AGENDA ITEM 07

JOINT AUDIT COMMITTEE
27 MARCH 2025

TREASURY MANAGEMENT STRATEGY 2025/26 REPORT

1. PURPOSE OF REPORT

1.1 This report sets out the Police and Crime Commissioner's Treasury Strategy Statement for 2025/26 and updates on debt management and investment activity during the financial year 2024/25.

1.2 This report updates on recent Treasury Management activity, in line with recommended best practice and the revised CIPFA Code of Practice for Treasury Management 2021.

1.3 It is important to note that financial information contained within this report should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Commissioner and his treasury advisers will not accept any liability on behalf of any individual or organisation who seeks to act on the financial information contained within this report.

2. INTRODUCTION AND BACKGROUND

2.1 The Commissioner is legally required to produce an Annual Investment Strategy. Therefore, included is an Investment Strategy as part of the Treasury Strategy Statement shown in **Appendix B.**

2.2 In order to protect the Commissioner's position if an individual or organisation were to act upon this advice, it is deemed necessary to produce a disclaimer, which is shown as a note at the head of **Appendix B.**

2.3 The Commissioner is responsible for administering a Capital Programme of £180.1m between 2025-26 and 2029-30. As far as possible all surplus revenue money and other reserves are invested on a daily basis until they are required.

2.4 The Commissioner follows the Code of Practice for Treasury Management and The Prudential Code produced by the Chartered Institute of Public Finance and

Accountancy (CIPFA). The 2021 Treasury Management Code requires the Commissioner to implement the following:

1. **Adopt a liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;

2. **Long-term treasury investments**, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case; For the Commissioners investments this would mean the CCLA investment would be categorised as a commercial investment.

3. **Pooled funds** are to be included in the indicator for principal sums maturing in years beyond the initial budget year;

4. **Knowledge and skills** for officers and members involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted;

5. **Reporting to members is to be done quarterly.** Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. The CFO is expected to establish a measurement and reporting process that highlights significant actual or forecast deviations from the approved indicators. However, monitoring of prudential indicators, including forecast debt and investments should be reported as part of the integrated revenue, capital and balance sheet monitoring; and

6. **Environmental, social and governance (ESG)** issues to be addressed within the Commissioner's treasury management policy and practices.

2.5 The Commissioner's Treasury Management activity is governed by the following documents:

1 **Treasury Policy Statement.** This is a statement, defining treasury management and the general approach to it. It emphasises firstly the control of risk and secondly the pursuit of best value as the main factors defining the approach. A copy is attached at **Appendix A.**

2 **Treasury Management Practices** (TMPs) and Schedules to TMPs. TMPs define the overall approach to various aspects of treasury management, including such things as risk management, performance monitoring and management, segregation of duties and dealing arrangements, cash flow management, money laundering and staff training. The Schedules to TMPs deal with the criteria for selecting third parties (banks and building societies) with whom the Commissioner is prepared to deposit funds. The TMPs and Schedules are reviewed regularly by the Commissioner's CFO and copies are available on request.

3 **Annual Treasury Strategy Statement** details the expected activities of the treasury function in the financial year 2025-26. A copy is attached at **Appendix B.**

3. DEBT MANAGEMENT ACTIVITY 2024/25

3.1 Since April 1986, the Police Authority had been incurring long term debt from the Public Works Loans Board (PWLB) to finance major capital expenditure. All the borrowing was transferred to the Commissioner in November 2012.

3.2 Borrowing as at 31 March 2025 will be £82.3m, all at fixed rates and repayable over various periods up to 2072.

3.3 The Commissioner has the capacity to undertake variable rate borrowing (up to 20% of the total debt portfolio) should the need arise or to take advantage of fixed rates to fund identified need.

3.4 One loan matured during 2024/25 totalling £2.2m at 6.6% on 15/10/2024. No new loans were taken out during the year.

3.5 The average rate of interest payable on debt during the year was 2.89%. Link Asset Services, the Commissioner's treasury advisors, continue to advise on debt restructuring to enable the Commissioner to take advantage of opportunities to reduce the overall cost of debt, set in the context of the financial constraints and markets. There were no opportunities for this during 2024/25. Rescheduling of current borrowing in the debt portfolio is unlikely to occur as there are low discounts now available to make early repayment and the average rate of interest is low compared to new borrowing rates.

3.6 The table below shows the level of borrowing and the average interest rate payable.

Public Works Loan Board (PWLB) Borrowing

Loan Type	Borrowing £'m		Average Interest Rates %	
	31/03/24	31/03/25	2023/24	2024/25
Fixed	84.5	82.3	3.17	2.89
Variable	0.0	0.0	0.0	0.0
Total	**84.5**	**82.3**	**3.17**	**2.89**

3.7 **Appendix E** shows the maturity profile of the Loan portfolio as at 31 March 2025.

4. INVESTMENT ACTIVITY 2024/25

4.1 Any surplus funds have been invested on a daily basis. The PCC uses an investment benchmark to assess the investment performance of its investment portfolio of Sterling overnight Index average (SONIA).

4.2 Interest earned on fixed term investments up to the end of March 2025 is predicted to average 5.08%. The SONIA rate to mid-Jan averages 4.7%. The returns over the year have been at a good level compared to this benchmark. Total interest receivable is estimated to be £8m for 2024/25. However, it must be remembered that the primary objective of the PCC's treasury management strategy is security and liquidity so it is these factors that will be pursued ahead of yield.

4.3 At 31st December 2024, the Commissioner had £123m invested with a range of maturity dates between instant access and one year, and a further £5m with CCLA property fund with no maturity date. A final outturn report to the end of March will be provided in the June meeting.

4.4 All of the Commissioner's investments are with UK based entities. The split of these investments is as follows and detailed in **Appendix D:**

- 10% Money Market Funds (MMF's)
- 86% Local Authorities,
- 4% CCLA

The Commissioner has held no investments with foreign banks, all money market funds are UK based funds.

4.5 MMF's have been used to hold up to £90m throughout 2024/25 as they provide liquidity as well as yield rates which are reviewed daily. This will have generated approximately £1.5m of additional income in the 2024/25 financial year.

4.6 Based on market information provided by Link Asset Services, the counterparty list has been fully reviewed to reflect: current market conditions, credit ratings of sovereign nations, and the impact of Government support for the banking sector. As a consequence, the limits, both financial and duration, have been adjusted for some institutions. The group and individual limits (£65m) for the part government owned institutions (National Westminster Bank, Royal Bank of Scotland) remain the same as in 2023/24. NatWest group are the bankers for the PCC and any uninvested funds reside here. During 2024/25 there were no breaches to this limit to report. The counterparty list and limits can be found in **Appendix C**.

4.7 Similarly, all Local Authorities are eligible for inclusion on the counter party list because ultimately, they have the support of the national government. However, during 2020/21 it became known that some Local Authorities issued Section 114 notices, effectively stating they cannot balance the budget for the year and placing a freeze on any non-essential spending. (It should be noted that the repayment of investments falls outside the scope of this as it is a legal obligation). As a result of this, additional due diligence is now carried out on any Local Authority investments to ensure that investments are secure and to avoid any adverse publicity.

4.8 If institutions now fall below the set criteria they have been removed from the list and added if they become eligible. Details of the criteria are contained within the annual investment strategy in **Appendix B.**

4.9 The day to day work of Treasury Management is carried out in the Finance Department with oversight from the Director of Commercial Services. The Treasury Management Strategy is therefore managed using appropriate delegations and periodic management reporting to the Director of Commercial Services and the Commissioner's CFO. This will continue for the next financial year.

5 TREASURY STRATEGY STATEMENT 2025/26

5.1 The Treasury Strategy Statement covers the Commissioner's latest capital funding requirements, view of interest rate movements, and strategy for borrowing and investment. This is to be reviewed annually. The Treasury Strategy Statement for 2025/26 is attached at **Appendix B.**

5.2 The Bank of England kept the Bank Rate unchanged in December at 4.75%. Future interest rate expectations can be found below. These are important for the PCC as these determine the rate at which the PCC can borrow and invest:

Short-term rates.

- The short-term Bank of England base rate is expected to fall to 4% later this year and fall further by the end of the next financial year. The next reduction in the Bank Rate is expected in February 2025 and again in the summer.

Long-term rates.

- Very long-term rates (50-year PWLB rate) are estimated to be 4.70% by the end of 2025/26 and expected to reduce by the end of the next financial year.
- PWLB is the Government organisation from whom the PCC borrows its money for capital expenditure.

5.3 The Local Government Act 2003 introduced a new system of "prudential borrowing" which allows the Commissioner to set borrowing limits subject to criteria of prudence and affordability. These criteria are set out in more detail in the CIPFA Prudential Code that specifically requires a number of prudential indicators are set. The full range of prudential indicators have been reviewed in line with budgets for 2025/26 and the capital programme. The proposed indicators that relate to treasury management are set out in the Treasury Strategy Statement at **Appendix B.**

5.4 The Local Government Act 2003 also requires the Commissioner to set out a treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act); this sets out the Commissioners policies for managing investments and for giving priority to the security and liquidity of those investments.

6. RECOMMENDATIONS

6.1 It is recommended that the Joint Audit Committee:

a. Note the treasury management activity in 2024/25.

b. Approve the Treasury Strategy Statement for 2025/26 set out in **Appendix B.**

c. Approve the criteria for selecting counter parties in **Appendix B.**

d. Continue to include a mid-year review of Treasury Management activity in the Joint Audit Committee's work plan in accordance with the CIPFA Code of Practice for Treasury Management.

Jane Heppel	Peter Gillett
Chief Finance Officer	Director of Commercial Services
Police and Crime Commissioner	West Midlands Police

APPENDIX A

TREASURY POLICY STATEMENT AND TREASURY MANAGEMENT PRACTICES

TREASURY POLICY STATEMENT

1. The Commissioner defines treasury management activities as:

   - the management of cash flows;
   - banking, money market and capital market transactions;
   - the effective control of the risks associated with those activities;
   - the pursuit of optimum performance consistent with those risks.

2. The Commissioner regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Commissioner.

3. The Commissioner acknowledges that effective treasury management will provide support towards the achievement of business and service objectives. It is therefore a commitment to the principles of achieving best value in treasury management, and to employing suitable performance measurement techniques within the context of effective risk management.

4. Treasury operations are managed within the overall strategy approved by the Commissioner at the following levels:

   - Formal reviews of strategy and performance by the Commissioner's CFO, Director of Commercial Services, and Assistant Director Finance in conjunction with representatives from the external advisors (Link Asset Services).
   - Monthly monitoring is conducted by the Commissioner's CFO, Director of Commercial Services and Assistant Director Finance.
   - On a daily basis by trained staff under the direction of the Assistant Director Finance.
   - Reports to the Joint Audit Committee on treasury activity.
   - The annual review of the strategy for the Commissioner.

APPENDIX B

Note:
It is important to note that the Treasury Management Strategy Statement (TMSS) is adopted by the Commissioner based upon advice from external treasury advisors, and accordingly the Strategy is tailored to meet the specific and unique needs of the Commissioner. All financial information contained within this Report and Statement should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The Commissioner and the treasury advisors will not accept any liability on behalf of any individual or organisation who seeks to act on the financial information contained within this Report and Statement.

TREASURY STRATEGY STATEMENT 2025/26

1.0 BACKGROUND

1.1 The Police and Crime Commissioner (PCC) is required to operate a balanced revenue budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management function is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the PCC's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 The second main function of the treasury management function is the funding of the PCC's capital plans. These capital plans provide a guide to the borrowing need of the PCC, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk of cost objectives.

1.3 The contribution the treasury management function makes to the PCC is critical, as the balance of debt and investment operations ensure the liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since the cash balances generally result from reserves and balances, its is paramount to ensure adequate scrutiny of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, including 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."*

2.0 REPORTING REQUIREMENTS

2.1 The PCC is required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indications and treasury strategy** (this report)
The first, and most important report is forward looking which covers:
- the capital plans (including prudential indicators)
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time)
- the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicator; and
- an Annual Investment Strategy, (the parameters on how investments are managed)

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the mid-year position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury outturn report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates in the strategy.

3.0 TEASURY MANAGEMENT STRATEGY FOR 2025/26

3.1 This Treasury Strategy Statement details the expected activities of the treasury function in the financial year 2025/26. The suggested strategy is based upon views of interest rates as advised by external advisors, supplemented with leading market forecasts. The strategy covers two main areas:

Capital Issues
- the capital expenditure plans and the associated prudential indicators
- the minimum revenue position (MRP) policy

Treasury management issues
- the current treasury position
- treasury indicators which limit the treasury risk and activities of the PCC
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy; and
- creditworthiness policy

3.2 These elements cover the requirements of the Local Government Act 2003, MHCLG (Ministry of Housing, Communities and Local Government) Investment Guidance, MHCLG MRP Guidance and the CIPFA Treasury Management Code.

3.3 The PCC uses Link Group, Link Treasury Services Limited as its external treasury management advisors.

3.4 The PCC recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

3.5 It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The PCC will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

3.6 The CIPFA Treasury Management Code requires members with responsibility for treasury management to receive adequate training in treasury management.

3.7 The needs of the Commissioners treasury management staff for training in investment management are assessed every twelve months as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change. Staff regularly attend training courses, seminars and conferences provided by Link Group and CIPFA.

4.0 THE CAPITAL PRUDENTIAL INDICATORS 2025/26 – 2027/28

Capital Expenditure and Financing

4.1 The Prudential Code for Capital Finance in Local Authorities (Prudential Code) is applicable to the Police and Crime Commissioner and has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide a code of practice to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003. PCCs, like Local Authorities, are free to determine their own level of capital investment controlled by self-regulation.

4.2 The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.

4.3 The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other. The indicators establish parameters within which the PCC should operate to ensure the objectives of the Prudential Code are met.

4.4 The prudential indicator is a summary of the PCCs capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The following are the capital expenditure forecasts:

Capital expenditure £m	2025/26	2026/27	2027/28	2028/29	2029/30
Total Capital Programme	45.8	30.7	18.1	26.1	18.9

4.5 The next table summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in funding borrowing need.

Financing of capital expenditure £m	2025/26	2026/27	2027/28	2028/29	2029/30
Revenue contributions	13.8	19.9	14.9	22.7	15.5
Borrowing (PWLB) already taken in advance	4	-	-	-	-
Capital receipts	25	7.7	-	-	-
Capital grants	3	3.1	3.2	3.3	3.4
Total funding	45.8	30.7	18.1	26.1	18.9
Net financing need for the year	**0**	**0**	**0**	**0**	**0**

The Commissioner's Borrowing Need (the Capital Financing Requirement)

4.6 The second prudential indicator is the Commissioner's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Commissioner's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

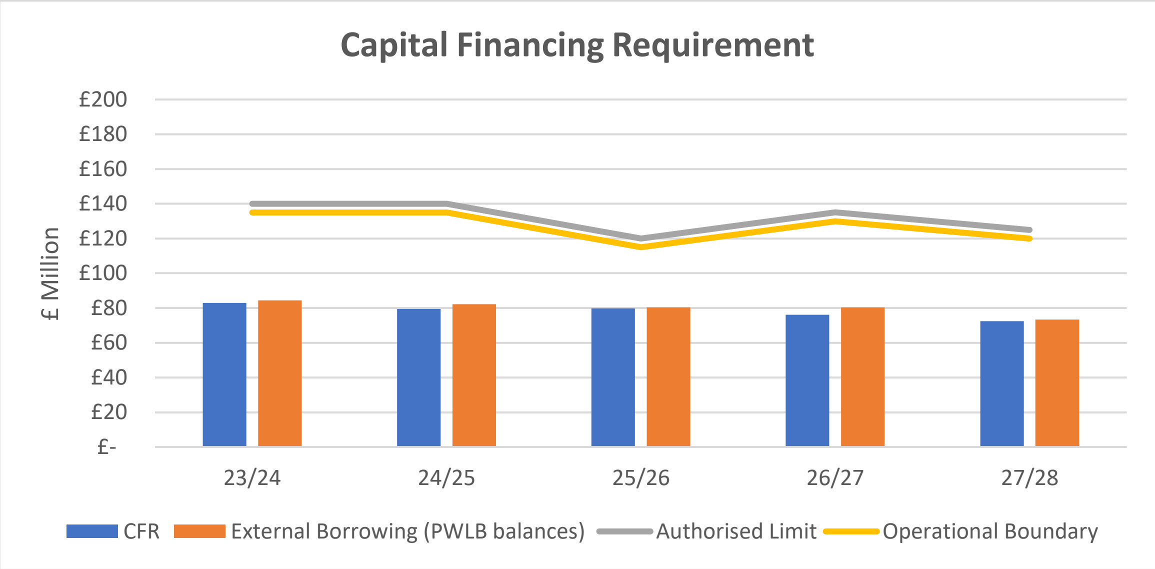
4.7 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used. The CFR will increase as the PCC adopts IFRS16 and leased assets will be added to the balance sheet and an updated version of this report will be reported in the September meeting.

4.8 In considering the capital programme for 2025/26, the anticipated future borrowing requirements were considered in the context of overall capital resources and the impact on the revenue budget.

	31 March 2024 £'m	31 March 2025 £'m	31 March 2026 £'m	31 March 2027 £'m	31 March 2028 £'m
Capital Financing Requirements	82.9	79.4	79.8	76.1	72.5
Existing borrowing	**84.5**	**82.3**	**80.3**	**80.3**	**73.3**
Repayments	-2.2	-2.0	0	-7.0	0
New Borrowing	0	0	0	0	0
Net External borrowing	**82.3**	**80.3**	**80.3**	**73.3**	**73.3**

4.9 Borrowing can be either undertaken internally or externally. Internal borrowing occurs when MRP has been set aside to repay borrowing but that borrowing is not yet due to be repaid, leaving a cash balance available to temporarily apply to other capital spend. However, external borrowing may also be needed for new capital expenditure and be taken as external loans.

4.10 These loans are used to finance capital expenditure, which means the acquisition or improvement of assets: land, buildings, ICT infrastructure. Therefore, although there is an increased liability on the balance sheet in terms of borrowing this is offset by an increase in the value of assets to be utilised in the provision of services.



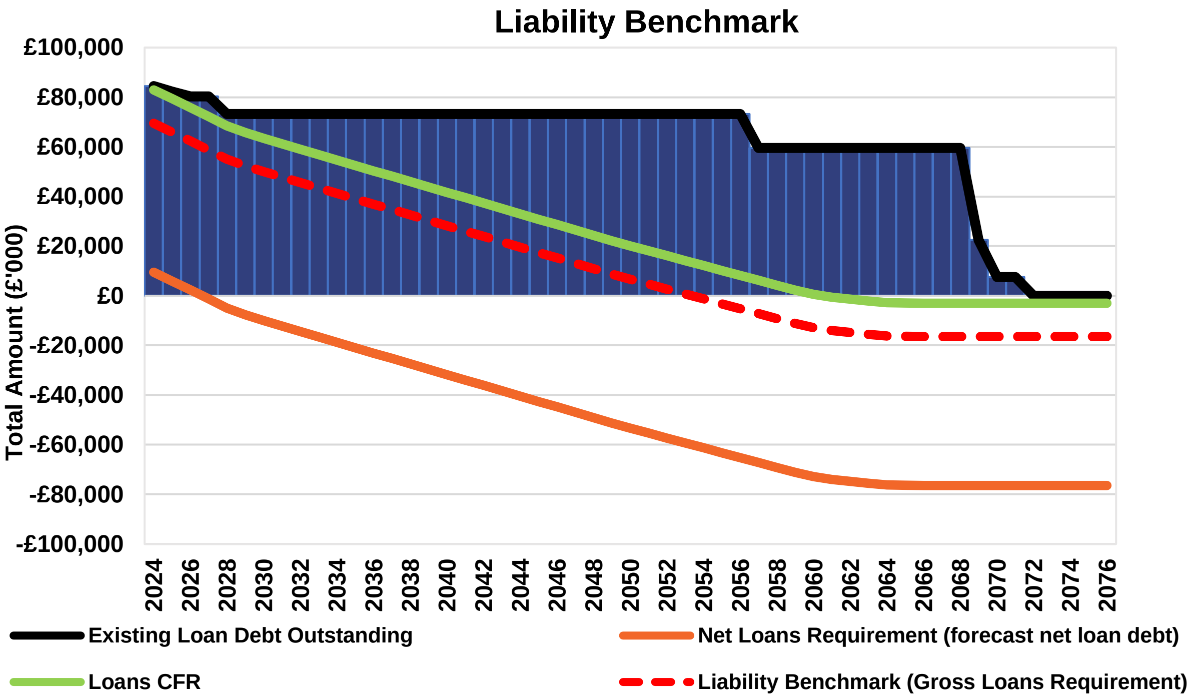
4.11 The graph above shows how the CFR is expected to change over the period of the MTFP. The historic loan schedule supports a higher CFR than is currently the case. MRP has built up over recent years and reduced the CFR, but the loans which have come due for repayment are at a much lower level than the cash which has built up and so cash is building up to repay them when they fall due. Loans have historically been taken on a long- term basis and so this slightly overborrowed position will remain until loans are repaid.

5.0 LIABILITY BENCHMARK

5.1 The Commissioner is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years, as a minimum.

5.2 The liability benchmark is a projection of the amount of loan debt outstanding that the authority needs each year into the future to fund its existing debt liabilities, planned prudential borrowing and other cash flows. This is shown by the gap between the authority’s existing loans that are still outstanding at a given future date and the authority’s future need for borrowing (as shown by the liability benchmark). In particular, the liability benchmark identifies the maturities needed for new borrowing in order to match future liabilities. It therefore avoids borrowing for too long or too short.

5.3 The Liability Benchmark chart is shown below:



5.4 There are four components to the LB:

- **Existing loan debt outstanding:** (black line) the Commissioner's existing loans that are still outstanding in future years. These are largely long-term loans.
- **Loans CFR:** (green line) this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP. The CFR will change with current capital plans within this strategy forecast to 2029/30.
- **Net loans requirement:** (orange line) this will show the Commissioner's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
- **Liability benchmark (or gross loans requirement):** (red dotted line) this equals net loans requirement plus short-term liquidity allowance.

5.5 When comparing the LB to the existing loan debt outstanding, this shows the PCC is in a position of surplus cash and no further loans are required. Although some loans are due to be paid off in the next few years, most loans have been taken on a long-term basis.

5.6 The forward projections for borrowing are summarised below. The table shows actual external debt, against the underlying capital borrowing need (the CFR), highlighting any over or under borrowing.

£m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
External Debt	84.5	82.3	80.3	80.3	73.3
Capital Financing Requirement	82.9	79.4	79.8	76.1	72.5
Under/(over) borrowing	(1.6)	(1)	(0.5)	(4.2)	(0.8)

5.7 The table above shows that the PCC is currently in a slightly 'overborrowed position' (£1m) as at 31 March 2025. MRP has built up over recent years and reduced the CFR, but the loans which have come due for repayment are at a much lower level than the cash which has built up and so cash is building up to repay them when they do fall due. Loans have historically been taken on a long- term basis and so this overborrowed position will remain until loans are repaid.

6.0 MINIMUM REVENUE PROVISION (MRP) POLICY

6.1 Capital expenditure is expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, and equipment. Occasionally the Commissioner has to borrow to fund this expenditure. The loans taken out for this purpose are fully repayable at a future point in time (they are paid off at maturity and not in instalments). The concept of Minimum Revenue Provision was introduced to prescribe a minimum amount which must be charged to the revenue account each year in order to make provision to meet the cost of that borrowing.

6.2 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing, it is required to make a provision each year through a revenue charge (MRP). The 2003 Regulations have been further amended with full effect from April 2025 to expressly provide that in determining a prudent provision, authorities cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute. The Commissioner is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2024) provides four ready-made options for calculating MRP, but the Commissioner can use any other reasonable basis that can be justified as prudent.

6.3 The Government considers that the methods of making prudent provision include the options set out in the statutory guidance. However, this does not rule out or otherwise preclude the Commissioner from using an alternative method should it decide that is more appropriate.

6.4 Options 1 and 2 should only be used in relation to Capital expenditure incurred before 1 April 2008 and which the Commissioner is satisfied forms part of Supported Capital Expenditure. For all unsupported borrowing covered by the Prudential Code on or after 1 April 2008, Options 3 or 4 are considered prudent approaches.

6.5 The MRP options set out in the Capital Finance guidance on Minimum Revenue Provision are:

- **Option 1 – 4% reducing balance (regulatory method) -** MRP is equal to the amount determined in accordance with the former sections 28 and 29 of the 2003 Regulations as if they had not been revoked.

- **Option 2 – 4% reducing balance (CFR method) -** MRP is equal to 4% of the Capital Financing Requirement at the end of the previous year.

- **Option 3 – Asset Life Method (straight line) -** MRP is spread over the determined useful life of the Asset either in equal instalments or using an annuity method. The first charge can be delayed until the asset is operational.

- **Option 4 – Depreciation Method** - MRP is equal to the provision required in accordance with depreciation accounting in respect of the asset.

- Another method which the Commissioner has deemed a more suitable method after having regard to the MRP Guidance

6.6 For expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be to take the residual CFR at 31 March 2024, excluding any balance for unsupported borrowing, and apply an MRP of 1/40 of this balance equally across the following 40 years. This will allow the historic balance to be fully written down.

6.7 From 1 April 2008 for all unsupported borrowing the MRP policy will be Option 3, Asset life method, looking at the lives of the assets to which the borrowing has been applied.

6.8 Capital expenditure incurred during 2024/25 will not be subject to an MRP charge until 2025/26, or in the year after the asset becomes operational.

6.9 MRP in respect of assets acquired under Leases subject to IFRS 16 recognition will be charged at an amount equal to the principal element of the annual repayment.

7.0 CURRENT PORTFOLIO POSITION

7.1 The treasury management function ensures that the Commissioner's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and the Capital Strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

7.2 The Commissioner's estimated portfolio position as at 1st April 2025 for investments and borrowings is as follows:

Treasury Investments	
	£m
Maturity less than 1 year	70.0
Maturity between 1 and 5 years	0.0
Money Market Funds	10.0
CCLA Property Fund	5.0
Total Treasury Investments	**85.0**
Treasury External Borrowing	
PWLB fixed rate	82.3
PWLB variable rate	0.0
	82.3
Net Treasury investments/(borrowing)	**2.7**

7.3 The treasury investments less than 1 year relate to Bank, Building Society and Local Authority Investments. The £5.0m investment placed with CCLA relates to the property fund.

8.0 TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

8.1 **The Operational Boundary**
This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. The operational boundary has been calculated with regard to the Commissioner's capital expenditure and financing plans allowing for the most likely, prudent, but not worst-case scenario for cash flow. Temporary breaches of the operational boundary, due to variations in cash flow, will not be regarded as significant.

8.2 The proposed limits set out below have been calculated to take account of the current Commissioner's capital expenditure and financing plans and allowing for the possibility of unusual cash movements. If this limit is likely to be breached, it would be necessary for the Commissioner to determine if it is prudent to raise the limit or to instigate procedures to ensure that such a breach does not occur.

8.3 **The Authorised Limit for external debt**
This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited and this limit needs to be set or revised as necessary. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m
Operational boundary	135	115	130	120
Authorised limit for external debt	140	120	135	125

8.4 The Commissioner's actual external debt as at 31/03/25 is currently expected to be £82.3m, excluding transferred debt managed by Dudley MBC (£1.3m). This final payment for the debt managed by Dudley MBC is due to be paid during 2025/26 bringing the balance to ‘nil’.

9.0 PROSPECTS FOR INTEREST RATES

9.1 The prospect for interest rates is important for the PCC to understand as it can affect the interest rate earned on investments and the rate at which it can borrow money for capital purposes.

9.2 The Commissioner continues to use Link Asset Services (Link) as a treasury advisor and has made use of their services in formulating a view on interest rates. Link has in turn drawn upon the work of a number of City economic forecasters.

9.3 Link provided the following forecasts on 11 November 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

9.4 *Additional Notes from Link to accompany current forecasts*:

- Following the 30 October Budget, the outcome of the US Presidential election on 6 November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, we have significantly revised our central forecasts for the first time since May. In summary, Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst our PWLB forecasts have been materially lifted to not only reflect increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

- The Bank of England have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

- The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government’s policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

- There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

- Regarding our PWLB forecast, the short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

- There are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.

9.5 As a result of the above interest rate forecast, investment returns achieved in 2024/25 will not be sustainable and are expected to fall in 2025/26.

9.6 **Interest rate exposure for fixed term investments and debt**

These indicators allow the Commissioner to manage the extent to which he is exposed to changes in interest rates. The upper limit for fixed interest reflects the fact that it is possible to construct a prudent treasury strategy on the basis of using only fixed rate debt and investments, so long as the maturity dates of these debts and investments are reasonably spread. The same does not apply to variable rates where a 100% exposure could lead to significant year on year fluctuations in the cost of debt.

9.7 The upper limit for variable rate exposure allows for the use of variable rate debt to offset the exposure to changes in short-term rates on the portfolio of investments.

	2025/26 %	**2026/27 %**	**2027/28 %**
Upper limit for fixed interest rate exposure			
Net principal fixed rate borrowing / investments	100	100	100
Upper limit for variable rate exposure			
Net principal variable rate borrowing / investments	20	20	20

10.0 BORROWING STRATEGY

10.1 The Commissioner’s CFO has undertaken a review of capital investment requirements and likely resource levels. Although there is some uncertainty around specific requirements and future funding levels, it is does not plan to borrow any further to fund the Estates Strategy over the life of the Capital Programme.

10.2 Any short-term funding gaps over the life of the Capital Programme will be met through internal borrowing.

10.3 The Commissioner's CFO will continue to cautiously monitor the interest rate market and adopt a pragmatic approach to any changing circumstances such as the evolving Estates Strategy or deployment of new technology.

10.4 If the need to borrow arises the Commissioner may choose to forward borrow and lock in lower interest rates if the opportunity presents itself. This will involve committing to borrow an amount of money at a date in the future at a designated rate. The Commissioner will then be committed to take on the borrowing even if the requirement to borrow is no longer present or the prevailing interest rate drops.

11.0 POLICY ON BORROWING IN ADVANCE OF NEED

The Commissioner will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Commissioner can ensure the security of such funds.

12.0 DEBT RESCHEDULING AND PREMATURE REPAYMENT OPPORTUNITIES

12.1 Rescheduling of current borrowing in our debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

12.2 Rescheduling of current borrowing in our debt portfolio is unlikely to occur if there is a large difference between premature redemption rates and new borrowing rates.

13.0 THE INVESTMENT STRATEGY

13.1 The Commissioner's investment activities have regard to guidance issued by the Government and CIPFA. The Ministry of Housing and Local Government (MHCL) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments.

13.2 In making investment decisions, the Commissioner's investment priorities will be security first, liquidity second and then yield (return). Pursuit of the best possible return on investments will only be allowed to the extent that this is consistent with very low levels of risk in terms of security and liquidity.

13.3 In the current economic climate, it is considered appropriate to maintain a high degree of liquidity to cover cash flow needs but to also consider 'laddering' investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated.

13.4 The guidance from MHCLG and CIPFA places a high priority on the management of risk. The Commissioner has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate.

3. **Other information sources** used will include the financial press and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in Appendix C.

5. All investments will be denominated in **sterling**.

Category of investment	**Maximum value for this category of investments**
Sterling deposits in excess of 364 days with Local Authorities and UK banks (where these are not "specified investments" as defined above).	£30m
Property Funds based in the UK	£5m

6. The Commissioner will make use of both specified and non-specified investments.

13.5 **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity, if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.

13.6 **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. In determining which categories of non-specified investments may prudently be used, account will be taken of advice from the advisors, Link Asset Services.

13.7 So far, the following categories of investments have been identified as prudent for use for non-specified investments. The table also shows the maximum value of investments that may be held.

13.8 Property funds provide investors with long term income and potential long-term capital appreciation. These types of funds are actively managed in a diversified portfolio of commercial property.

13.9 In determining the maximum period for which investments may be held, regard to the most recent cash flow forecast will be taken. No investment will be entered into where the cash-flow forecast indicates that, as a result of that investment, the Commissioner would be forced to borrow money in a future year that would not otherwise have had to be borrowed.

13.10 **Environmental, Social and Governance (ESG) Risk Management**
Environmental, Social and Governance (ESG) considerations are important considerations when selecting investment counterparties: however, Security of public funds, followed by Liquidity and then Yield remain our primary drivers in line with CIPFA Guidance.

13.11 Our treasury operation focuses on managing all categories of risk that may impact first and foremost the security of any given investment product. From that perspective ESG considerations will be about understanding what ESG risks a counterparty is exposed to and what they may mean for the Commissioners' risk in choosing to make a particular investment.

13.12 Specific assessment is however somewhat restricted by the fact that, at the time of writing, there is no consistent rating framework to measure and benchmark all specific counterparty ESG metrics. Until this market data gap is fully resolved, our Policy is as follows:
We continue to prioritise Security, Liquidity and Yield (in that order) as required by CIPFA's Treasury Management Code of Practice.

13.13 The Ratings Agencies (Moody's, Standard and Poor's) existing headline ratings on our counterparties now incorporate ESG risk assessments alongside more traditional financial risk metrics and so provide both a holistic risk measure and a proxy for ESG 'scoring' in the absence of anything more robust.

13.14 **Maturity structure of borrowing and investments longer than 364 days**
The purpose of the prudent limits for principal sums invested for periods longer than 364 days is for the Commissioner to contain his exposure to the possibility of loss that might arise as a result of having to seek early repayment of principal sums invested. The maturity structure of fixed rate borrowing is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

Upper limit of principal invested for periods over 364 days	**£30m**	
Maturity structure of fixed rate borrowing	**Upper limit %**	**Lower limit %**
Under 12 months	25	0
12 months and within 24 months	25	0
24 months and within 5 years	50	0
5 years and within 10 years	75	0
10 years and above	100	25

14.0 CREDITWORTHINESS POLICY

14.1 For the purpose of this strategy, use is made of the creditworthiness service provided by Link Asset Services to define a 'high credit rating'.

- UK banks and building societies – short-term rating F1 or higher and viability rating of "a-" or higher.
- Foreign banks – short-term rating F1+, and a viability rating of a minimum of "a" with a sovereign rating of AAA.
- Money market Funds (MMFs) – Any AAA rated fund

These will be supported by other accredited rating systems (Standard & Poor's and Moody's), credit watches and outlooks, Credit Default Swap data, and information from the financial press.

14.2 Sole reliance will not be placed on the use of this external service. In addition, the Commissioner will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

14.3 **Local Authorities**: Although, most UK local authorities have not opted to obtain a formal credit rating from either Moodys, Standard and Poors, or Fitch, they are considered as quasi-governmental by advisors and therefore assigned a AA- rating for the purposes of establishing credit criteria. No local authority has ever defaulted on its loan arrangements. The commissioner will apply the following criteria when selecting UK Local Authority counterparties:

- No deposits (or further deposits) with authorities that have issued a S114 notice that is yet to be rescinded.
- No forward dated trades beyond 1 month ahead.

14.4 Since the credit crisis, there are some semi-nationalised banks in the UK with credit ratings which do not conform to the credit criteria usually used to identify banks which are of high credit worthiness. In particular, as they are no longer separate institutions in their own right, it is impossible for the rating agencies to assign them an individual rating for their standalone financial strength. However, these institutions are now recipients of at least a F2 short term rating (effectively taking on the creditworthiness of the Government). That implies deposits made with them are effectively being made to the Government. This relates to National Westminster Bank and Royal Bank of Scotland.

14.5 The Commissioner's CFO will monitor credit ratings through the receipt of credit rating bulletins from the treasury management consultants at Link Asset Services.

APPENDIX C

EXTERNAL INVESTMENTS - APPROVED COUNTERPARTY LIST AND LIMITS 2025/26

LOCAL AUTHORITIES	LIMIT for each	
	£m	PERIOD
All Local Authorities**	30	1 year+
Banks and building societies (exc. RBS Group)	30	<1 year
RBS Group (Natwest and Royal Bank of Scotland)	65	<1 year
Bank of England	100	1 year+
Money Market Funds	30	Instant access

** Local authorities may be subject to lower limits throughout the year if they are deemed to be under severe financial stress.

APPENDIX D

INVESTMENTS AS AT 31/12/24				
Maturity	**Borrower**	**Principal (£)**	**Rate (%)**	**Type**
24-Jan-25	Suffolk County Council	**10,000,000**	5.25	Local Authority
24-Jan-25	Surrey County Council	**10,000,000**	5.20	Local Authority
24-Jan-25	Surrey County Council	**10,000,000**	4.90	Local Authority
05-Feb-25	Leeds City Council	**10,000,000**	5.05	Local Authority
25-Mar-25	City of Kingston Upon Hull	**10,000,000**	5.00	Local Authority
25-Mar-25	Lancashire County Council	**10,000,000**	4.90	Local Authority
07-Apr-25	BCP Council	**10,000,000**	4.90	Local Authority
25-Apr-25	Blackpool Borough Council	**10,000,000**	4.90	Local Authority
25-Apr-25	Leeds City Council	**10,000,000**	5.05	Local Authority
25-Apr-25	Cheshire East Council	**10,000,000**	5.05	Local Authority
25-Apr-25	Surrey Heath Borough Council	**5,000,000**	5.05	Local Authority
10-Nov-25	Lancashire County Council	**5,000,000**	5.15	Local Authority
Instant	RLAM	**13,000,000**	variable	MMF
5 to 10 years	CCLA	**5,000,000**	variable	Property Fund
TOTAL		**£128,000,000**		

APPENDIX E

Loan maturity profile as at 31 March 2025

Maturity Date	Loan amount (£)	Interest rate	Annual int. payable
15/10/2025	2,000,000	6.625%	132,500
30/11/2027	7,000,000	3.990%	279,300
15/06/2056	5,587,000	4.450%	248,622
01/03/2057	8,200,000	4.350%	356,700
01/09/2061	2,000,000	4.875%	97,500
07/12/2068	10,000,000	2.640%	264,000
10/12/2068	10,000,000	2.540%	254,000
12/02/2069	5,000,000	2.370%	118,500
28/03/2069	10,000,000	2.160%	216,000
08/10/2069	15,000,000	1.630%	244,500
14/03/2072	7,500,000	2.070%	155,250
TOTAL	**82,287,000**		**2,366,872**