Cabinet – 29 January 2025

Treasury Management Strategy 2025/26

Report Summary:

This report presents the:
a. Treasury Management Strategy Statement;
b. Annual Investment Strategy (AIS); and
c. Borrowing Strategy

It also details various Treasury Management policies for review and approval.

Recommendations

I recommend that Cabinet:

a. Approve the 2025/26 Treasury Management Strategy, based on the 2021 CIPFA Codes (Prudential Code and Treasury Management Code), and 2018 Ministry of Housing, Communities and Local Government (MHCLG) Guidance (on Local Government Investments and on Minimum Revenue Provision);

b. In accordance with regulations, recommend to the County Council, at its meeting on the 29 January 2025, the adoption of the AIS 2025/26 detailed in **paragraphs 56 to 102, Annex A** and **Annex B** of this report;

c. Approve the proposed Borrowing Strategy for 2025/26 detailed in **paragraphs 34 to 55** comprising:

   i. maximising the use of cash in lieu of borrowing, as far as is practicable;
   ii. the ability to borrow new long-term loans, where deemed appropriate;
   iii. the use of cash to repay loans early, subject to market conditions; and
   iv. a loan rescheduling strategy that is unlimited where this re-balances risk.

d. Approve policies on:

   i. reviewing the Treasury Management Strategy;
   ii. the use of external advisers;
   iii. investment management training; and
   iv. the use of financial derivatives,
   as described in **paragraphs 111 to 113** of this report.

   All of the above will operate within the prudential limits set out in **Annex C** and will be reported to the Cabinet Member for Finance and Corporate Matters, in respect of decisions made for raising new long-term loans, early loan repayments and loan rescheduling.

Cabinet – 29 January 2025

Treasury Management Strategy 2025/26

Recommendations of the Cabinet Member for Finance and Corporate Matters

I recommend that Cabinet:

a. Approve the 2025/26 Treasury Management Strategy, based on the 2021 CIPFA Codes (Prudential Code and Treasury Management Code), and 2018 Ministry of Housing, Communities and Local Government (MHCLG) Guidance (on Local Government Investments and on Minimum Revenue Provision);

b. In accordance with regulations, recommend to the County Council, at its meeting on the 29 January 2025, the adoption of the AIS 2025/26 detailed in **paragraphs 56 to 102, Annex A** and **Annex B** of this report;

c. Approve the proposed Borrowing Strategy for 2025/26 detailed in **paragraphs 34 to 55** comprising:

   i. maximising the use of cash in lieu of borrowing, as far as is practicable;
   ii. the ability to borrow new long-term loans, where deemed appropriate;
   iii. the use of cash to repay loans early, subject to market conditions; and
   iv. a loan rescheduling strategy that is unlimited where this re-balances risk.

d. Approve policies on:

   i. reviewing the Treasury Management Strategy;
   ii. the use of external advisers;
   iii. investment management training; and
   iv. the use of financial derivatives,
   as described in **paragraphs 111 to 113** of this report.

   All of the above will operate within the prudential limits set out in **Annex C** and will be reported to the Cabinet Member for Finance and Corporate Matters, in respect of decisions made for raising new long-term loans, early loan repayments and loan rescheduling.

Report of the Director of Finance

Reasons for Recommendations:

1. Treasury Management comprises the management of the County Council's cash flows, borrowings and investments, and their associated risks. The County Council has borrowed and invested large sums of money and is therefore exposed to financial risks, including the effects on revenue from changing interest rates on borrowings and investments, and the risks of a potential loss of invested cash. It is important that the County Council

successfully identifies, monitors and controls financial risk as part of prudent financial management.

2. The County Council conducts its treasury risk management within the framework of the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Treasury Management in the Public Services Code of Practice 2021 Edition* (the CIPFA Code). The CIPFA Code requires that the County Council approves a Treasury Management Strategy before the start of each financial year. In addition, this report fulfils the County Council's legal obligation to have regard to the CIPFA Code under the *Local Government Act 2003.*

3. Any investments held for service purposes or for commercial reasons i.e. the County Council's non-treasury investments, are considered in a separate report. The (Non-Treasury) Commercial Investment Strategy 2025/26 report meets the requirements of the statutory guidance issued by the MHCLG in its *Guidance on Local Government Investments 2018 Edition*.

4. Attached at **Annex E** of this report is a comprehensive glossary of treasury terms to provide definitions and background for treasury reports.

Link to the Medium-Term Financial Strategy (MTFS)

5. It is a statutory requirement, under Section 33 of the Local Government Finance Act 1992, for the County Council to produce a balanced budget. In particular, Section 32 requires the calculation of a budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. Capital expenditure must not exceed an amount which can be afforded, in terms of interest charges and running costs for the foreseeable future.

6. The Local Government Act 2003 requires a local authority to have regard to the Prudential Code and to set Prudential Indicators for the next three years to ensure that its capital investment plans are affordable, prudent and sustainable. The Prudential Indicators are approved as part of this report which is included in the Medium-Term Financial Strategy (MTFS), but the Treasury Indicators are included in this report as they require consideration as part of the Treasury Management Strategy. This is in line with CIPFA's Prudential Code released in December 2021. The Prudential Code 2021, whilst tightening regulations, has not had a material effect on the County Council, as no borrowing has been taken to fund commercial or treasury investments.

7. The Treasury Management Strategy is a key element of the MTFS, as the planned capital expenditure programme drives the borrowing required. This is explained further in the Borrowing Strategy from **paragraph 34** onwards.

External Context

Economic background

8. The economic back drop to this report for the first part of 2024/25 saw:

    a. The Bank of England (BoE) reducing interest rates by 0.50%, from 5.25% to 4.75%;
    b. Short, medium and long-dated gilts remaining elevated;
    c. Fluctuating UK Consumer Price Index (CPI) inflation - hitting its 2% target in June, reducing to 1.7% in September and then increasing to 2.6% in November;
    d. Initial easing in wage growth as the headline 3-month rate fell from 4.6% to 4.3% in September but increasing again in the last quarter of 2024; and
    e. UK GDP growth slowing in quarter 2 - 0.5% compared with 0.7% in quarter 1 of 2024 and virtually stagnant in quarter 3 – 0.1%. All of these measures were slightly weaker than had been expected.

9. The BoE initiated its loosening cycle in August with a 0.25% rate cut to 5.00%, and continued with this approach at its November meeting, lowering rates a further 0.25% to 4.75%. The County Council's treasury adviser, Link, now known as MUFG Corporate Markets (MUFG), following acquisition by Mitsubishi UFJ Trust & Banking Corporation on 16 May 2024, anticipate that UK interest rates will continue to reduce by 0.25% each quarter until September 2025 where they will remain at 4.00% for 2 quarters. Interest rates are then predicted to fall to 3.75% in March 2026 and then to 3.50% in December of the same year, where they are forecast to remain. The low-interest rate environment of the recent past is not expected to return in the coming years.

10. CPI inflation declined to 1.7% in September, however, this gradually started to increase as a result of many factors, including public sector pay rises. This trend continued, following the minimum wage and employer NI increases announced as part of the 2024 budget, with CPI increasing to 2.6% in November. The Office for Budget Responsibility and the BoE envisage that inflation will remain 'sticky' until at least 2026. Monetary policy is acting to ensure that longer-term CPI expectations are in line with the 2% target.

11. GDP growth slowed in quarter 2 of 2024 to 0.50% and reduced further in quarter 3 to 0.1%, reflecting underlying demand momentum. The BoE are now expecting 0% GDP growth in 2024 quarter 4. Whilst the measures announced in the Autumn Budget were expected to boost the level of GDP growth, the BoE have now highlighted significant uncertainty around how the economy may respond to these measures going forwards.

12. The US President election of Donald Trump paves the way for the introduction/extension of tariffs that could prove inflationary and the same could be said of further tax cuts and an expansion of the current US budget

deficit. The direction of US Treasury yields in reaction to President Trump's core policies will impact UK gilt yields. There are also domestic and international factors that could impact PWLB rates accounting for geo-political risks, such as political instability in Europe and Asia and war in the the Middle East and Ukraine.

Credit outlook

13. Credit default swap (CDS) stability is always a concern, as market fluctuations and economic uncertainty can significantly impact the pricing and reliability of these financial instruments. However, CDS prices are constantly monitored by the County Council's treasury adviser, MUFG, as part of their creditworthiness service to local authorities, and the County Council has access to this information via its MUFG-provided Passport portal.

14. Geopolitical and environmental factors can impact on sovereign and bank credit ratings. During the past year several banking institutions credit rating outlooks have improved. Nonetheless, when setting minimum sovereign debt ratings, the County Council will not set a minimum rating for the UK.

15. Looking forward, the potential for bank losses still remains a risk and a cautious approach to bank deposits in 2025/26 is advisable. The County Council, as a local authority, is exposed to bail-in risk, as the Government will no longer support banks if they fail but rather it will be the investors who primarily bear the financial burden of rescuing the bank.

Interest rate forecast

16. The BoE has started to initiate its easing cycle by lowering interest rates to 5.0% in August, from 5.25% and a further 0.25% reduction in November to 4.75%. The County Council's treasury adviser, MUFG, has forecast for interest rates to continue to reduce by 0.25% each quarter to 4.00% by September 2025 and a continuing gradual reduction to 3.50% by December 2026.

17. The overall longer-run trend is for gilt yields and PWLB rates, as forecast by the County Council's treasury adviser MUFG, to fall back over time, up to December 2026, as inflation reduces.

18. Due to the ongoing risks in the economy, the treasury strategy retains the low-risk approach adopted in recent years, based on prioritising security, liquidity and then yield.

Local Context

19. On 31 December 2024, the County Council held £375.5 million of external borrowing and had £399.5 million temporarily invested. The County Council's forecast future requirements for borrowing and investments can

be considered in the context of its balance sheet forecasts described in the following paragraphs.

Balance sheet

20. In terms of borrowing, the County Council discloses its Capital Financing Requirement (CFR) as part of its Statement of Accounts. This represents the underlying need to borrow for capital purposes i.e. the amounts that have been financed through external and internal borrowing rather than being permanently financed. As the CFR also includes capital expenditure that has been funded through Private Finance Initiatives (PFI), these PFI liabilities are removed to calculate the County Council's Loans CFR.

21. The County Council's treasury adviser, MUFG, performed an independent reconciliation of the CFR calculation using the 2023/24 Statement of Accounts. The County Council's figures were proved to be correct, giving confidence in the accuracy of the borrowing commitment and the level of investment that is required.

22. If the County Council increases debt to fund additional capital expenditure, this will increase its Loans CFR; conversely repaying debt through the Minimum Revenue Provision (MRP) will reduce its Loans CFR. The table below shows forecasts for the County Council's Loans CFR and how this will be financed through external and internal borrowing:

	31.03.24 Actual £m	31.03.25 Estimate £m	31.03.26 Forecast £m	31.03.27 Forecast £m	31.03.28 Forecast £m
Loans CFR	555.3	569.1	573.7	574.8	581.7
Less external borrowing	(398.5)	(370.5)	(355.0)	(345.0)	(340.0)
Internal/ (Over borrowing)	**156.8**	**198.6**	**218.7**	**229.8**	**241.7**

23. The previous table shows that the County Council's Loans CFR increases over the years, due to the capital programme being higher than MRP in those years. The County Council's internal borrowing requirements increase in line with the Loans CFR projections and also with the repayments of external borrowing as it matures.

24. CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the County Council's total external borrowing should be lower than its highest forecast CFR over the next three years; the previous table shows the County Council will comply with this recommendation over the period of the MTFS.

25. For investments, the County Council's total resources available are measured by its usable reserves and working capital less any amounts that have been internally borrowed. The County Council is facing pressure

moving forward on reserves due to increased liabilities arising from the deficit in Dedicated Schools Grant (DSG) funding. The following table reflects the worst-case scenario in terms of reserve levels:

	31.03.24 Actual £m	31.03.25 Estimate £m	31.03.26 Forecast £m	31.03.27 Forecast £m	31.03.28 Forecast £m
Usable reserves (worst case)	521.0	459.9	380.1	289.3	198.6
Working capital surplus	20.0	20.0	20.0	20.0	20.0
Less internal borrowing	(156.8)	(198.6)	(218.7)	(229.8)	(241.7)
Advance pension contributions	(22.0)	10.0	12.0	(22.0)	10.0
Investment / (New borrowing)	**362.2**	**291.3**	**193.4**	**57.5**	**(13.1)**

26. The table above demonstrates that the County Council's recent strategy of using internal borrowing to reduce the need for external borrowing also reduces temporary investment levels. It also indicates that the County Council will have sufficient internal resources to cover the internal borrowing requirement in 2025/26 and will not need to borrow from external sources. Within the table above, it is assumed that the County Council will make a further payment in advance for 3 years' pension contributions in 2026/27, as it did previously in 2023/24. The County Council is expected to continue to make significant savings by doing so, as opposed to paying contributions monthly, for the 3-year period. In addition, the table also assumes the worst-case scenario in terms of pressure caused by the DSG on reserves. These pressures are forecast to rise and external borrowing may be required during the period covered by this MTFS.

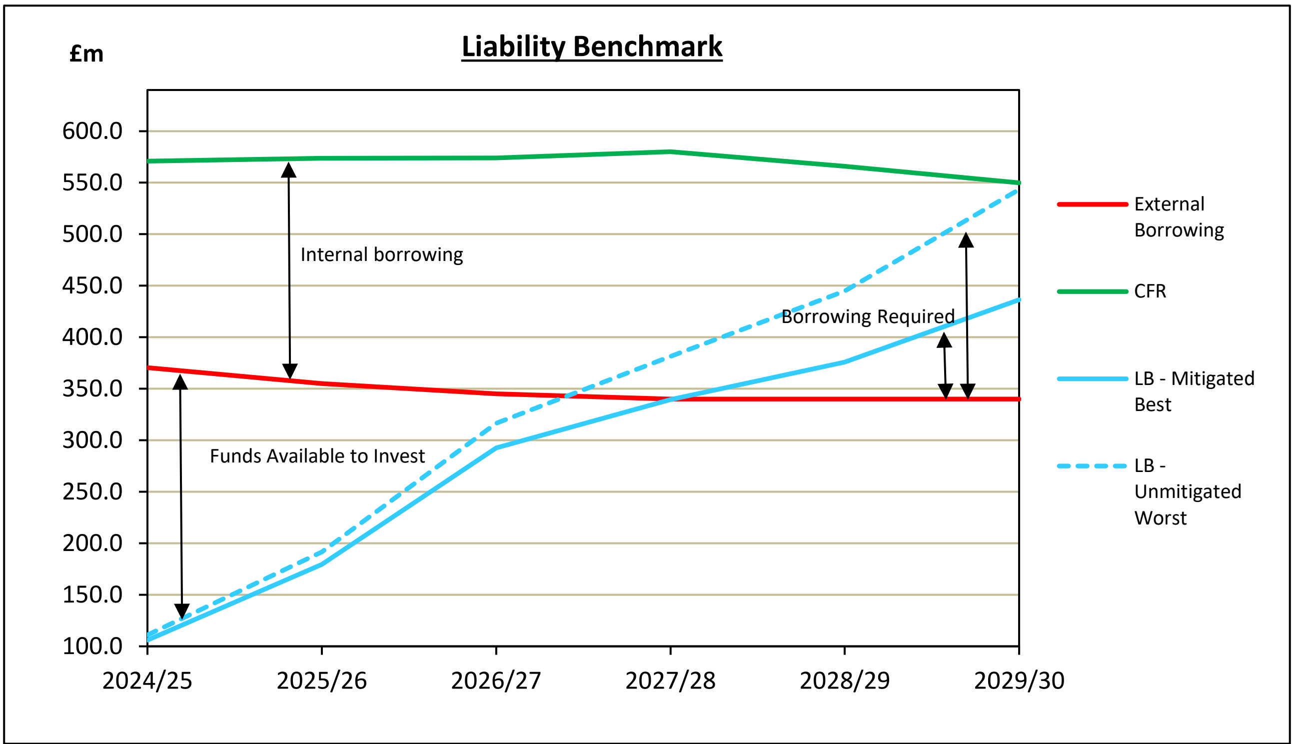
<u>Liability benchmark</u>

27. The CIPFA Prudential Code requires local authorities to develop their own liability benchmark to manage Treasury Management risk. The liability benchmark represents the minimum amount of loans required to maintain cash balances at nil, i.e. when all usable reserves and working capital surpluses are used to offset the amount of loans borrowed.

28. Forecasts for the liability benchmark can be used to predict when further borrowing may be required or when cash is available to invest. Forecasts for the County Council's liability benchmark are shown in the following table and chart.

	31.03.25 Estimate £m	31.03.26 Forecast £m	31.03.27 Forecast £m	31.03.28 Forecast £m	31.03.29 Forecast £m	31.03.30 Forecast £m
External loans	370.5	355.0	345.0	340.0	340.0	340.0
Less investments/ add new borrowing (worst case)	(291.3)	(193.4)	(57.5)	13.1	76.5	175.1
Net borrowing requirement	79.2	161.6	287.5	353.1	416.5	515.1
Add minimum investments *	30.0	30.0	30.0	30.0	30.0	30.0
Liability benchmark	**109.2**	**191.6**	**317.5**	**383.1**	**446.5**	**545.1**

* Long term loans to two Local Authorities (Derby and Redcar and Cleveland).



29. The chart above shows that the County Council's Loans CFR (green line) has been financed through a combination of external borrowing (red line) and internal borrowing (the difference between the red line and the green line). The data points on the graph represent the end of the financial year.

30. The chart indicates that during the MTFS period covered, the County Council can continue with its strategy of using cash in lieu of such borrowing until mid-2027/28 if the worst-case scenario in respect of DSG pressures is realised and may need to take out external borrowing from this date. This would mean swapping internal borrowing for external loans to fund the capital programme which is legitimate and acceptable. In addition, there is another line on the graph indicating the best-case scenario. In this scenario the County Council may not need to take out

external borrowing until the early part of 2028/29 to replace internal borrowing.

Policy framework

31. When assessing the various options for borrowing and investment, it is still important to have a policy framework. The table that follows sets out three main elements:
    a. Objectives;
    b. Economic considerations; and
    c. Relevant risks.

32. The table compares borrowing and investments side by side to highlight the similarities and differences. For example, some of the economic considerations (i.e. the yield curve) are similar, whilst some aspects are different.

	Borrowing strategy	**Investment strategy**
Objectives	• Reduce the average rate (cost) of debt ensuring debt is affordable • Maintain medium term budget stability • Be able to respond to changes in the external environment	• Ensure security (to ensure bills can be paid) • Provide liquidity (i.e. to pay the bills as they fall due) • Earn interest
Economic considerations	• The shape of the whole yield curve* (the level of interest rates for different lengths of time) • The steepness of the yield curve • Forecast changes in interest rates • The relative position of interest rates to the average cost of the debt • The direction of travel for the level of overall debt in the future • Cash balances available to support the strategy	• The shape of the short-term yield curve* • Forecast changes in interest rates • Counterparty issues (credit worthiness) • Type of financial instrument • Risk in the financial environment
Relevant risks	• Security • Liquidity • Interest rate • Market risk • Refinancing • Regulatory and legal	• Security • Liquidity • Interest rate • Market risk • Refinancing • Regulatory and legal

*The yield curve is a fundamental concept; it represents the price paid by the County Council for its long-term loans or the interest rate received for the money it invests.

33. The County Council's risk management for treasury borrowing and investments is considered as part of the Treasury Management Risk Register.

Borrowing Strategy 2025/2026

34. At the start of 2025/26, the County Council will hold £370.5 million of loans as part of its strategy for funding previous years capital programmes. The County Council will need to ensure total amounts borrowed do not exceed the authorised limit for borrowing of £685 million, as disclosed in **Annex C** and as part of the capital strategy which includes liabilities for PFI schemes.

Objectives

35. The primary objective for the County Council when considering the need to borrow money is to strike an appropriate balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. Although lower interest costs may be secured for the short term, it is more difficult to predict interest costs over the long term.

Strategy

36. Given the ongoing financial pressures on public services and local government funding, the County Council continues to address the key issue of affordability without compromising the long-term stability of its debt portfolio. As short-term interest rates have been lower than long term interest rates for a long period of time, it has been more cost effective for the County Council to use its internal cash resources in lieu of borrowing in the short term.

37. The current economic environment continues to favour using cash in lieu of borrowing as:

    a. Short, medium and long-dated gilts remain elevated and the margin the PWLB add on to onward lend to local authorities means it is cheaper to use cash than to borrow;
    b. due to bail-in legislation it is important to minimise investment risk, as using cash in lieu of borrowing reduces investment balances;
    c. using cash in lieu of borrowing within practical cash management limits would meet key parts of the current government guidance on local government investments, i.e. managing the security and liquidity risks for investments; and
    d. Continuing to use cash in lieu of borrowing would meet the objective of bringing down the average rate of interest for borrowing and provide an opportunity to fund the capital programme at low cost.

38. In the past, cash balances have been sufficient to allow the strategy of using cash without the need to raise further external loans. The liability benchmark analysis at **paragraph 28** indicates that this is set to continue

until mid-2027/28 if the worst-case scenario in respect of DSG pressures is realised and may need to take out external borrowing from this date. A best-case scenario has also been calculated. In this scenario the County Council may not need to take out external borrowing until the early part of 2028/29 to replace internal borrowing.

39. The County Council does recognise that there may be unexpected reductions in cash balances in the future. This could be due to:

    a. increases in the capital programme;
    b. budget pressures;
    c. changes in the County Council's cash funding because of structural changes; or
    d. LOBO (Lender Option, Borrower Option) loan options being called.

40. Where additional liquidity is needed, the County Council can call upon short-term temporary loans raised from the money markets, including from other local authorities who have surplus cash to invest. The County Council can also obtain long term loans of over one year, for example, through the PWLB.

41. It is important to understand that when raising loans, the whole of any funding gap does not need to be closed with the new loans. A gap should be retained that continues to use available cash for the reasons outlined at **paragraph 37**. The proposed borrowing strategy aims to strike a balance between the liquidity needs of day-to-day cash management with the low-risk approach that is maintained by using cash in lieu of external borrowing.

42. The County Council will monitor the benefits of using cash in lieu of borrowing, via the Treasury Management Panel, chaired by the Director of Finance (S151 Officer), on a regular basis. The strategy of using cash in lieu of borrowing must be balanced against the possibility that long-term borrowing costs may increase in future years, leading to additional costs as a result of deferring borrowing. The County Council will need to determine whether it borrows additional sums, at long term fixed rates in 2025/26, with a view to minimising future interest costs. To this end, the County Council will take into account the advice and analysis carried out by its treasury adviser, MUFG.

<u>Sources of borrowing</u>

43. The approved sources of long term and short-term borrowing are:

    a. the Public Works Loans Board (PWLB);
    b. UK Municipal Bonds Agency Plc and any other special purpose companies created to enable local authority bond issues;
    c. other UK public sector bodies;
    d. UK public pension funds (except the Staffordshire Pension Fund);

e. approved banks or building societies authorised to operate in the UK; and
f. any institutions approved for investments.

Long term loans

44. The County Council has previously raised the majority of its long-term borrowing from the PWLB, a statutory body that issues loans to local authorities. Government consent is not ordinarily required, hence the PWLB continues to be the 'lender of first resort' because of the flexibility and ease of access. However local authorities are required by law to have regard to the Prudential Code and only borrow within relevant legislation and their borrowing powers.

45. HM Treasury have also put measures in place to prevent public bodies using PWLB funding to finance any commercial investments and there are mechanisms to recall such funding if this is found to be the case. In addition, the latest Prudential Code explicitly prevents local authorities borrowing to fund commercial ventures.

46. The County Council currently holds £33 million of long-term borrowing in the form of LOBO loans. The lender has the option to propose an increase in the interest rate at set dates, following which the County Council, as the borrower, has the option to either accept the new rate or to repay the loan at no additional cost. These call options were applied to an £18 million loan in December 2025 and due to the increased interest rate, the Treasury Management Panel agreed to repay the loan. During 2025/26 £33 million of these LOBO loans have such call options. As interest rates are currently higher, lenders are more likely to exercise their options, which could lead to an element of refinancing risk.

47. Under the current strategy, the County Council will repay all LOBO loans where call options are exercised by the lender. In addition, the County Council will consider repaying LOBO loans where a loan restructuring opportunity arises and is considered financially advantageous (see **paragraph 52**).

48. Where the County Council is considering taking out long-term loans, the following observations are important:

a. the County Council's existing loan portfolio is very long term, this can be seen in the graph at **Annex D,** and taking medium term loans would rebalance the portfolio; and
b. the yield curve is currently partially inverted and as a result of this, loans over a 2-to-10-year timeframe are currently cheaper.

49. Any decision to borrow long term will be taken by the Treasury Management Panel, chaired by the Director of Finance (S151), and reported to the Cabinet Member for Finance and Corporate Matters. This is because the optimum timing to borrow cannot always be foreseen, and a

decision often needs to be taken at short notice. Members will be kept informed via the outturn and half-year Treasury Management reports.

Short term loans

50. Short term loans raised from money markets are typically under 12 months in duration. These are low cost, and the County Council can respond flexibly to liquidity pressures by raising these when needed. The disadvantage of short-term loans is one of availability and it can be difficult to raise them quickly from banks and building societies.

51. The local authority lending market has progressed considerably in recent years and loans are generally available in the short to medium term. However, future availability cannot be predicted, as loans raised depend upon other local authorities having available cash balances and being prepared to lend them to the County Council.

Loan restructuring

52. Movements in interest rates over time may provide opportunities to restructure the loan portfolio in one of two ways:

    a. replace existing loans with new loans at a lower rate (known as loan rescheduling); or
    b. repay loans early without replacing the loans, although this would increase the use of cash.

53. Market conditions have shifted in the last 12 months and gilt yields have risen from the historic lows seen over the last 10 years. This rise in gilt yields means that there is a possibility that PWLB premiums may be low and could be offset by interest savings on extinguished loans, in addition discounts may be offered on some loans. The Treasury Team will continue to monitor the market and identify possible savings arising during 2025/26.

54. The County Council's ability to adjust its loan portfolio through restructuring is only possible if:

    a. the Government allow it - PWLB rules have been changed in the past without notice; or
    b. market conditions allow economically beneficial repayment.

55. Market conditions and regulations are not constant and do change and loan restructuring can only be carried out when conditions are favourable. The decision as to when to undertake loan restructuring will be delegated to the Treasury Management Panel, chaired by the Director of Finance (S151), and reported to the Cabinet Member for Finance and Resources.

Annual Investment Strategy (AIS) 2025/26

56. It is the County Council's Borrowing Strategy that determines its Investment Strategy. In the current economic environment, where short

term investment rates are lower than borrowing rates, this still favours the use of cash instead of external borrowing, hence balances available for temporary investments are likely to be less.

57. The County Council will have significant levels of cash to invest at different points of the year; this usually represents income received in advance of expenditure plus balances and reserves held. In the first half of the previous financial year, the County Council's investment balance ranged between £397 million and £513 million.

MiFID II

58. Following the introduction of the second Markets in Financial Instruments Directive (MiFID II) regulations from January 2018, local authorities will automatically be treated as retail clients by financial services firms, unless they meet the criteria and 'opt up' to be professional clients. As a retail client, the County Council would receive enhanced protections, but this would also mean it may face increased costs and restricted access to certain products including money market funds (MMFs), pooled funds, treasury bills and treasury advice.

59. The County Council meets the criteria set out under MiFID II and having chosen to 'opt-up', will continue to be treated as a professional client by regulated financial services firms in 2025/26.

Objectives

60. The CIPFA Code requires local authorities to invest their cash prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield.

61. The County Council's objective when investing its cash is to strike an appropriate balance between risk and return, thereby 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 County Council will aim to achieve a total return that is equal to or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. In addition, this value shall be reported and compliant with all CIPFA codes regarding treasury and commercial investments.

Strategy

62. The main characteristics which should determine an investment strategy are:

    a. the credit risk of the counterparties invested with;
    b. the length of the investment; and
    c. the type of financial instrument that is used.

63. The County Council has taken a low-risk approach to investment and the AIS for 2025/26 will continue to do so. The County Council will continue to concentrate its short-term investments in secure MMFs, short term commercial deposits in banks as recommended by the County Council's treasury adviser, MUFG, and government investments. In addition, the use of Ultra Short Dated Bond Funds (USDBF's) and Short Dated Bond Funds (SDBF's) will be used as diversifiers, as these are considered appropriate vehicles in which to securely invest funds with a longer-term investment horizon.

64. MHCLG Guidance on Local Government Investments specifies the types of financial instruments that local authorities can invest in, and the County Council has divided its approved investments into Standard Investments and Non-Standard Investments.

Standard Investments

65. The County Council considers Standard Investments to be those made with approved counterparties that do not require further approval from the Treasury Management Panel or Members. These investments tend to be for a period of less than a year and are those most frequently used by the County Council. Standard Investments can be invested with;
    a. UK Government – central government or local authority, parish council or community council;
    b. short term money market funds; and
    c. bank and building society investments recommended by the County Council's treasury adviser, MUFG.

UK Government

66. The County Council invests with central government by using its Debt Management Account Deposit Facility (DMADF) account or by purchasing treasury bills. Funds held in the DMADF account are backed by the UK government, so they are very secure; however, returns may be lower than those received from elsewhere.

67. The County Council can invest in term deposits with local authorities, which may provide a higher return depending on the availability of, or the need for, cash in the local authority lending market. Like central government investments, local authority investments are not subject to bail in risk. However, the market has reduced since the pandemic due to a lack of local authority borrowers. The County Council has set a limit of investing £5m with any one local authority.

68. Although investments in the local authority lending market have a very low risk of insolvency, they are not completely without risk. The financial risks of some local authorities have been well documented in the press; the County Council will continue to monitor such developments and seek advice from its treasury advisers where necessary.

Money Market Funds (MMFs)

69. Money Market Funds have high credit quality and are pooled investment vehicles consisting of money market deposits and similar instruments. Short term MMFs that offer same day liquidity can be used as an alternative to instant access bank accounts. Same day notice MMFs have been used by the County Council for some time as they have tended to provide greater security and a higher yield than bank accounts.

70. EU regulation, introduced in January 2019, meant that most same day notice MMFs converted from a Constant Net Asset Value (CNAV) to a Low Volatility Net Asset Value (LVNAV) structure. The assets of LVNAV MMFs are marked to market, meaning the dealing NAV (unit price) may fluctuate. However, LVNAV MMFs are allowed to maintain a constant dealing NAV provided they meet strict criteria and minimum liquidity requirements. Public debt CNAV MMFs are still available where 99.5% of assets are invested in government debt instruments.

71. MMFs are a key tool to manage credit and liquidity risk, and the County Council will continue to use same day notice MMFs that meet the criteria listed below. These are considered to have sufficient high credit quality to be included on the County Council's Approved Lending List:

    a. Diversified – MMFs invest across many different investments meaning they achieve more diversification than the County Council could achieve on its own account;
    b. Short liquidity – cash can be accessed daily;
    c. Ring-fenced assets – the investments are owned by investors and not the fund management company; and
    d. Custodian – the investments are managed by an independent bank known as a custodian, who operates at arms-length from the fund management company.

72. Like all treasury instruments, MMFs do carry an element of risk. The failure of one or more of an MMFs investments could lead to a run on MMFs, especially during a financial crisis, although the new MMF regulations do limit this risk to some extent.

Bank and building society accounts

73. The County Council can make investments with approved banks and building societies by using call accounts, term deposits or Certificates of Deposit (CD's). CDs are similar to fixed term deposits, but a certificate is issued for a specified length of time and rate of interest. A CD can also be sold in the secondary market if cash is required prior to maturity.

Operational bank account

74. The County Council's banking provider is Lloyds Bank. Cash is retained with Lloyds Bank each night earning interest at below market rate; the

maximum amount that can be retained for operation purposes will be set in line with the diversification policy set out at **paragraph 77** onwards.

75. In respect of the bank ring-fencing legislation, Lloyds Bank has a relatively small investment banking operation meaning that 97% of the bank's assets remain within the 'retail bank' ring-fence. The County Council's business with Lloyds Bank will take place within the 'retail bank' ring-fence (Lloyds Bank Plc) and not form part of their investment banking operations (Lloyds Bank Corporate Markets).

76. Should the Lloyds credit rating fall below the County Council's minimum threshold, then minimum balances will be retained with the bank for operational efficiency. The County Council will continue to monitor MUFG's advice on bank credit risk and any changes will be determined by the Treasury Management Panel, chaired by the Director of Finance (S151).

<u>Standard Investments diversification</u>

77. Risks to investments, such as those discussed for MMFs in **paragraph 72**, point towards the fundamental need for diversification across counterparties and investment categories where possible. Diversification can help to protect the security of the investments by limiting the County Council's loss in the event of a counterparty default. Diversification will not protect the County Council from a systemic failure of the banking sector, even if the risk of this has diminished following the bail-in banking regulations.

78. Diversification can be achieved by setting a maximum amount to be invested with each counterparty to limit risk and to ensure a spread of investments. However, this needs to take account of the fact that investment balances can change throughout the year. The limits shown below are based upon percentages of investments and the County Council Treasury Team will review and reset these limits at least once a month with reference to forecast future cash balances.

79. Investment diversification is monitored at two levels; firstly, at investment category level:

Investment category	Maximum % of total investments
Government Investments	100%
Money Market Funds (MMF)	100%
Banks and Building Societies	50%

80. No limits are proposed for government investments as these may be utilised for all the County Council's investments in certain circumstances.

81. Limits in MMF accounts stand at 100% of total investments due to the diversified nature of their underlying investments and their liquidity levels. The County Council currently has five MMFs to ensure all cash is not placed in one MMF, thus further diversifying investments.

82. Secondly, diversification will also take place at investment counterparty level:

Banks and Building Societies Lower of:	
£m	Maximum investment as a proportion of total forecast cash balances
15	5% (unsecured) 10% (secured)

Individual MMF Lower of:	
Maximum investment as a share of the total fund size of the MMF	Maximum investment as a proportion of total forecast cash balances
0.50%	25%

83. Due to bail-in regulations, a limit of 10% of cash balances if investments are secured (e.g. covered bonds), and a limit of 5% if investments are unsecured (e.g. fixed term deposits), has been set.

84. It is proposed that the application of, and any amendments to, the investment diversification policy is delegated to the Treasury Management Panel, chaired by the Director of Finance (S151).

<u>Non-Standard Investments</u>

85. The County Council considers Non-Standard Investments to be all other types of approved investment or investments with counterparties that are not included as part of Standard Investments i.e. those investments that are used less frequently and may require further approval from the Treasury Management Panel or Members.

86. The Non-Standard Investments proposed for use are listed below. Some of these present additional risks to the investments listed within Standard Investments, which would be taken into consideration in any proposed investment:

   a. <u>Covered Bonds -</u> issued by banks and building societies against mortgage assets they hold and are guaranteed by a separate group of companies. They are exempt from bail-in as their structure enables investors to have effective security over the mortgage assets, by being sold if needed;

b. Repos (Repurchase Agreements) - comprise the purchase of securities with the agreement to sell them back at a higher price in the future. Investments are exchanged for assets such as government bonds, which can be sold in the case of a loss;
c. UK Government Gilts - similar to the DMADF account and Treasury Bills but a longer-term investment that can be sold in the secondary market;
d. Multilateral Development Bank Bonds - ‘AAA’ rated bonds created by institutions and backed by a group of countries. They can be sold in the secondary market if needed;
e. Collective Investment Schemes - examples include pooled property and equity funds which have very different risk and return profiles to same day notice MMFs. Enhanced MMFs are considered to be collective investment schemes; they typically have a 3–5-day liquidity notice period as they invest further along the yield curve. Ultra-Short and Short dated Bond funds with a longer-term outlook also fall into this category; and
f. Real estate investment trusts (REITs) - 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.

87. Non-Standard Investments that are subject to market risk (this is the risk that the value of the investment can go down as well as up) would usually be held until maturity. At maturity the investment and accrued interest would be paid in full. However, some investments could be sold early if there were concerns over the borrower defaulting.

Non-Standard Investment diversification

88. Diversification of Non-Standard Investments is equally important, and the County Council has set the following investment amounts and duration limits, split into two groups (see **Annex A**):

a. Long-term local authority loans and UK Government Gilts - these have a combined investment limit of £45 million (up to 40 years duration) due to their high credit quality. The County Council has held £30 million of long-term local authority investments since 2013; and
b. Other Non-standard Investments - these have an individual investment cap amount per asset class of £120 million (up to 10 years duration) with an overall cap of £200 million for this group.

89. This means a total of £245 million can be invested in Non-standard Investments in 2025/26 and this is reflected in **Annex C,** Prudential Indicator point 4. The decision to invest in Non-Standard Investments will

only be taken after due consideration by the Treasury Management Panel, chaired by the Director of Finance (S151).

90. **Annex A** sets out the investment categories authorised for use in 2025/26, and **Annex B** lists the County Council's Counterparty List at the time of writing this report.

Credit Management Strategy 2025/26

91. Investments made by the County Council should be of 'high credit quality'. Although this can be difficult to define, credit ratings can be used as published by external credit rating agencies (the three main agencies are Moody's, Standard & Poor's and Fitch). Credit ratings are monitored by and obtained from the County Council's treasury management adviser, MUFG, where available.

92. An important aspect of MUFG's service is the provision of credit advice. As a treasury adviser, MUFG provide information about suitable investments in the context of the current economic risk environment and incorporates the views of credit rating agencies. It is important to note that the County Council maintains the ultimate responsibility for the decisions it takes about its investments and will not use a counterparty that, for any reason, it does not deem appropriate.

93. For 2025/26, the minimum credit-rating threshold is set at a long-term rating of A- where applicable. Counterparties that are rated below this level are excluded. However, credit ratings are not the only aspect of how creditworthiness is assessed by MUFG.

94. The County Council uses the creditworthiness service provided by MUFG to help determine its Lending List. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

    a. "watches" and "outlooks" from credit rating agencies;
    b. CDS spreads that may give early warning of changes in credit ratings; and
    c. sovereign ratings to select counterparties from only the most creditworthy countries.

95. The MUFG modelling approach combines credit ratings and any assigned watches and outlooks in a weighted scoring system, which is then combined with an overlay of CDS spreads. The methodology produces a series of colour coded bands shown below (and at the end of **Annex B**) which indicate the relative creditworthiness of counterparties. These colour codes are used by the County Council to determine the suggested duration for investments:

a. Yellow – up to 5 years;
b. Dark Pink - up to 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25;
c. Light Pink - up to 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5;
d. Purple - up to 2 years;
e. Blue - up to 1 year (only applies to nationalised or semi nationalised UK Banks);
f. Orange - up to 1 year;
g. Red - up to 6 months;
h. Green - up to 100 days; and
i. No colour - not to be used.

As demonstrated, the MUFG creditworthiness service uses a wider array of information than just primary credit ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

96. Typically, the minimum credit rating criteria the County Council uses will be a long-term rating (Fitch or equivalents) of A- as stated in **paragraph 93**. There may be occasions when the counterparty ratings from one rating agency are marginally lower but as long as the remaining two agencies have them in range they may still be used. In these instances, consideration will be given to the whole range of ratings available to support their use.

97. The credit list will be monitored on a weekly basis using MUFG's weekly update information. The County Council is alerted to changes to ratings of all three agencies through its use of the MUFG creditworthiness service. In addition to the use of credit ratings the Treasury Team will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Financials benchmark and other market data, on a daily basis via MUFG's exclusive Passport website. Extreme market movements may result in the downgrade of an institution or removal from the County Council's Lending List.

98. If MUFG communicate credit rating changes and significant changes in other risk indicators to the Treasury Team, action will be taken. Where an entity has its credit rating downgraded, so that it fails to meet the approved investment criteria, then:

a. no new investments will be made;
b. any existing investments that can be recalled or sold at no cost will be; and
c. full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

99. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be

withdrawn on the next working day, will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

100. As mentioned previously, the County Council retains the ultimate responsibility for its investment decisions. The Treasury Management Panel chaired by the Director of Finance (S151) meets monthly and reviews any changes recommended by MUFG. In between these meetings, the Treasury Team may be required to make investment decisions at short notice upon the recommendation of MUFG. Where required, the Treasury Team will implement these recommendations pending retrospective approval by the Treasury Management Panel. On the rare occasion that MUFG do not make a firm recommendation, this will also be referred to the Panel for review. The County Council will also use market data, information on any external support for banks, and knowledge of financial and geo-political factors to help support its decision-making process.

101. Under stressed market conditions, additional Treasury Management Panel meetings may take place at very short notice after which the Panel may decide to adjust the County Council's investment risk profile. This may result in moving investments to lower risk counterparties or instruments.

Non-treasury investments

102. These are discussed as part of a separate investment strategy report titled '(Non-Treasury) Commercial Investment Strategy 2025/26'.

Review of strategy

103. The County Council will prepare a revised strategy when there are significant changes to the following factors:

a. the economic environment;
b. the financial risk environment;
c. the budgetary position;
d. the regulatory environment; or
e. the appointment of a new treasury management adviser.

104. The responsibility for assessing these circumstances and proposing changes to the strategy is delegated to the Treasury Management Panel.

Policy on the use of external service providers

105. MUFG is the County Council's current external treasury management adviser appointed via a competitive tender process. The contract with MUFG expires on 31 March 2025 and a mini tender competition is currently taking place for the renewal of this contract.

106. The external service provider is contracted to provide information, technical accounting assistance and an investment advice service. The County Council recognises that the ultimate responsibility for Treasury Management decisions always remains with itself.

107. An annual review of service quality is carried out by the Treasury Management Panel. Treasury Advisers are expected to attend meetings bi-annually to discuss strategy and how well they are assisting the County Council to discharge its responsibilities.

Investment management training

108. Treasury Management is a specialised area requiring high quality and well-trained staff that have an up-to-date knowledge of current issues, legislation and treasury risk management techniques.

109. Officers who attend the Treasury Management Panel are senior qualified finance professionals. Treasury practitioners attend regular CIPFA and treasury adviser training seminars throughout the year and have any training needs identified during the County Council's staff review process. The Treasury Team and its processes are also subject to regular audit and independent checks.

110. Member training is also important to introduce treasury concepts. The need for training events will be kept under review with sessions arranged in the future if necessary.

Policy on the use of financial derivatives

111. 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).

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

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

Peter Shakespear
Director of Finance

List of Background Documents/ Annexes:

114. Background Documents:

a) Treasury Management in the Public Services: Code of Practice (CIPFA) (2021)
b) Prudential Code for Capital Finance in Local Authorities (CIPFA) (2021)
c) The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
d) Statutory Guidance on Local Government Investments – Issued under Section 15(1) (a) of the Local Government Act 2003 (2018)
e) Statutory Guidance on Minimum Revenue Provision – Issued under section 21 (1A) of the Local Government Act 2003 (2018)
f) Localism Act 2011 – Guidance on the General Power of Competence in sections 1 to 6.

115. Annexes:

a) Annex A – Investment Categories Authorised for Use 2025/26
b) Annex B – Staffordshire County Council Counterparty List 2025/26
c) Annex C – Prudential Codes for Treasury Management 2025/26
d) Annex D – Staffordshire County Council Debt Maturity Profile 2025/26
e) Annex E - Treasury Management Glossary of Terms

Contact Details

Assistant Director: Melanie Stokes, Assistant Director for Treasury and Pensions

Report Author: Amanda Wilkinson
Job title: Investment Accountant
Telephone Number: 01785 854530
Email Address: amanda.wilkinson@staffordshire.gov.uk

Annex A

Investment categories authorised for use 2025/26

Investment	Standard	Non-standard	Comments
UK Government - Debt Management Account Deposit Facility (DMADF) (standard investment)	**unlimited**	×	6 months maximum available
UK Government - Treasury Bills (T-Bills) (standard investment)	**unlimited**	×	6 months maximum available
UK local authorities term deposits (standard investment)	**unlimited***	**£45m across these categories**	Up to 40 years in duration (non-standard)
UK Government – Gilts	**unlimited**		
Money Market Funds	✓	×	100% of total investments in this category. Individual MMF - Lower of 0.50% of individual MMF fund size or 25% of total forecast cash balances per MMF
Term deposits with banks and building societies	✓	×	50% of total investments in this category. Lower of 5% (unsecured) or 10% (secured) of total forecast cash balances or £30m per counterparty
Certificates of deposit (banks / building societies)	×	**Maximum £120m per investment category and £200m in total across all categories**	Up to 10 years in duration (non-standard)
Bonds issued by Multilateral Development Banks	×		
Collective Investment Schemes	×		
Covered Bonds	×		
Real Estate Investment Trusts	×		
Repos (repurchase agreement)	×		

** Up to 12 months*

Annex B

Staffordshire County Council Counterparty List 2025/26

Standard Investment Counterparty by Country		Maximum Investment Duration
Australia		**Not Applicable**
Australia and New Zealand Banking Group Ltd.		12 months
Commonwealth Bank of Australia		12 months
Macquarie Bank Ltd.		12 months
National Australia Bank Ltd.		12 months
Westpac Banking Corp.		12 months
Belgium		**Not Applicable**
BNP Paribas Fortis		6 months
KBC Bank N.V.		12 months
Canada		**Not Applicable**
Bank of Montreal		12 months
Bank of Nova Scotia		12 months
Canadian Imperial Bank of Commerce		12 months
National Bank of Canada		12 months
Royal Bank of Canada		12 months
Toronto-Dominion Bank		12 months
Denmark		**Not Applicable**
Danske A/S		6 months
Finland		**Not Applicable**
Nordea Bank Abp		12 months
France		**Not Applicable**
BNP Paribas		6 months
Credit Agricole Corporate and Investment Bank		6 months
Credit Agricole S.A.		6 months
Credit Industriel et Commercial		6 months
Societe Generale		6 months
Germany		
Bayerische Landesbank	N/A	12 months
Deutsche Bank AG	N/A	6 months
DZ BANK AG Deutsche Zentral-Genossenschaftsbank	N/A	12 months
Landesbank Baden-Wuerttemberg	N/A	12 months
Landesbank Berlin AG	N/A	12 months
Landesbank Hessen-Thueringen Girozentrale		12 months
Landwirtschaftliche Rentenbank	N/A	24 months
Norddeutsche Landesbank Girozentrale	N/A	12 months
NRW.BANK	N/A	24 months

tandard Investment Counterparty by Country		Maximum Investment Duration
Netherlands		**Not Applicable**
ABN AMRO Bank N.V.		6 months
Bank Nederlandse Gemeenten N.V.		24 months
Cooperatieve Rabobank U.A.		12 months
ING Bank N.V.		12 months
Nederlandse Waterschapsbank N.V.		24 months
Norway		**Not Applicable**
DNB Bank ASA		12 months
Singapore		**Not Applicable**
DBS Bank Ltd.		12 months
Oversea-Chinese Banking Corp. Ltd.		12 months
United Overseas Bank Ltd.		12 months
Sweden		**Not Applicable**
Skandinaviska Enskilda Banken AB		12 months
Svenska Handelsbanken AB		12 months
Swedbank AB		12 months
Switzerland		**Not Applicable**
UBS AG		12 months
United Kingdom		
Collateralised LA Deposit*	N/A	60 months
Debt Management Office		60 months
Multilateral Development Banks	N/A	60 months
Supranationals	N/A	60 months
UK Gilts	N/A	60 months
Bank of Scotland PLC (RFB)	N/A	12 months
Barclays Bank PLC (NRFB)	N/A	6 months
Barclays Bank UK PLC (RFB)	N/A	6 months
Clydesdale Bank PLC	N/A	6 months
Goldman Sachs International Bank		6 months
Handelsbanken Plc	N/A	12 months
HSBC Bank PLC (NRFB)	N/A	12 months
HSBC UK Bank Plc (RFB)		12 months
Lloyds Bank Corporate Markets Plc (NRFB)	N/A	12 months
Lloyds Bank Plc (RFB)		12 months
NatWest Markets Plc (NRFB)		6 months
Santander Financial Services plc (NRFB)	N/A	6 months
Santander UK PLC	N/A	6 months
SMBC Bank International Plc		6 months
Standard Chartered Bank	N/A	6 months
Leeds Building Society	N/A	100 days
Nationwide Building Society	N/A	6 months
Skipton Building Society	N/A	6 months
Yorkshire Building Society	N/A	6 months
National Westminster Bank PLC (RFB)	N/A	6 months
The Royal Bank of Scotland Plc (RFB)	N/A	6 months

Standard Investment Counterparty by Country	Maximum Investment Duration
United States	**Not Applicable**
Bank of America N.A.	12 months
Bank of New York Mellon, The	24 months
Citibank N.A.	12 months
JPMorgan Chase Bank N.A.	24 months
Wells Fargo Bank, NA	12 months
Money Market Funds	
Aberdeen	Overnight
Black Rock	Overnight
Insight	Overnight
Federated	Overnight
State Street	Overnight

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

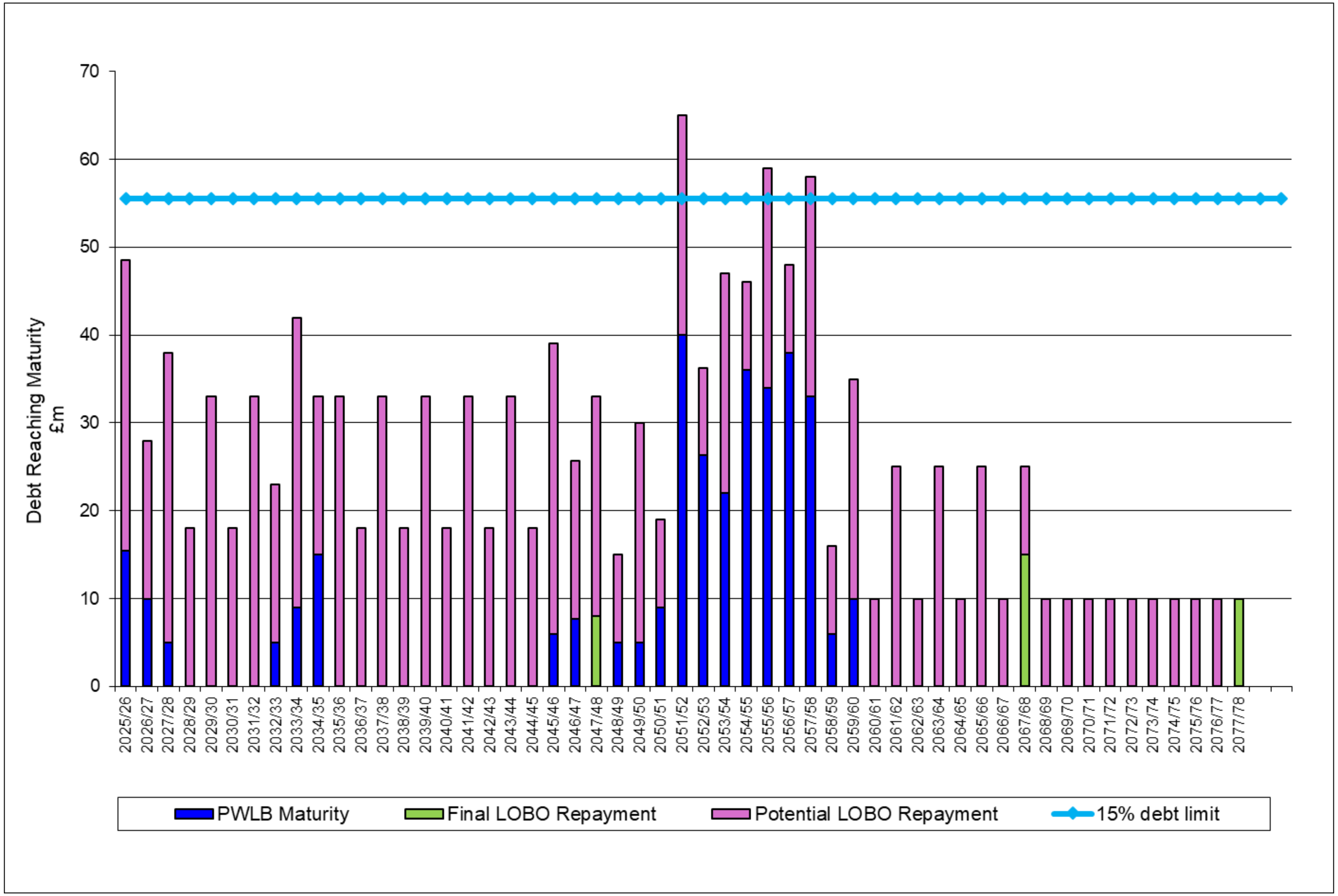
Annex C

Prudential Indicators for Treasury Management 2025/26

Indicator	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28	Estimate 2028/29	Estimate 2029/30
1. External Debt	£m	£m	£m	£m	£m
Authorised Limit for borrowing	618	619	625	611	594
Authorised Limit for other liabilities	67	60	54	49	45
TOTAL	**685**	**679**	**679**	**660**	**639**
Operational Boundary for borrowing	540	537	541	527	515
Operational Boundary for other liabilities	67	60	54	49	45
TOTAL	**607**	**597**	**595**	**576**	**560**
External Loans	443	463	480	487	493
Long Term Liabilities	67	60	54	49	45
TOTAL	**510**	**523**	**534**	**536**	**538**
The Authorised Limit is the maximum level of external borrowing which should not be exceeded. It is linked to the estimated level of borrowing assumed in the capital programme. *The Operational Boundary represents an estimate of the day-to-day limit for Treasury Management borrowing activity based on the most likely i.e. prudent but not worst-case scenario.* *"Other liabilities" relates to PFI schemes and lease agreements which are recorded in the County Council's accounts.*					
2. Interest Rate Exposures					
a. Upper Limit (Fixed)	540.9	543.7	543.9	550.1	535.9
b. Upper Limit (Variable)	(450.0)	(400.0)	(400.0)	(400.0)	(400.0)
The County Council has set upper limits of fixed and variable borrowing and investments. The effect of setting these upper limits is to provide ranges within which the County Council will manage its exposure to fixed and variable rates of interest. Negative figures are shown in brackets; these relate to the 'high- point' of investments at a variable rate which are not offset by variable borrowings. The exposure to variable rate movements has been reduced by the use of cash in lieu of borrowing.					
3. Maturity Structure of Borrowing					
This indicator relates to the amount of loans maturing in specified periods. The overarching principle is that steps should be taken from a risk management point of view to limit exposure to significant refinancing risk in any short period of time. The County Council currently applies the practice of ensuring that no more than 15% of its total gross fixed rate loans mature in any one financial year. *As this is a complex situation for the County Council, involving PWLB loans, LOBO loans with uncertain call dates and the use of internal cash, specific indicators have not been set. Instead, the County Council will manage its exposures within the limits shown in the graph at* ***Annex D****. This graph shows all LOBO call options on a cumulative basis; the actual pattern of repayment, although uncertain, will not be of this magnitude.*					
4. Upper limit for total principal sums invested for longer than a year (from maturity)					
This limit has been set at the total amount that could be invested in non-standard investments as per the County Council's policy (see ***paragraph 89****) which is the maximum that could be invested for 1 year or over.*	£245m	£245m	£245m	£245m	£245m

Annex D

Staffordshire County Council Debt Maturity Profile 2025/26



Annex E

Treasury Management Glossary of Terms

CFR: capital financing requirement - the County Council's annual underlying borrowing need to finance capital expenditure and a measure of the County Council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

ECB: European Central Bank - the central bank for the Eurozone.

EU: European Union.

EZ: Eurozone - those countries in the EU which use the euro as their currency.

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members -the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of an economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies - the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom, who meet annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE: quantitative easing – is a form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and return inflation to target. These purchases increase the supply of liquidity to the economy and this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. QE is reversed by selling the bonds the central bank had previously purchased, or by not replacing debt which matures.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID and LIBOR) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

TMSS: the annual treasury management strategy statement – a report that all local authorities are required to submit for approval by the full council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).