Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services) Cabinet Council	Date of Meeting:	6 February 2024 8 February 2024 29 February 2024
Subject:	Treasury Management Policy and Strategy 2024/25		
Report of:	Executive Director of Corporate Resources and Customer Services	**Wards Affected:**	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No		

Summary:

This report sets out the following proposed policy and strategy documents:

a) Treasury Management Policy (Appendix A)
b) Treasury Management Strategy (Appendix B)
c) Minimum Revenue Provision Policy Statement (Appendix C).

Recommendation(s):

Overview & Scrutiny Committee is requested to:

1) Consider the proposed policies and strategy documents which include the objectives and operation of the Council's Treasury Management functions, the manner in which the Council will manage its investments and the methodology used to set aside revenue provision for the repayment of debt.
2) Provide any comments to Council that will be considered as part of the formal approval of the Treasury Management Policy, Treasury Management Strategy and Minimum Revenue Provisions Policy Statement.

Cabinet is recommended to:

1) Recommend to Council that the Treasury Management Policy Document for 2024/25 be agreed;
2) Recommend to Council that the Treasury Management Strategy Document for 2024/25 be agreed;

3) Recommend to Council that the Minimum Revenue Provision Policy Statement 2024/25 be agreed.

Council is recommended to:

1) Approve the Treasury Management Policy Document for 2024/25;
2) Approve the Treasury Management Strategy Document for 2024/25;
3) Approve the Minimum Revenue Provision Policy Statement 2024/25.

Reasons for the Recommendation(s):

The Council has adopted CIPFA's Code of Practice on Treasury Management in the Public Services. The Code requires that the Council sets a policy and strategy for the effective operation of the Council's Treasury Management function during the financial year. This will ensure that cash flow is adequately planned, surplus monies are invested commensurate with the Council's risk appetite whilst providing adequate portfolio liquidity, and that the borrowing needs of the Council are properly managed to ensure that the Council can meet its capital spending obligations.

Alternative Options Considered and Rejected:

None

What will it cost and how will it be financed?

(A) Revenue Costs

All financial implications arising from this report are contained within the Councils overall revenue budget

(B) Capital Costs

All financial implications arising from this report are contained within the Councils overall capital budget

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): The policy and strategy will allow for the Council's investment income and the financing costs for the Capital Programme to be managed within the budget for 2024/25.
Legal Implications: None.
Equality Implications: None.
Impact on Children and Young People: No
Climate Emergency Implications: The recommendations within this report will

Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	N

The Council will during 2024/25, invest its reserves and balances overnight with either banks or money market funds in order to maintain high security and liquidity of such balances.

It may also have the opportunity to invest in longer term financial instruments or investment funds for which there may be a chance to consider the impact on the Council's Climate Emergency motion. In the event that the Council has more surplus balances available in future that may lead to longer term investing, the Council will take account of the climate emergency when discussing the options available with its Treasury Management Advisors.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Support strategic planning and promote innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: The Treasury Management function ensures that cash flow is adequately planned, and cash is available when needed by the Council for improvements to the borough through its service provision and the Capital Programme.
Facilitate sustainable economic prosperity: Pursuit of optimum performance on investments activities, minimising the cost of borrowing, the effective consideration / management of associated risks which continues to contribute to a balanced budget for the Council.
Greater income for social investment: n/a
Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD7512/24) is the author of the report.

The Chief Legal and Democratic Officer (LD5612/24) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

The Council's external Treasury Management Advisors, Arlingclose Ltd, have provided advice with regards to the Treasury Management Policy and Strategy.

Implementation Date for the Decision

Following the Call-In period for this committee.

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Appendices:

Appendix A – Treasury Management Policy 2024/25
Appendix B – Treasury Management Strategy 2024/25
Appendix C – Minimum Revenue Provision Policy Statement 2024/25

Background Papers:

There are no background papers available for inspection.

1. Background

1.1. The Council has adopted CIPFA's 2021 Code of Practice on Treasury Management in the Public Services which recommends the production of annual Treasury Management Policy and Strategy documents.

1.2. In addition, the Council has adopted and incorporated into both documents:

a) The requirements of the 2021 Prudential Code for Capital Finance in Local Authorities; and

b) An Investment Strategy produced in line with the then Ministry of Housing Communities and Local Government (MHCLG) Statutory Guidance on Local Government Investments 2018. This sets out the manner in which the Council will manage its investments, giving priority to the security and liquidity of those investments.

1.3. CIPFA published its revised Code of Practice on Treasury Management and a revised Prudential Code for Capital Finance in Local Authorities in December 2021. The key changes in the two codes, which replace the 2017 codes, are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. Sefton has fully adopted the revised reporting requirements.

1.4. A new International Accounting Standard (IFRS 16) on leases is due to be adopted by the Code of Practice on Local Authority Accounting with effect from 1 April 2024. The new standard is expected to bring most operating leases onto the Council's balance sheet (subject to exceptions for short dated and low value leases). This will have an impact on the Capital Financing Requirement (CFR) on 1 April 2024, however, as the values are to be measured at that date the impact is not currently known. The capital values used to prepare this report, the Council's Prudential Indicators report, and Capital Strategy for 2024/25 (also included on the agenda for this meeting) are therefore based on the amounts reported under the current lease accounting standard (IAS 17) which does not require operating leases to be capitalised. The impact of IFRS 16 during 2024/25 will be assessed and Cabinet and Council will be informed of any material changes to the prudential indicators.

2. Treasury Management Policy and Strategy Documents

2.1. The Code requires the Council to produce:

a) A Treasury Management Policy Document – which outlines the broad policies, objectives and approach to risk management of its treasury management activities;

b) A Treasury Management Strategy Document – This sets out specific treasury activities which will be undertaken in compliance with the Policy in 2024/25; and

c) Suitable Treasury Management Practices, setting out the manner in which the organisation will seek to achieve these policies and objectives, prescribing how it will manage and control those activities.

d) Investment Management Practices for investments that are not part of Treasury management activity.

The content of the Policy Statement and the Treasury Management Practices will follow the recommendations contained in sections 6 and 7 of the Treasury Management Code. The Treasury Management Practices will incorporate the changes to the 2021 Code pertaining to the management and reporting of non-treasury management investment activity. Any further amendment to reflect the particular circumstances of the Council will not result in the Council materially deviating from the Code's key principles.

2.2. The proposed Policy and Strategy Documents are attached at **Appendix A and B** respectively.

2.3. In view of the complex nature of Treasury Management, update reports will be presented to the Audit and Governance Committee at each cycle and a mid-year report will also be presented to Cabinet and Council. An annual outturn report will also be presented to Audit and Governance Committee and both Cabinet and Council.

3. Financial Procedure Rules – Banking Arrangements

3.1. The Treasury Management Policy Document at **Appendix A** delegates certain responsibilities to the Executive Director of Corporate Resources and Customer Services, including all executive decisions on borrowing, investment or financing, in line with the Constitution of the Council.

4. Minimum Revenue Provision (MRP) Policy Statement

4.1. Local Authorities have a statutory requirement to set aside each year part of their revenues as a provision for the repayment of debt, called the Minimum Revenue Provision (MRP). The provision is in respect of capital expenditure incurred in previous years and financed by borrowing.

4.2. Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146, as amended] require local authorities to make a prudent amount of minimum revenue provision (MRP).

4.3. The statutory requirement to make an MRP charge does not apply to the Housing Revenue Account (HRA).

4.4. The MRP regulations were revised by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414]. These regulations were complimented by the publication of guidance on determining the "prudent" level of MRP, to which authorities are required to have regard. The 2008 regulations and associated guidance allowed local authorities more flexibility in calculating their MRP annual charge.

4.5. Authorities are required to prepare an annual statement of their MRP policy for submission to their full Council before the start of each financial year. The aim is to give elected Members the opportunity to scrutinise the proposed application of the MRP guidance.

4.6. Revised guidance was published in February 2012 and again in February 2018. Changes made in the 2018 Guidance have been set out in the MRP policy statement.

4.7. In November 2021, the Department for Levelling Up, Housing and Communities (DLUHC) published a consultation seeking views on proposed changes to the (Capital Finance and Accounting) (England) Regulations 2003 to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year. The proposed changes sought to (1) stop local authorities using capital receipts in lieu of a prudential charge to revenue, and (2) to ensure that they make an MRP charge in respect of borrowing associated with investment assets or capital loans. The original proposals were subsequently revised, and a further consultation was undertaken in July 2022. The Government subsequently published revised draft regulations and guidance for consultation in December 2023. This consultation is due to end on 16 February 2024 and the new regulations are expected to come into force from 1 April 2024. The policy document presented with this report has been revised to ensure that it is compliant with the anticipated changes introduced by the new regulations.

4.8. The proposed MRP Policy Statement is set out in **Appendix C.**

Appendix A

Treasury Management Policy

2024/25

Sefton Council

1. Treasury Management Policy

1.1. The Council defines Treasury Management as:

The management of the 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.

1.2. The Council's Statement of Treasury Management Policy is:

a) Effective Treasury Management is acknowledged as providing support towards the achievement of the Council's business and service objectives. It is therefore committed to the principles of achieving best value in Treasury Management, and to employing suitable performance measurement techniques, within the context of effective risk management.

b) The successful identification, monitoring and control of risk are regarded as the prime criteria by which the effectiveness of the Council's Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation.

1.3. A dedicated team of four officers carry out the day-to-day treasury management activities. Three of the officers are qualified accountants, and one is a qualified accounting technician. The Service Manager – Treasury & Capital has obtained the CIPFA/Association of Corporate Treasurers sponsored qualification Certificate in International Treasury Management – Public Finance, which is aimed at giving a solid grounding in treasury management and which is tailored to the public sector.

1.4. Members should receive training in the Treasury Management function in order to assist in the understanding of this complex area. This will be addressed via the provision of regular reporting to Cabinet and the Audit and Governance Committee. Also, specific training and information on Treasury Management is available to all councillors on an annual basis. This is provided from the Authority's external advisors.

2. Policy on the use of external service providers

2.1. Following the completion of a successful tender exercise in September 2020, the Council engaged Arlingclose Ltd. as its treasury consultants from 1st October 2020 to 30th September 2023, with a further option of a one-year extension. The option to extend has been exercised effective to 30th September 2024.

2.2. The Council recognises that responsibility for treasury management decisions rests with the Council at all times. However, access to external treasury consultants provides access to specialist skills, knowledge, and advice. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly documented and subjected to regular review.

3. Treasury Management Strategy

3.1. The Annual Strategy Document sets out in detail how the Treasury Management Activities are to be undertaken in a particular financial year to comply with the Council's Policy. The strategy for 2024/25 is attached at **Appendix B**.

4. Delegated Powers

4.1. The Executive Director of Corporate Resources and Customer Services, under the Council's Constitution, is given the following authority:

a) All money in the hands of the Council shall be aggregated for the purposes of Treasury Management and shall be under the control of the Executive Director of Corporate Resources and Customer Services, the Officer designated for the purposes of Section 151 of the Local Government Act, 1972;

b) All executive decisions on borrowing, investment or financing shall be delegated to the Executive Director of Corporate Resources and Customer Services (or in their absence the Deputy Section 151 Officer) who shall be required to act in accordance with the Council's Treasury Policy, Treasury Management Practices, Investment Management Practices and CIPFA's Standard of Professional Practice on Treasury Management.

5. Reporting Requirements/Responsibilities

5.1. Cabinet and Council will:

a) Approve, prior to each financial year, the Treasury Management Policy and Strategy Documents;

b) Monitor these documents and approve any in-year amendments necessary to facilitate continued effective Treasury Management activity; and

c) Receive a mid-year report on Treasury Management activity during the financial year and an annual outturn report following each financial year.

5.2. Audit and Governance Committee will:

a) Monitor performance on at least a quarterly basis to ensure continued scrutiny of Treasury Management activity;

b) Receive an annual outturn report on Treasury Management activity following each financial year; and

c) Will be responsible for ensuring effective scrutiny of treasury management policies.

5.3. The Executive Director of Corporate Resources and Customer Services will:

a) Draft and submit to Cabinet and Council prior to each financial year, the Treasury Management Policy and Strategy Documents;

b) Implement and monitor these documents resubmitting any necessary in-year revisions/amendments (at least on a quarterly basis) to Cabinet and Council for approval;

c) Draft and submit a mid-year report during the financial year and an annual outturn report on Treasury Management activity to Cabinet and Council following each financial year-end;

d) Draft and submit an annual outturn report (and quarterly performance reports) on Treasury Management activity to the Audit & Governance Committee following each financial year-end;

e) Maintain suitable Treasury Management Practices (TMP), setting out the manner in which the Council will seek to achieve its objectives. The TMP's will also prescribe how the treasury activities will be managed and controlled;

f) Maintain suitable Investment Management Practices (IMPs) for investments that are not for treasury management purposes;

g) Be responsible for the execution and administration of treasury management decisions; and

h) Act in accordance with the Council's Policy Statement, Treasury Management Practices and Investment Management Practices, and also in accordance with CIPFA's Standard of Professional Practice on Treasury Management.

6. Borrowing and investments

6.1. The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken, and the type of borrowing should allow the Council transparency and control over its debt.

6.2. The Council's primary objective in relation to investments remains the security and liquidity of capital. The yield earned on investments remains important but is a secondary consideration.

Appendix B

Treasury Management Strategy

2024/25

Sefton Council

1. Introduction

1.1. The Treasury Management Strategy Document sets out in detail how the Treasury Management Activities are to be undertaken in a particular financial year to comply with the Council's Treasury Management Policy.

1.2. The Strategy has been produced to incorporate the requirements of the CIPFA Code of Practice on Treasury Management 2021 and the Prudential Code for Capital Finance 2021.

2. Treasury Management Strategy 2024/25

2.1. The Strategy for 2024/25 covers:

a) Treasury Limits in force which will limit the borrowing activity of the Council (2.2);
b) Prudential Indicators 2024/25 to 2026/27 (2.3);
c) Credit Risk (2.4);
d) Markets in Financial Instruments Directive (MIFID II) (2.5);
e) Interest Rates (2.6);
f) Exchange Rates (2.7);
g) Capital Borrowing (2.8 & 2.9);
h) Debt Rescheduling opportunities (2.10);
i) Municipal Bond Agency (2.11);
j) Borrowing in advance of need (2.122);
k) The Use of Financial Instruments for the Management of Risks (2.133);
l) Investment Strategy (2.144);
m) Non-Treasury Investments (2.15, 2.16 and 2.17);
n) Interest on School Balances (2.18);
o) Environment, Social and Governance Policy (2.14.149);
p) The Climate Emergency (2.20);
q) Member and Officer Training (2.21).

2.2. <u>Treasury Limits for 2024/25</u>

The Treasury Limits set by Council in respect of its borrowing activities are:

Affordable Borrowing Limit	Maximum £200m

It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the 'Affordable Borrowing Limit'. The Affordable Borrowing Limit takes into account the Council's current debt, an assessment of external borrowing to fund the Capital Programme in 2024/25, the need to fund capital expenditure previously met from internal funding, and cash flow requirements.

Short-term Borrowing Limit	Maximum £30m

The Short–Term Borrowing limit takes into account an assessment of any potential short-term financing the Council may need (e.g., bank overdraft, short-term funding in anticipation of grant receipts). Short-Term Borrowing is defined as being for less than 12 months.

2.3. Prudential Indicators

The prudential indicators listed below are considered relevant by CIPFA for setting an integrated Treasury Management Strategy. A full list of the Council's Prudential Indicators for 2023/24 can be found in the Prudential Indicators report also on the agenda for this meeting.

2.3.1. Liability Benchmark

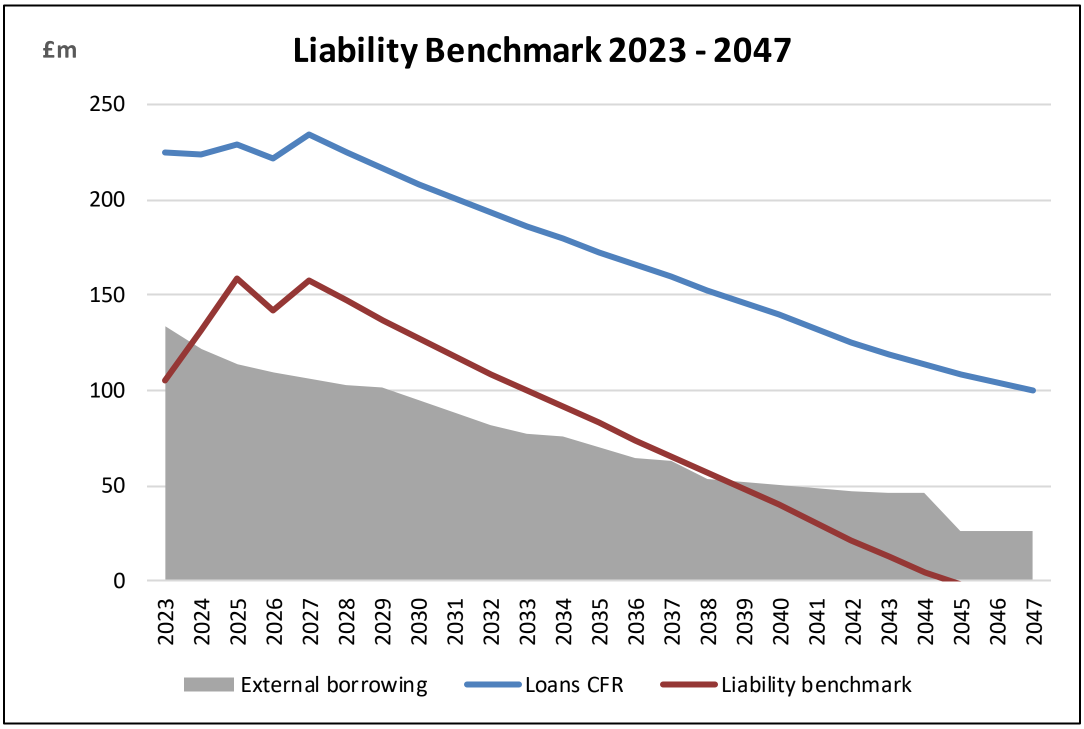
The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external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

Liability Benchmark	**31.03.23 Actual £m**	**31.03.24 Forecast £m**	**31.03.25 Forecast £m**	**31.03.26 Forecast £m**	**31.03.27 Forecast £m**
Loans CFR	224.8	223.5	228.7	221.9	234.4
Less: Balance sheet resources	-129.4	-102.4	-80.2	-89.6	-86.3
Net loans requirement	95.4	121.1	148.6	132.3	148.1
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	105.4	131.1	158.6	142.3	158.1

The table above can be briefly explained as:

- Loans CFR – an estimate of Loans Capital Financing Requirement (the CFR less any other long-term debt liabilities), this being the required level to fund the capital programme.
- Less balance sheet resources available to fund the current approved capital programme.
- Net Loans Requirement – an estimate of the amount of borrowing required to fund the capital programme.
- Liquidity Allowance – the minimum amount of cash required to meet unexpected payments.
- Liability Benchmark – a forecast of the year end liability benchmark representing the lowest amount of borrowing that should be undertaken to maintain the Council's liquidity and minimise credit risk.

A long-term forecast for the liability benchmark plotted against external borrowing for the next 25 years can be seen in the chart below. The long-term liability benchmark assumes capital expenditure funded by borrowing in line with the approved capital programme, minimum revenue provision on new capital expenditure based on standard asset life and income, expenditure and reserves all increasing by inflation of 2.5% each year.



2.3.2. <u>Debt Maturity Indicators</u>

These indicators are designed to be a control over an authority having large concentrations of debt needing to be replaced at times of high interest rates. The control is based on the production of a debt maturity profile, which measures the amount of borrowing that will mature in each period as a percentage of total projected borrowing. Any borrowing decision and related maturity dates will be taken by the Council mindful of maturity profile limits set out below to ensure large concentrations of debt do not fall due for repayment in any one future financial year. The profile reflects borrowing advice provided by Arlingclose, the Council's Treasury Management Advisors.

Maturity Structure of Borrowing During 2024/25	Upper Limit %	Lower Limit %
Under 12 months	20%	0%
12 months and within 24 months	20%	0%
24 months and within 5 years	20%	0%
5 years and within 10 years	30%	10%
10 years and within 15 years	50%	10%
15 years and above	50%	30%

The table above shows, for each maturity period, the minimum and maximum amount of debt that the Council can hold as a percentage of its total external debt. For example, when deciding to take out a loan that is due to mature within the next 24 months, the Council must ensure that this does not take the total amount of debt due to be repaid to more than 20% of all Council debt.

2.3.3. 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 limits shown below are the maximum amounts that can be invested beyond the end of the financial year. The authority cannot therefore hold more than £15m due to mature after 31 March 2025, no more than £10m due to mature after 31 March 2026 and £5m after 31 March 2027.

A limit is also set for investments with no fixed maturity date such as strategic pooled funds and the property fund.

Long Term Treasury Investments				
	2024/25	2025/26	2026/27	No fixed Maturity
Limit on Principal Invested Beyond Year End	£15m	£10m	£5m	£15m

2.3.4. Interest Rate Risk Indicator

This indicator is set to control the Authority's exposure to interest rate risk. A target is set for the one-year impact of a 1% rise and a 1% fall in interest rates on the revenue account. This is measured by examining the parallel shifts in yield curves on borrowing net of treasury investments.

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.

Interest Rate Risk Indicator	**Limit**
Upper limit on one-year revenue impact of a 1% **rise** in interest rates	£1m
Upper limit on one-year revenue impact of a 1% **fall** in interest rates	£1m

It should be noted that the limit set is not intended to be a hard limit that will constrain new investments and it would not be unusual for the limit to be exceeded on occasion during the course of normal treasury management activity during the year. Any material deviation from the limits set will be reported as part the quarterly monitoring of prudential indicators. The Authority's approach to managing interest rate risk is further outlined in paragraph 2.6 below.

2.4. Credit risk

All investments involve a degree of risk. In order to mitigate these risks, the Council will consider the credit ratings supplied by the three main credit rating agencies - Fitch, Moody's and Standard & Poor's as part of the process to determine the list of counterparties where the level of risk is acceptable. As part of this process advice from Arlingclose will also be considered in terms of asset class, maximum duration, and level of investment.

Sole reliance will not be placed on the use of this external service and the Council will also consider alternative assessments of credit strength, and information on corporate developments and of market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution;
- Sovereign support mechanisms;
- Credit default swaps (where quoted);
- Share prices (where available);
- Economic fundamentals, such as a country's net debt as a percentage of its GDP;
- Corporate developments, news, articles, markets sentiment and momentum;
- Background research in the financial press
- Discussion with our treasury consultants
- Internal discussion with the Executive Director of Corporate Resources and Customer Services.

The Council will only invest with institutions of high credit quality that meet the following criteria:

i. are UK based; and/or
ii. are non-UK and domiciled in a country which has a minimum sovereign Long-Term rating of AA-
iii. have a minimum long-term rating of A- (or equivalent).

A further explanation of credit ratings can be found at **Appendix B3**.

The Council maintains a full record of each investment decision taken, each of which is authorised by an appropriate level of signatory.

2.5. MIFID II

2.5.1. From 3rd January 2018, the Financial Conduct Authority was obligated to treat all Local Authorities as "retail clients" under European Union legislation (MiFID II). The client status of the Local Authority relates to its knowledge and experience with regards to the use of regulated investment products and the decision-making processes it has in place for making such investments. The directive is focused on products such as Certificates of Deposit, Gilts, Corporate Bonds and investment funds, including Money Market Funds.

2.5.2. The Council will opt up to “professional status” with its providers of financial services including advisers, banks, brokers and fund managers. Given the size and range of the Authority’s treasury management activities, this represents the most appropriate status and will allow access to the above products as an investment option as they are not available to retail clients.

2.6. Interest Rates

2.6.1. Arlingclose provide regular forecasts of interest rates to assist decisions in respect of:

a) Capital Borrowings (2.8);
b) Debt Rescheduling opportunities (2.10.10);
c) Temporary borrowing for cash flow; and
d) Investments strategy (2.144).

2.6.2. **Appendix B2** gives details of Arlingclose’s central view regarding interest rate forecasts.

2.6.3. Interest rate exposure is principally managed by monitoring interest rate risk. An internal view of the likely path of interest rates is formulated and this is considered along with the cash flow for the Council and any future requirements for potential borrowing such as to fund the Capital Programme. This then forms the basis of when to borrow, whether to borrow short or long term, and whether at fixed or variable rates. The maturity date for any loan is then set after a review of the Council’s debt maturity profile to ensure a smooth maturity profile. Any plans for borrowing are discussed with our treasury consultants at regular strategy meetings to ensure the most advantageous position.

2.6.4. The current borrowing portfolio position is monitored via the borrowing charges incurred by the Council, which are monitored on a monthly basis.

2.6.5. The advice from Arlingclose takes into account financial activity both in the UK and world economies and the impact of major national and international events. It is essential that borrowing and investment decisions are taken mindful of independent forecasts as to interest rate movements. The Council will continue to take account of the advice of treasury management advisors.

2.7. Exchange Rate Risk Management

2.7.1. The Council has a minimal exposure to exchange rate risk as it has no powers to enter into loans or investments in foreign currency for treasury management purposes.

2.7.2. The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income and expenditure levels.

2.8. Capital Borrowing Strategy

2.8.1. The Authority's current debt portfolio is presented below:

Debt Portfolio	31/12/2023
Average Interest Rate	3.76%
Debt Outstanding – Fixed Rate	£m
PWLB	123.471
Other Long-Term Liabilities	5.246
Total Debt	**128.716**

2.8.2. Other long-term liabilities shown above represent transferred debt from the Merseyside Residuary Body (£0.622m) and finance lease liabilities (£4.623m).

2.8.3. The Council will raise its required finance from the sources listed below. Although there are a range of options available, HM Treasury's PWLB lending facility will be considered in the first instance as the main lender to local government. No borrowing arrangements will be entered into until advice is taken from the Council's treasury management advisors and following approval from the Executive Director of Corporate Resources and Customer Services (or in their absence the Deputy Section 151 Officer).

- HM Treasury's PWLB lending facility
- UK Infrastructure Bank Ltd.
- An institution approved for investments (see 2.14 below)
- Banks or building societies authorised to operate in the UK
- UK public sector bodies
- UK public and private sector pension funds (with the exception of Merseyside Pension Fund)
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

2.8.4. 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.

2.8.5. The Council's forecast borrowing requirement for 2024/25 is as follows:

Borrowing Requirement	Estimate £m
New Borrowing	11.111
Replacement Borrowing	25.000
Total Borrowing	**36.111**

2.8.6. The new borrowing represents the unsupported borrowing as required by the Capital Programme in 2024/25 and borrowing undertaken to reverse the Councils internal borrowing position. As further explained in 2.8.9. (below), the Council is internally borrowed and may also take additional borrowing if required, in order to reverse this position.

2.8.7. The Arlingclose forecast for interest rates is set out at **Appendix B1**. This would suggest that the following strategy is followed:

i. The cheapest borrowing will be internal borrowing, which involves reducing cash balances and foregoing interest earned at the current historically low rates. Consideration will always be given to long term borrowing rates and the possibility of rates rising, which could mean borrowing at future higher rates which could erode the advantages of internal borrowing
ii. Temporary borrowing from money markets or other local authorities.

2.8.8. The authority borrows from the PWLB in order to fund part of the Capital Programme, the maximum that the Council can borrow being the Capital Financing Requirement (CFR) which measures the amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. It measures the underlying need to borrow for a capital purpose.

2.8.9. PWLB borrowing as at 31st December 2023, plus other long-term liabilities, is £129m, as against an estimated CFR of £231m for 2023/24. This means that the Council is in a position to borrow a further £102m which would take the current borrowing level to the level of the CFR. This strategy is described as being internally borrowed which has the advantage of reducing exposure to interest rate and credit risk. To be internally borrowed is a conscious decision to use cash balances to fund capital expenditure, rather than borrow from the PWLB. This position can be reversed at any time by borrowing from the PWLB, or any other appropriate organisation.

2.8.10. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Hence, internal borrowing is a sensible option where interest rates on deposits are lower than the current PWLB borrowing rates, but this will be reviewed should interest rates change significantly.

2.8.11. However, as noted in 2.8.7. (above), savings have to be weighed against the potential for incurring long term extra costs by delaying unavoidable new borrowing until later years when PWLB rates are forecast to be higher. This issue will be left under review and discussions with treasury management advisors will be ongoing to ascertain the optimum time for undertaking future borrowing.

2.8.12. Against this background, caution will be adopted in undertaking borrowing in 2024/25. The Executive Director of Corporate Resources and Customer Services will monitor the interest rate market and following advice from Arlingclose, adopt a pragmatic approach to changing circumstances during the year.

2.9. Public Works Loans Board Rates

2.9.1. The PWLB offers its local authority borrowing facility at a fixed rate above the Government's cost of borrowing and this has historically been the most efficient manner of borrowing for councils. The PWLB will not however, lend to any authority that plans to buy investment assets primarily for yield anywhere in their capital plans.

2.9.2. PWLB borrowing rates will be used when assessing the cost, viability, and affordability of capital schemes when those schemes are being financed from borrowing. The authority will also consider a wider evaluation of funding options from other sources as identified in paragraph 2.8.3 (above).

2.9.3. The authority may also consider arranging 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.

2.10. Debt Rescheduling Opportunities

2.10.1. 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 Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

2.10.2. The recent rise in interest rates means that more favourable debt rescheduling opportunities could arise than in previous years. The situation will be monitored however, and the Council as in previous years will consider the option of debt restructuring all or part of the debt portfolio during 2024/25, should the financial circumstances allow, for example, by using capital receipts from asset disposals to repay debt.

2.11. Use of the UK Municipal Bond Agency

2.11.1. The UK Municipal Bonds Agency (MBA) 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.

2.11.2. The MBA will be 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 subject to specialist external advice and a separate report will be brought to Cabinet and full Council.

2.12. Borrowing in advance of need

2.12.1. The Council will not borrow more than, or in advance of, its needs purely to profit from the investment income made on the extra sums borrowed. Any decision to borrow in advance of need will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.

2.12.2. In determining whether to borrow in advance of need the Council will: -

- Ensure that there is a direct link between the Capital Programme and maturity profile of the existing debt portfolio which supports the need to borrow in advance of need;
- Ensure that the revenue implications of such borrowing have been considered in respect of future plans and budgets; and
- Consider the merits of other forms of funding.

2.12.3. The total amount borrowed will not exceed the authorised borrowing limit of £200m. The maximum period between borrowing and expenditure is expected to be two years, although the Authority is not required to link loans with particular items of expenditure.

2.13. The Use of Financial Instruments for the Management of Risks

2.13.1. 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. Lender Option Borrower Option (LOBO) loans – typically a very long-term loan (40-70 years) 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). The CIPFA Code requires councils to clearly detail their policy on the use of derivatives in the annual strategy.

2.13.2. The Council's policy on such items is that it will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

2.13.3. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria. The current value of any amount due from a derivative counterparty will count against the counterparty credit limit and the relevant foreign country limit.

2.13.4. The Council will only use derivatives after seeking expertise, a legal opinion and ensuring officers and members have the appropriate training for their use. At the present time, no such arrangements are in place.

2.14. Investment Strategy

2.14.1. The Council manages the investment of its surplus funds internally and operates in accordance with the Statutory Guidance on Local Government Investments issued by DLUHC, the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 and the CIPFA Treasury Management in Public Services Guidance Notes 2021 for Local Authorities. Surplus funds are invested on a daily basis ensuring security, followed by portfolio liquidity.

2.14.2. The Council's investment priorities are, in order of priority:

1. The security of capital
2. The liquidity of capital
3. Yield that can be generated.

2.14.3. The Council will aim to achieve the optimum return on its investments commensurate with proper levels of security of principal sums invested and portfolio liquidity, whilst ensuring that robust due diligence procedures cover all external investments. The Authority aims to be a responsible investor and will also consider environmental, social and governance (ESG) issues when investing (see 2.19 below).

2.14.4. The Council's investment portfolio as at 31st December 2023 is set out below:

Investments Portfolio	**£m**
Money Market Funds	26.90
CCLA Property Fund	5.00
Total	**31.90**

2.14.5. The Authority may invest its surplus funds with any of the counterparty types in the table below, subject to the maximum limits shown:

Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	50 years	Unlimited	Unlimited
Local authorities & other government entities	25 years	£15m	Unlimited
Secured investments	25 years	£15m	Unlimited
Banks (unsecured)	12 months	£10m	Unlimited
Building societies (unsecured)	12 months	£10m	£15m

Registered providers (unsecured)	5 years	£10m	£15m
Money market funds	n/a	£15m	Unlimited
Strategic pooled funds e.g. Property Funds	n/a	£10m	£15m
Other investments	5 years	£5m	£10m

2.14.6. The risk of exposure to an individual counterparty as a proportion of the Council's total investment portfolio will also be considered so that access to cash is maintained in the event of operational difficulties at any one provider. Operational limits expressed as a percentage of total investments held, may therefore be used for investments in addition to the above maximum limits and will be applied to counterparties that are lent to in the short term or for daily liquidity. The following table outlines the operational limits that will be applied:

Sector	**Counterparty limit**
Local authorities & other government entities	10%
Banks (unsecured)	5%
Building societies (unsecured)	5%
Money market funds	10%

2.14.7. Advice from our Treasury Management Advisors will also be considered in determining whether shorter maximum investment periods or operational limits for the amount invested is more appropriate during the year.

2.14.8. The Council banks with National Westminster Bank, which is part of the Royal Bank of Scotland Group. It is currently a part government-owned institution although as of 2022 the UK Government is no longer a majority shareholder. At the present time, it meets the minimum credit criteria of A- (or equivalent) long term. There may be occasions however, when the bank's rating may temporarily fall below these minimum criteria to a BBB rating. The Bank will continue to be used for short term liquidity requirements (overnight and weekend investments) to ensure business continuity when no other options are available.

2.14.9. The current list of countries approved for investment is shown below; this takes account of the most up-to-date credit ratings available in respect of the countries named. It should be noted that a maximum limit of £10m will be applied when investing in any one country outside of the UK. The investment counterparties within each country will also be subject to the limits identified above and will be monitored to ensure they continue to meet the requirements for high credit quality. In the event of a change in credit rating or outlook, the Council, with advice from treasury management advisors, will evaluate its significance and determine whether to include (subject to Council approval) or remove a country from the approval list:

Rating	Country
AAA	• Australia • Denmark • Germany • Luxembourg • Netherlands • Norway • Singapore • Sweden • Switzerland
AA+	• Austria • Canada • Finland • USA
AA-	• Belgium • France • Ireland • United Kingdom

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

2.14.11. In order to pursue the strategy of maximising returns from surplus funds at an acceptable level of security and portfolio liquidity, the following Brokers will be utilised for investments of over one month:

ii) BGC Brokers LP;
iii) Tradition UK Limited;
iv) Tullet Prebon Limited.

There are 3 brokers within this list, however as with previous years, this is to provide maximum protection to the Council. It is unlikely that these institutions will all be utilised during the financial year.

2.14.12. It is not proposed to make any investments in 2024/25 that do not comply with the above strategy, however, should the situation change, the Executive Director of Corporate Resources and Customer Services will report to Cabinet requesting appropriate approval to amend the strategy before any such investments are made.

2.14.13. If any of the Council's investments appear at risk of loss due to default (i.e. this is a credit related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make an assessment of whether a revenue provision of an appropriate amount is required.

2.14.14. Performance monitoring will be reported to the Audit and Governance Committee on a quarterly basis, with mid-year reports and outturn reports also presented to Cabinet and Council.

2.15. Non-Treasury Investments: Service Investments (Loans)

2.15.1. The Council will invest its money to support local public services and stimulate local economic growth by providing loans to its subsidiaries. These types of investments are classified as non-treasury investments.

2.15.2. Cabinet as the shareholder has agreed the provision of a peak debt facility to Sandway Homes Limited that is due to reach £8.3m. The amount of debt facility released to the housing company as of 31 December 2023 is £6.743m and this will be fully repaid by December 2025. As this sum is drawn down as per the agreed loan agreement, the Council will if required provide for this sum via the Public Works Loan Board. These sums are included in the prudential indicators for 2024/25 included on this agenda.

2.15.3. A similar arrangement exists for the wholly owned hospitality company, Sefton Hospitality Operations Limited for whom a lower debt facility of £1.4m has been provided. The debt facility will be fully repaid by the end of 2026/27.

2.15.4. The limits for Service Investments for 2024/25 will therefore be set as per the debt facilities described above:

Borrower	**Approved Limit £m**
Sandway Homes Ltd.	8.3
Sefton Hospitality Operations Ltd.	1.4

2.16. Non-Treasury Investments: Service Investments (Shares)

2.16.1. The Council holds shares in companies that are its wholly owned subsidiaries, the purpose of which are to support local public services and stimulate local economic growth. The three subsidiaries in which the Council holds shares are as follows:

- Sefton New Directions Limited – a company that conducts some of the Council's adult social care activities.
- Sandway Homes Limited – a company that engages in housebuilding activity.
- Sefton Hospitality Operations Limited – a company that engages in hospitality activity.

2.16.2. The value of shares held in the above companies are of nominal value (£1 per share) and therefore do not carry the same risks and exposures as shares that are purchased as an investment and may change in value in response to market forces. The Council's approach to shares in its wholly owned subsidiaries will be to continue to hold the shares, the total value of which are shown in the table below.

Subsidiary	Number of Shares Held	Value at 31/03/2023 £
Sefton New Directions Ltd.	1000	1000
Sandway Homes Ltd.	100	100
Sefton Hospitality Operations Ltd.	1	1

2.17. Non-Treasury Investments: Commercial Investments

2.17.1. Investments for commercial purposes are undertaken as a commercial business activity seeking profit that will be spent on local services. The Council’s non-treasury commercial investments consist of an investment property portfolio of 184 properties which, after deducting maintenance costs, generate net income which contributes to the provision of services or present an opportunity for capital gain through redevelopment. The investment property portfolio is fully owned by the Council and no outstanding loans are held against it. No new investment properties have been added for several years.

2.17.2. The Council’s Asset Management Strategy provides a framework for the planning, prioritisation, management and funding of the Council’s asset base. The property asset base divides into operational and non-operation properties, the latter of which is also known as the Investment portfolio.

2.17.3. The key aims of the Asset Management strategy are to:

- Enhance the opportunities for communities to access the Council’s services in either our own or partner buildings.
- Maximise the use of space within buildings by enabling better and innovative ways of working.
- Ensure that buildings meet all Health and Safety requirements and other legislative standards.
- Provide a clear context within which the Council's property assets can be managed to ensure that all asset based investment is targeted towards meeting the Council's priorities and/or legislative requirements.
- Maximise the use of revenue resources by establishing effective arrangements for the management of Council assets and expenditure including focused benchmarking and performance analysis to achieve Value for Money (increase granularity of reporting down to m^2 rate of assets to inform robust decisions).
- Establish a corporate approach to the management and release of capital from the Council's existing asset base.

2.17.4. The strategy is reviewed annually adapting to the review of the Council's strategic objectives, changes in policy, professional practice and changes in the economy and property markets.

2.18. Interest on Schools Balances

2.18.1. The Council holds, as part of its cash balances, amounts relating to school’s reserves. The main element of this reserve is individual carry forward balances of school’s unspent budgets, and it is the Council’s responsibility to hold these balances and ensure they are ring-fenced for use against school activities.

2.18.2. Until such time as school's balances are spent by individual schools, the cash will form part of the Council's day-to-day investment activities as outlined in the strategy above. Interest will therefore be applied to school's balances to reflect any interest earned on the reserves at the average Bank of England base rate (calculated over the financial year) less 0.5%.

2.18.3. The Council also holds centrally retained Dedicated Schools Grant (DSG) balances in respect of Schools Central Support Services, Early Years and High Needs non-schools provision. A deficit balance was held in the High Needs block at 31st March 2023 of £18.7m. This deficit has been increasing year on year and has a significant impact on the Council's cashflow position. This has meant that interest earned on investments of cash balances has been less than it would have been without the deficit.

2.18.4. The Council intends to seek approval to make a charge to the DSG High Needs block in respect of the foregone income from the lower investment of cash balances. If approved, this will mirror the current arrangements for school delegated balances – interest will be applied to deficit balances at the average Bank of England base rate (calculated over the financial year) less 0.5% and reimbursed to the treasury management budget.

2.19. <u>Environmental, Social and Governance (ESG) Policy</u>

2.19.1. 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.

2.19.2. Furthermore, where the Council deposits surplus balances overnight or for a short-term, investments will be made with financial institutions in a responsible manner (aligned to the overarching core principles/Councils core values) where possible and in accordance with advice from its Treasury Management Advisor. In the event that the Council has surplus balances that it can invest for the longer term (e.g., terms over 1 year) it will exclude direct investment in financial products that do not contribute positively to society and the environment. This will include the principle that investment in specific financial products whose performance is driven by off-shore trading, financial malpractice, debt swops, short selling, the arms trade and tobacco industry will be avoided. The same rigorous criteria will be used to assess whether investment in certain countries will be contrary to Sefton's core values.

2.19.3. It is recommended that the Executive Director of Corporate Resources and Customer Services, assess whether investment in certain countries will be contrary to Sefton's core values, give consideration to the exclusion of those countries on the EU list of non-cooperative tax jurisdictions (the black list and grey list), which aims to tackle external risks of tax abuse and unfair tax competition, within the Council's Treasury Management Strategy.

2.20. The Climate Emergency

2.20.1. At Full Council in July 2019 a climate emergency was declared by the Council. One of the aspects within this motion was that the Council should review the impact that some of its strategies including its Treasury Management Strategy could have on the successful delivery of the motion.

2.20.2. In recent years, the Council has seen its level of reserves and balances reduce and as a result where in previous years, it would have invested these surplus resources in longer term financial instruments or investment funds that may have had an impact on the Council's motion, it now deposits these lower value residual funds overnight with either banks or money market funds.

2.20.3. As a result of this, at this stage it is not considered that the Council's investment activity needs to be taken into account when considering its response to the climate emergency. In the event that the council has more surplus balances available during the year that may lead to longer term investing, the council will take full account of the climate emergency when discussing the options available with the Treasury Management Advisors.

2.21. Member and Officer training

2.21.1. CIPFA's Code of Practice requires the Executive Director of Corporate Resources and Customer Services to ensure that all Members tasked with treasury management responsibilities, including scrutiny of the treasury management function, receive appropriate training relevant to their needs and understand fully their roles and responsibilities.

2.21.2. In order to address this, the Service Manager – Treasury & Capital has obtained the CIPFA/Association of Corporate Treasurers sponsored qualification Certificate in International Treasury Management – Public Finance, which is aimed at giving a solid grounding in treasury management and which is tailored to the public sector. Training will be provided for Members of the Audit & Governance Committee, and it is intended for such training to occur at least annually.

Appendix B1

INTEREST RATE FORECAST

Arlingclose Interest Rate Forecast – December 2023

The Council has appointed Arlingclose as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The following table gives their central view:

	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 B2

Arlingclose Economic and Interest Rate Forecast (Commentary)

Underlying assumptions:

- 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.
- 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.
- 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.
- 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.
- Inflation will fall over the next 12 months. The path to the target will not be smooth, with higher energy prices and base effects interrupting the downtrend at times. The MPC's attention will remain on underlying inflation measures and wage data. We believe policy rates will remain at the peak for another 10 months, or until the MPC is comfortable the risk of further 'second-round' effects has diminished.
- Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling, will require significant loosening in the future to boost activity.
- 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.
- There is a heightened risk of fiscal policy and/or geo-political events causing substantial volatility in yields.

Forecast:

- The MPC held Bank Rate at 5.25% in December. We believe this is the peak for Bank Rate.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. We see rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.
- The immediate risks around Bank Rate 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.
- 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.

Appendix B3

CREDIT RATING EXPLANATION

The following is an explanation of the ratings applied by Fitch.

Short term rating

This places greater emphasis on the liquidity necessary to meet financial commitments.

F1 highest credit quality (+ denotes exceptionally strong)
F2 good credit quality
F3 fair credit quality.

Long term rating

AAA highest credit quality – lowest expectation of credit risk and exceptionally strong capacity to pay financial commitments
AA very high credit quality – very low credit risk and very strong capacity to pay financial commitments
A high credit quality – low credit risk and considered to have strong capacity to pay financial commitments, but may be vulnerable.

Viability rating

This assesses how a bank would be viewed if it were entirely independent and could not rely on external support.

aaa highest fundamental credit quality
aa very high fundamental credit quality
a high fundamental credit quality
bbb good fundamental credit quality
bb speculative fundamental credit quality
b highly speculative fundamental credit quality
ccc substantial fundamental risk
cc very high levels of fundamental credit risk
c exceptionally high levels of fundamental credit risk
f failed.

Support rating

Judgement of a potential supporter's (either sovereign state of parent) propensity to support the bank and its ability to support it.

1 extremely high probability of external support
2 extremely high probability of external support
3 moderate probability
4 limited probability
5 cannot rely on support.

Appendix C

Minimum Revenue Provision Policy Statement

2024/25

Sefton Council

1. Background

1.1. Local Authorities have a statutory requirement to set aside each year part of their revenues as a provision for the repayment of debt, called the Minimum Revenue Provision (MRP). The provision is in respect of capital expenditure incurred in previous years and financed by borrowing.

1.2. Previously the Council was required to follow a prescriptive MRP calculation as set out in former regulations 27, 28 and 29 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 2003/3146, as amended]. This system was revised by the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414].

1.3. As part of those regulations the Government issued guidance recommending local authorities to prepare an annual statement of its strategic policy on the MRP, to be approved by the full council. The guidance requires each authority to determine its own MRP within the given framework and that the amount of MRP charged is a prudent amount.

1.4. The broad aim of a prudent amount is to ensure that the debt is repaid over a period that is either reasonably commensurate with the period over which the capital expenditure provides benefit, or, in the case of borrowing supported by formula grant, reasonably commensurate with the period implicit in the determination of that grant.

2. Strategic Options

2.1. The Council is free to determine its own method for calculating a prudent provision, but the guidance includes four options for calculating MRP. The Council can choose from or use a combination of the available options. The options are as follows:

Option 1 – Regulatory Method

2.2. This provides for local authorities to continue to calculate MRP in line with the minimum existing statutory charge of 4% of outstanding debt related to supported borrowing only, less an adjustment that ensures consistency with previous capital regulatory regimes no longer in force. This option is available for all capital expenditure incurred prior to 1 April 2008.

Option 2 – Capital Financing Requirement Method

2.3. This is very like the regulatory method, but it does not take account of the adjustment that ensures authorities do not pay more MRP than under the previous capital regulatory regimes. For most authorities, this method may not be appropriate as it would result in a higher level of provision than option 1.

Option 3 – Asset Life Method

2.4. This method is appropriate for calculating MRP in relation to debt incurred as unsupported borrowing (also known as prudential borrowing) and must be used for revenue expenditure capitalised by direction or regulation (such as that for equal pay). Under this option there are two methods available:

i. **Equal instalment method.** This generates a series of equal annual amounts over the life of each asset that is financed by borrowing, with the life determined upon acquisition. This means that the charge to revenue closely matches the period of economic benefit of the asset.

ii. **Annuity method**. This method links the MRP to the flow of benefits from an asset where the benefit is expected to increase in later years.

2.5. Under this option authorities should consider the type of assets that they finance through prudential borrowing, as the type of asset may have a significant impact on the level of MRP and the method used to calculate the MRP.

Finance Leases and PFI

2.6. The guidance indicates that for finance leases and on balance sheet PFI contracts, the MRP requirement is met by making a charge equal to the element of the finance lease rental that goes to write down the balance sheet liability under proper accounting practices. This is in effect a modified version of the annuity method of Option 3.

Option 4 – Depreciation Method

2.7. This method is appropriate for calculating MRP in relation to debt incurred as unsupported (prudential) borrowing. Under this method, MRP is equal to the amount of depreciation charged on assets funded from unsupported borrowing. This method may cause volatility in the annual charge for MRP because assets are revalued on a periodic basis, giving rise to significant changes in the amount of depreciation charged. Given this potential adverse impact on future budgets this option is not considered viable.

Use of Capital Receipts

2.8. In addition to the four options listed above, the Local Authorities (Capital Finance and Accounting) Regulations 2003 [SI 2003/3146] allow local authorities to use capital receipts to meet "any liability in respect of credit arrangements, other than any liability which, in accordance with proper practices, must be charged to a revenue account".

2.9. For both finance leases and PFI contracts, proper accounting practices require that the element of the annual rental relating to the repayment of the liability is used to write down that liability on the balance sheet and is not charged to revenue. It therefore follows that local authorities are permitted to apply capital receipts to fund the principal element of the annual rental of a finance lease or on balance sheet PFI contract.

3. MRP Statutory Guidance (February 2018)

3.1. In February 2018, the Government issued revised statutory guidance on the minimum revenue provision.

3.2. The key changes to the guidance included:

- The definition of ‘Prudent Provision’ used in the guidance was updated so that the broad aim of prudent provision is to require local authorities to put aside revenue over time to cover their Capital Financing Requirement (CFR).
- Where a local authority changes the method(s) that it uses to calculate MRP, it should explain in its Statement, why the change will better allow it to make prudent provision.
- The calculation of MRP under the new method(s) should be based on the residual CFR at the point the change in method is made (i.e. it should not be applied retrospectively). Changing the method used to calculate MRP can never give rise to an overpayment in respect of previous years and should not result in a local authority making a reduced charge or a charge of £nil for the accounting period in which the change is made, or in any subsequent period, on the grounds that it needs to recover overpayments of MRP relating to previous years.
- A charge to a revenue account for MRP cannot be a negative charge.
- If a local authority chooses to offset a previous year’s overpayment, they should disclose this fact and any remaining cumulative overpayment of MRP in the Statement presented to full council.
- Where a local authority uses MRP options 3 or 4 or where it uses another methodology that has the useful life of assets as a component to the calculation, it should normally not exceed a maximum useful life of 50 years. Local authorities can exceed this maximum in two scenarios:

  i. where a local authority has an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for more than 50 years it can use the life suggested by its professional advisor; and

  ii. for a lease or PFI asset, where the length of the lease/PFI contract exceeds 50 years. In this case the length of the lease/PFI contract should be used.

4. MRP Policy for 2024/25

4.1. The recommended MRP policy is summarised below:

Category	Basis of MRP Calculation
Supported borrowing	Annuity Basis - Calculated over 50 years (commencing from 1 April 2015)
Unsupported (prudential) borrowing	Annuity Basis - Calculated using (Option 3) the estimated life method

PFI and Leasing Arrangements	Basis of MRP Calculation
On balance sheet PFI contracts	MRP charge to be equal to the principal element of the annual rental
On balance sheet leasing arrangements	MRP charge to be equal to the principal element of the annual rental

4.2. Standard asset lives to be applied to calculate the MRP charge for unsupported (prudential) borrowing:

Intangibles (Software)	3 Years
Vehicles, Plant & Equipment	5 to 10 Years
Revenue Expenditure Funded for Capital Under Statute – Capitalised Redundancy Costs	20 Years
Revenue Expenditure Funded for Capital Under Statute - Other	25 Years
Community Assets (Parks, Gardens etc.)	25 Years
Land	50 Years
Buildings – Scheme Value under £250,000	25 Years
Buildings – New Build (Value over £249,999)	Building Life per Asset Register *
Buildings – Acquisitions (Value over £249,999)	
Buildings – Refurbishment / Remodelling (Value over £249,999)	30 Years
Buildings – New Strand Shopping Centre	25 Years
Infrastructure - Capitalised Highways Maintenance	10 Years
Infrastructure - Other	40 Years

* The building life used in the MRP calculation will be subject to a maximum of 50 years.

4.3. The Executive Director of Corporate Resources and Customer Services will retain discretion to use alternative lives for assets (capital schemes) that have characteristics that mean using the standard life would not be considered appropriate. It is anticipated that this will only apply in very limited circumstances.

4.4. Assets acquired with the intention of onward sale which will not be used in the delivery of services will not generally attract MRP as in these events the capital receipts generated by the loan and sale will be set aside to repay debt.

4.5. Loans made to third parties to enable them to incur capital expenditure are repaid by the borrower and so an MRP provision does not need to be made in certain circumstances. These loans may only be excluded from the MRP calculation where they meet the definition required under the Capital Finance and Accounting Regulations.

4.6. Commencement of MRP Charges

Provision for debt under Option 3 (Asset Life Method) will normally commence in the financial year following the one in which the expenditure is incurred. However, the MRP guidance highlights an important exception to this rule. In the case of the provision of a new asset, MRP would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This delay would be perhaps 2 or 3 years in the case of major projects, or possibly longer for some complex infrastructure schemes.

4.7. Use of Capital Receipts to Reduce the Capital Financing Requirement

Any proposal to use capital receipts to reduce the overall Capital Financing Requirement and therefore reduce future MRP charges will be presented for approval in line with the Council's scheme of delegation.

4.8. Housing Revenue Account

The Housing Revenue Account (HRA) is not subject to a statutory requirement to make a minimum revenue provision. As a result, the MRP policy set out above only applies to borrowing to fund none HRA assets. However, the Council may make an annual voluntary provision for debt repayment in the HRA. The level of provision (if any) will be determined annually as part of the closure of the HRA.