loan Board	500548	Fixed	28/03/2012	28/03/2026	4,000,000.00	2.92		4,000,000.00	
Public Works Loan Board	602621	Fixed	28/02/2023	28/02/2024	10,000,000.00	4.54		0.00	10,000,000.00
Public Works Loan Board	609700	Fixed	27/03/2023	27/03/2035	10,000,000.00	3.93		10,000,000.00	
Total - Public Works Loan Board					**67,154,503.59**				
Leicester City Council	3092	Fixed	31/01/2022	31/01/2024	5,000,000.00	0.40	ICAP		5,000,000.00
Leicester City Council	3095	Fixed	22/03/2022	22/03/2024	5,000,000.00	1.25	ICAP		5,000,000.00
Cornwall Council	3097	Fixed	14/10/2022	14/10/2025	5,000,000.00	5.00	Imperial Treasury	5,000,000.00	
Leicester City Council	3098	Fixed	14/10/2022	14/10/2025	5,000,000.00	5.00	Imperial Treasury	5,000,000.00	
West Midlands Combined Authority	3099	Fixed	31/01/2023	30/01/2024	5,000,000.00	4.00	Imperial Treasury		5,000,000.00
Lichfield District Council	3101	Fixed	09/03/2023	07/03/2024	2,000,000.00	4.40	ICAP		2,000,000.00
East Sussex County Council	3102	Fixed	21/03/2023	19/03/2024	5,000,000.00	4.50	Imperial Treasury		5,000,000.00
North Somerset Council	3105	Fixed	09/03/2023	07/03/2024	3,000,000.00	4.70	ICAP		3,000,000.00
Merseyside Fire & Rescue Authority	3106	Fixed	30/11/2023	31/05/2024	2,000,000.00	5.60	ICAP		2,000,000.00
Salford City Council	3107	Fixed	05/12/2023	05/06/2024	2,000,000.00	5.60	ICAP		2,000,000.00
Folkestone Town Council	n/a	Variable - 2 day call notice	Various May 2018	n/a	500,000.00	5.00			500,000.00
Total - Borrowing at 31/12/2023					**106,654,503.59**			63,154,503.59	43,500,000.00

Appendix 3 – Treasury Management Investment Portfolio at 31 December 2023

Category and Counterparty	Amount or Value £	Terms	Indicative Interest Rate or Yield %
Money Market Funds			
Northern Trust MMF	4,535,000	No notice instant access	5.34
Federated MMF	5,000,000	No notice instant access	5.38
Aberdeen Standard MMF	1,380,000	No notice instant access	5.29
Goldman Sachs MMF	25,000	No notice instant access	5.24
Other Pooled Funds			
Commercial Property Funds			
CCLA Property Fund	5,073,352	No specified maturity date	4.71
Multi-Asset Income Funds			
CCLA Diversified Income Fund	1,923,483	No specified maturity date	2.74
UBS Multi-Asset Income Fund	758,417	No specified maturity date	5.05
Aegon Asset Management Diversified Monthly Income Fund	3,185,262	No specified maturity date	6.59
Ninety-One Diversified Income Fund	3,153,515	No specified maturity date	4.32
Total Investments	**25,034,029**		**5.04**