



Date: Wednesday, 21 February 2024

Time: 10.30 am

Venue: Council Chamber, Shirehall, Abbey Foregate, Shrewsbury, SY2 6ND

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## CABINET

### TO FOLLOW REPORT (S)

#### **9 Treasury Strategy 2024/25 (Pages 1 - 50)**

Lead Member – Councillor Gwilym Butler – Portfolio Holder for Finance, Corporate Resources and Communities

Report of James Walton – Executive Director of Resources

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	<b>Committee and Date</b> Cabinet 21 <sup>st</sup> February 2024	Item
	Audit Committee 22 <sup>nd</sup> February 2024	Public
	Council 29 <sup>th</sup> February 2024	






## Treasury Strategy 2024/25

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<b>Cabinet Member</b> (Portfolio Holder):	Cllr Gwilym Butler, Finance, Corporate Resources and Communities		

### 1. Synopsis

The report proposes the Treasury Strategy for 2024/25. It sets out the arrangements for how the council will appropriately manage its arrangements for banking, cash flow management, investments, and borrowing, supporting the delivery of the MTFS and The Shropshire Plan.

### 2. Executive Summary

- 2.1. Treasury management refers to work undertaken ‘in the background’. It is the way the authority manages cash flow, banking, investments and borrowings. Effective treasury management is an essential foundation for the services the Council provides.
- 2.2. CIPFA has defined treasury management activities as ‘the management of the organisation’s investments and cash flows - 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.’ The amounts in these different areas of activity fluctuate, but, at the time of preparing the report, the council had

- gross cashflows in and out registering in the hundreds of millions of pounds each year
  - future planned capital investments (capital financing requirement or 'CFR'), funded from a variety of sources, approaching £0.5bn
  - debt (external borrowings) just under £0.3bn (this is all fixed rate; no borrowings held with variable rates). The majority of this (£0.24bn) is government loans (Public Works Loan Board, 'PWLB'). The profile of debt maturity is spread across future years (PWLB loans mature between 2029/30 and 2056/57). Provision to meet the finance cost of this debt and to repay the principal is included in the annual budget process.
  - Investments (of cash held for various purposes, which can be safely invested for a period based on projected cash flow requirements) of £39.9m as at 31 December 2023.
- 2.3. This is a complex and significant area of the Council's financial operations and is therefore delivered within an appropriately robust framework of legislative and best practice safeguards.
- 2.4. To enable an efficient approach to delivery of treasury management functions across partner organisations, the Council also provides this function for other organisations as below. (NB – this report relates specifically to the Treasury Management Strategy for the Council.)
- West Mercia Energy (WME)
  - Shropshire Towns and Rural Housing (STARH)
  - Shropshire and Wrekin Fire Authority
  - The Marches Local Enterprise Partnership (LEP)
  - The Shropshire County Pension Fund (SCPF)
- 2.5. Given the scale of these activities, it is essential that best practice is applied, and local activity is amended as best practice evolves. The Council achieves this in two ways – by retaining Link Group as specialist treasury management advisors, and by adopting recommended best practice from sector leaders such as CIPFA.
- 2.6. In December 2021, CIPFA published the revised Treasury Management Code and Prudential Code. As noted last year, formal adoption is included for the 2024/25 financial year. This Treasury Management Strategy has also been prepared in compliance with CIPFA's Code of Practice on Treasury Management 2017 and covers the following:-
- A high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
  - An overview of how the associated risk is managed
  - The implications for future financial sustainability
- 2.7. Key points to note in the strategy are:-
- Borrowing is driven by the requirements of the approved Capital Programme.
  - Currently the approved borrowing requirement identified within the approved Capital Programme 2024/25 to 2026/27 is prudential borrowing of £68.7m. In addition to this there is an anticipated prudential borrowing

requirement for future prioritised schemes in the Capital Strategy 2024/25 to 2029/30 of £136.8m.

- Investment limits are also set out within the strategy, to ensure that counterparties are credit worthy and that investments are undertaken in line with internal funds requirements.

- 2.8. Outside the approved Capital Programme there are a number of further capital investment schemes which are being prepared but have not yet been approved to be included in the capital programme. Once these decisions are made (either to accept and progress, or to reject), the funding including the borrowing requirement will also be revised.
- 2.9. The Council's lending is restricted to highly credit rated Banks, Building Societies, Money Market Funds and Part Nationalised Institutions which meet Link Asset Services creditworthiness policy, as well as other Local Authorities and the UK Government (for example, lending to the Debt Management Office, 'DMO').
- 2.10. The Finance Team will continue to look for opportunities to make savings by actively managing the cash and debt portfolio in accordance with the Treasury Strategy. Savings may be secured by increasing the interest earned through investment of cash balances, or by reducing the cost of external borrowing (for example, by paying back higher interest loans and replacing them with lower interest loans – 'rescheduling').

### 3. Recommendations

- 3.1. This treasury strategy is required to be received at three committee meetings;
- Cabinet receive it and recommend its adoption to Council from the perspective of this setting out the policy Cabinet wish to adopt;
  - Audit Committee also receive the report as part of their consideration of the probity and regularity of the council's financial affairs, and
  - Full Council receive the strategy for its formal approval and adoption as a reserved decision.

Specific recommendations for each meeting are set out below.

#### **Cabinet**

- 3.2. That Cabinet recommends that Council:-
- a. Approve, with any comments, the Treasury Strategy for 2024/25
  - b. Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.
  - c. Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the DLUHC Guidance on Local Government Investments.
  - d. Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.
  - e. Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
  - f. Authorise the Section 151 Officer to use other Foreign Banks which meet Link's creditworthiness policy as required.

- g. Authorise the Section 151 Officer to progress and finalise the restatement and amendment of Cornovii Development Ltd loan agreements.

### **Audit Committee**

- 3.3. That the Audit Committee
  - h. Consider and endorse, with appropriate comment, the Treasury Strategy 2024/25.

### **Council**

- 3.4. That Full Council
  - i. Approve, with any comments, the Treasury Strategy for 2024/25, set out in appendix 1 (parts 1-3).
  - j. Approve, with any comments, the Investment Strategy, set out in Appendix 1 (part 4) in accordance with the DLUHC Guidance on Local Government Investments.
  - k. Approve, with any comments, the Prudential Indicators, set out in Appendix 1 (part 5), in accordance with the Local Government Act 2003.
  - l. Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 1 (part 6).
  - m. Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
  - n. Authorise the Section 151 Officer to use other Foreign Banks which meet Link's creditworthiness policy as required.
  - o. Authorise the Section 151 Officer to progress and finalise the restatement and amendment of Cornovii Development Ltd loan agreements.

## **Report**

### **4. Risk Assessment and Opportunities Appraisal**

- 4.1. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 4.2. There are no direct environmental, equalities or climate change consequences arising from this report.
- 4.3. Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.
- 4.4. The Council's Audit Committee is the committee responsible for ensuring effective consideration of the Council's Treasury Management Strategy and policies.
- 4.5. Risk table:

<i>Risk</i>	<i>Mitigation</i>
Security of funds	<p>The Council maintains an Annual Investment Strategy which ensures that minimum acceptable credit criteria is applied for all investments to ensure that only highly creditworthy counterparties are used which enables diversification across all investments.</p> <p>The Council uses a treasury advisor, Link Asset Services to provide a creditworthiness service of all potential investment counterparties, which is continuously monitored and updated as needed.</p>
Managing liquidity	<p>The Council undertakes cash flow monitoring which highlights anticipated cash transactions for the upcoming 18 months. All departments are requested to provide details of large value income and expenditure transactions that may impact on the authority's cash flow position. This is tracked on a daily basis and continuously updated to ensure that cash is held appropriately liquid should there be a need to use the funds.</p>
Achievement of investment benchmark, particularly in months of February and March.	<p>Investments undertaken by the Finance team are benchmarked against the 3 Month Sterling Overnight Index Average (SONIA). The key factors in tracking performance of investments, is the cash balance available to invest and the return that is achieved on investments made. When interest rates are rising in the economy, it may be that previous investments that were fixed have now become less favourable, and so there is a higher risk that the benchmark may not be achieved.</p> <p>The availability of cash for investing has also become a key factor, especially in a period where reserves and hence cash balances have reduced. Also during the months of February and March the Council does not collect Council Tax and so cash balances reduce during these months in particular. In order to manage this period, cash is held in call accounts or highly liquid investments rather than being placed into longer term fixed interest investments. The main priority for the Council is always to maintain liquidity and the security of funds over chasing investment returns.</p>

## 5. Financial Implications

- 5.1. The financial implications arising from the Treasury Strategy are detailed in this report. The Council makes assumptions about the levels of borrowing and investment income over the financial year to facilitate financial planning.
- 5.2. Reduced borrowing either as a result of capital receipt generation or due delays in delivery of the capital programme will have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by

Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.

- 5.3. As at 31 December 2023 the Council held £39.9 million in investments and borrowing of £286 million at fixed interest rates.

## 6. Climate Change Appraisal

- 6.1. The Council's Financial Strategy includes proposals to deliver a reduced carbon footprint for the Council therefore the Finance Team is working with the Council in order to achieve this. There are no direct climate change impacts arising from this report. Shropshire Council's investment portfolio has no level 1, 2 or 3 emissions. It comprises of straightforward cash deposits with financial institutions and other Local Authorities.
- 6.2. The Council is actively working with Link Group to secure approved investment counterparties who prioritise sustainable investments. Where opportunities arise and these counterparties meet necessary security, liquidity and yield requirements, the council will then also be able to invest in activities specifically focused on sustainability and referenced to United Nations Sustainable Development Goals and wider Economic and Social Responsibility ('ESR') objectives.

## 7. Loans to Cornovii Developments Ltd (CDL)

- 7.1. Cornovii Development Ltd (CDL) and Shropshire Council have agreed to renegotiate the existing finance and borrowing arrangements for the company, subject to the appropriate approvals. Currently CDL have loan facilities of £14m and £35m from Shropshire Council for investment in new housing within Shropshire. To ensure CDL have the capacity to deliver a number of key developments which have been recently identified, CDL and Shropshire Council are proposing to collapse the two facilities in to a single £49m funding arrangement.
- 7.2. Within the CDL Business Plan for 2023, the company are now looking to develop a Private Rented Sector (PRS) scheme and the Business Plan was approved by the Housing Supervisory Board on 16<sup>th</sup> March 2023. As part of the plans to finance the PRS scheme, CDL are looking to use £7m of the £49m local facility specifically for the PRS scheme. Therefore the funding agreements will need to be revised further once CDL are in a position to progress with the PRS scheme.
- 7.3. Members approve the Executive Director of Resources (Section 151 Officer) to progress and finalise the restatement and amendments of the loan agreement.

**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**



[Treasury Strategy 2023/24](#)

[Treasury Strategy 2023/24 - Mid Year Review](#)

[Finance Strategy 2023/24 - 2027/28](#)

**Local Member:** All

## Appendices

Appendix 1 – Treasury Strategy

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# TREASURY MANAGEMENT STRATEGY 2024/25



# Introduction

The Council depends upon a strong foundation of proper management of its financial affairs in order to provide needed and valued services to the our community and to pursue the objectives set out in the Shropshire Plan.

This Treasury Management strategy sets out how we will proactively manage our banking and cash arrangements (including borrowing and investment activity) through 2024/25 in order to ensure that funding is available to the council when it is required, but also that the cost of managing this is kept as low as possible.

This strategy is fully aligned to the updated Medium Term Financial Strategy, which articulates how the Shropshire Plan objectives will be delivered in financial terms.



**Gwilym Butler**

Cabinet Member  
Finance,  
Corporate  
Resources and  
Communities



**James Walton**

Executive  
Director of  
Resources

# 1. Overview





## **1. The objectives and contents of the Treasury Management Strategy**

The Council operates a balanced budget. Amongst other things, this means that cash received during the year is used to fund its cash expenditure – our cashflow. Primarily, council tax and business rates received from the local area, and grants received from government, are then used to pay for council activity in delivering services. Treasury Management operations ensure this cashflow is properly planned and managed.

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

Cash flow management involves forecasting in- and out-flows of cash and ensuring that funds are available to meet expenditure needs. Any temporarily surplus monies can be invested in low-risk counterparties, sometimes providing a return on investment. In doing so, we prioritise

- Security first (that is, the investment will be repaid), then
- Liquidity (that is, we can afford to lose access to the sum invested for the period of the investment, without negatively impacting on wider council operations), and lastly
- Yield (securing a beneficial return on investments made).

Treasury Management also ensures that funds are available to support the Council’s capital investment plans, whether using government grants, developer contributions, or external borrowing. These plans forecast the borrowing requirements of the Council - essentially, longer-term cash flow planning.

Whilst any commercial initiatives or loans to third parties will be informed by the treasury strategy and appropriate advice, these activities are generally classed as non-treasury activities, and are separated from the day-to-day treasury management activities.

This Treasury Management Strategy includes the following sections

1. Overview of the strategy
2. Economic update
3. Annual investment strategy
4. Prudential and treasury indicators
5. Minimum Revenue Provision statement
6. Specified and non-specified investments

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training. This especially applies to members responsible for scrutiny. The training needs of treasury management officers are periodically reviewed.

The Council will adopt the following reporting arrangements in accordance with the requirements of the Code:-

<b>Area of Responsibility</b>	<b>Council/Committee/Officer</b>	<b>Frequency</b>
Treasury Management Policy Statement	Full Council/Cabinet	As required
Treasury Strategy/Annual Investment Strategy/MRP Policy	Full Council/Cabinet	Annually before the start of the financial year
Capital Strategy	Full Council/Cabinet	Annually before the start of the financial year
Treasury Strategy/Annual Investment Strategy/MRP Policy – mid year report	Full Council/Cabinet	Mid-year
Treasury Strategy/Annual Investment Strategy/MRP Policy – updates of revisions at other times	Full Council/Cabinet	As required
Annual Treasury Report	Full Council/Cabinet	Annually by 30 September after the end of the financial year
Quarterly Treasury Management Update Reports	Executive Directors/Cabinet	Quarterly
Treasury management Monitoring Reports	Reports prepared by Treasury Officer within the Finance Team	Monthly
Treasury Management Practices/Investment Management Practices	Section 151 Officer	As required
Scrutiny of Treasury Strategy	Audit Committee	Annually before the start of the financial year
Scrutiny of the Treasury Management Performance	Audit Committee	Half yearly

### Compliance with best practice

Best practice guidance is regularly reviewed and updated as necessary. This strategy has been prepared in accordance with CIPFA's Code of Practice on Treasury Management, and is approved annually by Full Council. In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued Prudential and Treasury Management Codes.

The codes have clarified CIPFA's position on the role of the treasury management team and that there is a clear separation between treasury and non-treasury investments. Accordingly, periodic reporting by the treasury management team to members will focus solely on treasury investments. If non treasury investments are considered, a separate report will be presented for approval and any changes required to Prudential indicators incorporated within an updated Treasury Strategy if necessary.

The Local Government Act 2003 and supporting Regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable. This report incorporates the indicators to which regard should be given when determining the Council's Treasury Management Strategy for the next financial year.

As the Council is responsible for housing, Prudential Indicators relating to Capital Expenditure, financing costs and the Capital Financing Requirement will be split between the Housing Revenue Account (HRA) and the General Fund.

### Annual investment strategy

The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This is attached in appendix 2 and includes a list of additional responsibilities for the Section 151 Officer role following the issue of the Treasury Management Code of Practice and Prudential Code.

The proposed Strategy for 2024/25 in respect of the following aspects of the treasury management function is based upon the Section 151 Officer's view on interest rates, supplemented with leading market forecasts provided by the Council's Treasury Advisor, Link Asset Services.

### Relationship of the Treasury Management Strategy to the Capital strategy

All local authorities are required to prepare a Capital Strategy which is intended to provide the following: -

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- An overview of how associated risk is managed
- The implications for future financial sustainability

The aim of the Capital Strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Capital Strategy is separate from the Treasury Management Strategy. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy objectives realised in investments in local capital assets. The capital strategy sets out:

- The corporate governance arrangements for capital investments
- Any service objectives relating to the investments
- The expected income, costs and resulting contribution
- The debt related to the activity and the associated interest costs
- The payback period (implementing the MRP policy contained in the treasury management strategy)
- For non-loan type investments, the cost against the current market value
- The risks associated with each activity



## 2. Economic Context



## **2. Economic Update**

### **2.1 Overview**

Treasury management needs to be undertaken with a clear understanding of the economic context. Factors such as the bank rate and inflation rates have a clear impact on likely interest charged on future borrowing and interest earned on potential investments.

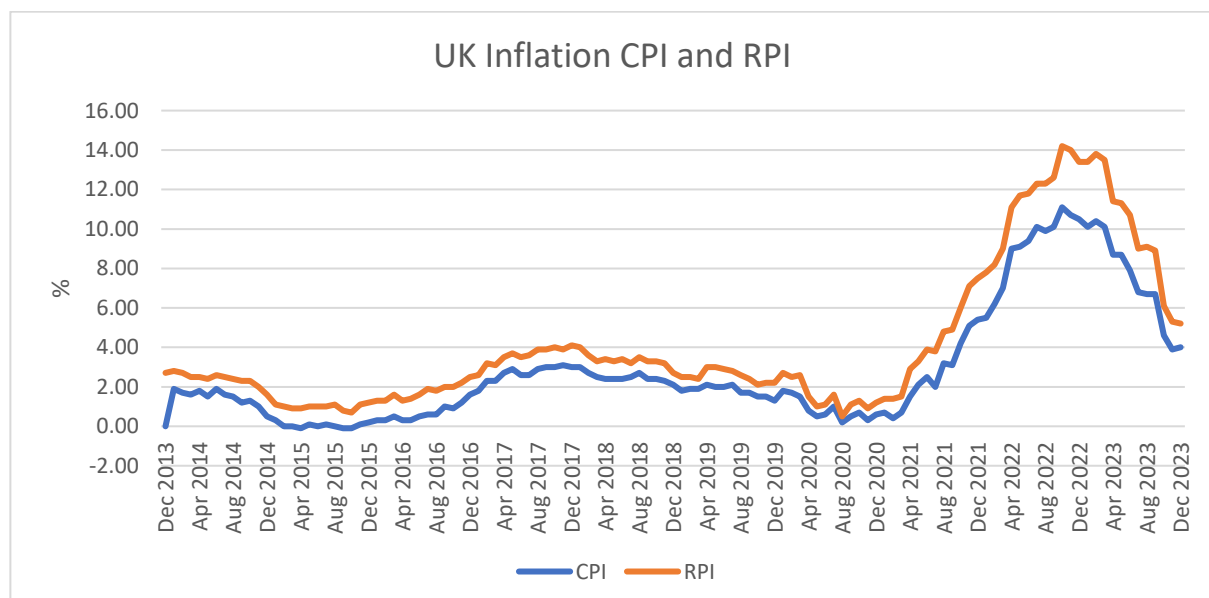
The inflation outlook indicates a degree of increasing positivity – the outlook is for rates to fall across the next 12-18 months. This is positive because although inflation pressures increase the cost of council services delivery, those costs are not expected to continue rising in the medium term.

UK Government finances provide the framework in which HM Treasury will frame future public spending decisions, including funding for councils. In the short term, this looks to be positive, but the extent of borrowing indicates that the government is likely to seek to recover that borrowing position within the medium term – which may lead to reductions in planned spending and so reductions in grant allocations (or less real-terms growth than would otherwise be the case).

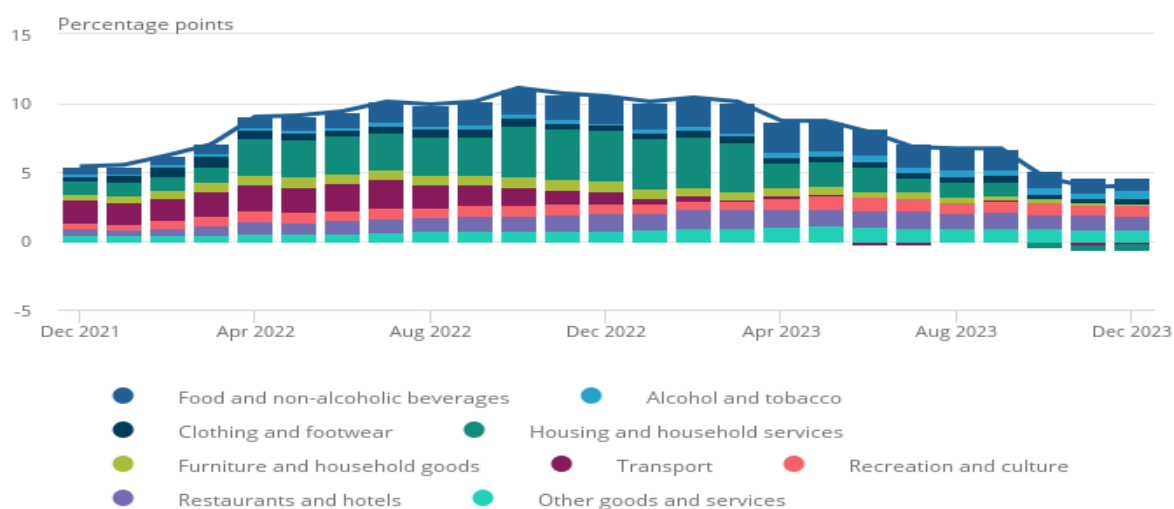
Bank rates are a key driver of the cost of borrowing. The Bank of England held bank rates at 5.25% for the second time in a row, which would suggest that rates have now peaked. It is anticipated that rate will reduce in late 2024, and then continue to reduce to around 3% by the end of 2025. This is important to consider by the council when they need to secure external borrowing – and advice will be sought in that event to ensure that the most economic option is identified.

### **2.2 Inflation**

Annual inflation rate in the UK fell significantly over the last twelve months, and more recently from 6.7% in September to 4.0% in December. This reduction was bigger than expected, and means that the UK is no longer an international outlier.



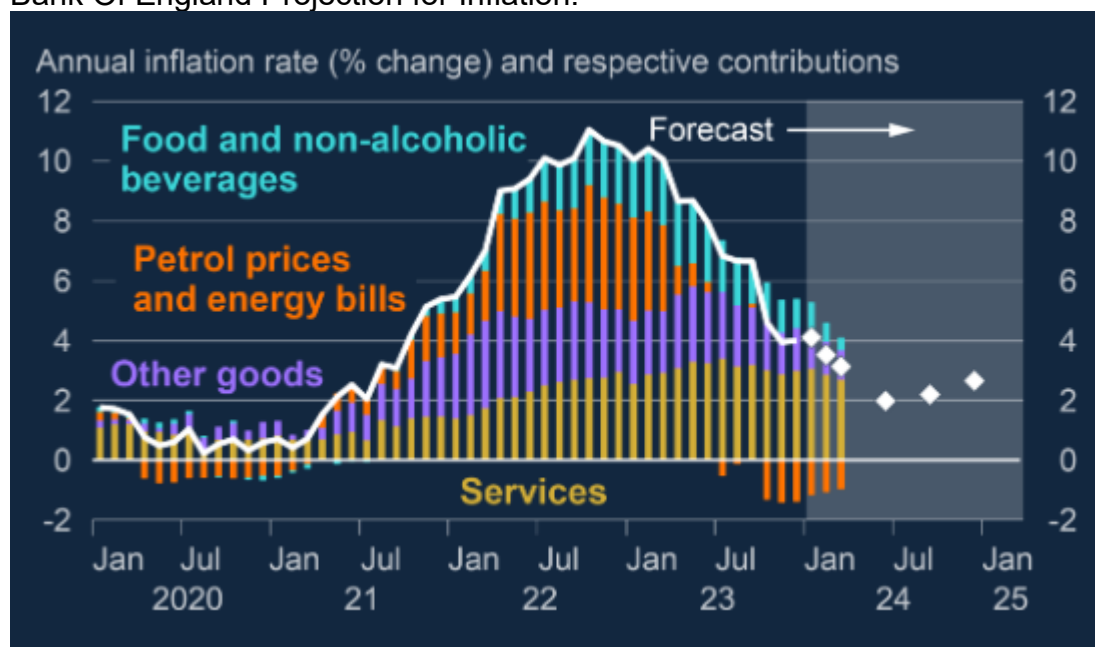
## Largest Contributions to annual CPI inflation rate



Source: Consumer price inflation from the Office for National Statistics

The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.

Bank Of England Projection for Inflation:



## 2.3 UK Government finances

Public sector net borrowing excluding public sector banks in the UK was £7.8 billion in December, around half or £8.4 billion less than that borrowed in December 2022 and the lowest December borrowing since 2019.

The £7.8 billion borrowed in December 2023, combined with a downward revision of £5.0 billion to our previously published financial year-to-November 2023 borrowing estimate, brings the provisional estimate for the total borrowed in the financial year-to-December 2023 to £119.1 billion. This was £5.0 billion lower borrowing than the £124.1 billion forecast by the Office for Budget Responsibility (OBR).

Public sector net debt excluding public sector banks (PSND ex) was £2,437.9 billion at the end of December 2023, or around 88.7% of gross domestic product (GDP).

## 2.4 Bank of England forecasts

At the December monetary policy committee (MPC) meeting, the Bank of England left interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that “further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures”. And it stated that policy will be “sufficiently restrictive for sufficiently long” and that “monetary policy is likely to need to be restrictive for an extended period of time”. In other words, the message is that the MPC is not yet willing to endorse investors’ expectations that rates will be cut as soon as May 2024.

with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.

## UK Interest Rate Forecast

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90



### 3. Annual Investment Strategy



### **3.1 Annual Investment Strategy**

The Council's investment policy has regard to the DLUHC Guidance on Local Government Investments and the CIPFA Treasury Management Code of Practice which requires the Council to formulate a strategy each year regarding the investment of its revenue funds and capital receipts. Authorities are required to take the guidance into account under the terms of section 12 of the Local Government Act 2003.

In accordance with the guidance from DLUHC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

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. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as credit default swaps and overlay that information on top of the credit ratings.

The income and expenditure flow of the Council is such that funds are temporarily available for investment. Under the Annual Investment Strategy the Council may use, for the prudent management of its treasury balances, any of the investments highlighted under the headings of Specified Investments and Non-Specified Investments as detailed in the final section of this strategy.

### **3.2 Creditworthiness Policy**

The Council uses the creditworthiness service provided by its treasury advisor, Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies Fitch, Moody's and Standard and Poor's. In addition, in line with the Treasury Management Code of Practice, it does not rely solely on the current credit ratings of counterparties but also uses the following overlays:-

- Credit watches and credit outlooks from credit rating agencies.
- Credit Default Swap (CDS) spreads to give an early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration of investments and are therefore referred to as durational bands. The Council is satisfied that this service gives the required level of

security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

The selection of counterparties with a high level of creditworthiness will be achieved by a selection of institutions down to a minimum durational band with Link's weekly credit list of worldwide potential counterparties.

The Link Asset Services creditworthiness service uses ratings from all three agencies and uses a wider array of information than just primary credit ratings to determine creditworthy counterparties. By using this approach and applying it to a risk weighted scoring system, it does not give undue over reliance to just one agency's ratings.

### **3.3 Monitoring of Credit Ratings**

All credit ratings will continue to be monitored continuously and formally updated monthly if any changes are required. The Council is alerted to interim changes in ratings from all three agencies by Link Asset Services.

If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty will be withdrawn immediately. If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered for approval by the S151 Officer.

In addition to credit ratings the Council will be advised of information in movements in CDS against the iTraxx benchmark and other market data on a daily basis via the Passport website. Extreme market movements may result in the downgrade of an institution or the removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the Council will monitor the financial press and also use other market data and information e.g. information on external support for banks.

### **3.4 UK banks – ring fencing**

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities from the 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-

ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

The Council currently has investments with HSBC, Barclays & Lloyds. HSBC and Lloyds are classified as ring fenced banks and Barclays as non ring fenced. All these institutions appear on Link Asset Services approved lending list and meet the council's creditworthiness criteria.

### **3.5 Country Limits**

The Council will only use approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies). It is recommended that UK institutions continue to be used unless the sovereign credit rating falls below A. Following the problems with Icelandic Banks lending is currently restricted to the UK which currently has a sovereign credit rating of AA and Sweden which has the highest possible sovereign rating of AAA. The S151 Officer has delegated authority to revert back to placing investments in countries with a minimum sovereign credit rating of AA- in line with Link's revised creditworthiness policy if required.

### **3.6 Security of Capital**

The Council's current policy is to not place investments with any Foreign banks. The only exception to this is a call account set up with the Swedish bank, Handelsbanken, but this is a highly rated institution and the sovereign rating of Sweden is AAA. Funds are also repayable immediately if required.

Following approval of the S151 Officer, lending to AAA rated Money Market Funds has also been recommenced. Lending to other Foreign banks which comply with Link's creditworthiness policy may be considered again but only with the express approval of the S151 Officer.

In addition, in order not to solely rely on an institution's credit ratings there have also been a number of other developments which require separate consideration, set out below.

**Part Nationalised banks** in the UK effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. This is because the Government owns significant stakes in the banks and this ownership is set to continue. Link are still supportive of the Council using these institutions with a maximum 12 month duration. For this reason Royal Bank of Scotland (RBS) and National Westminster Bank which are part of the RBS Group are included on the approved counterparty list.



**Local Authorities** are not credit rated but where the investment is a straightforward cash loan, statute suggests that the credit risk attached to local authorities is an acceptable one (Local Government Act 2003 s13). Local Authorities are therefore included on the approved list.

The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. For the highest rated and Part Nationalised Institutions the maximum amount is currently limited to £20m. This limit will be reviewed however against the level of cash balances that are available to invest, to ensure that the limits are amended accordingly. Any changes to the maximum limit must be approved by the S151 Officer.

### **3.7 DLUHC Investment Guidance**

Guidance from the DLUHC requires Councils to give priority to the security and portfolio liquidity of investments over yield whilst still aiming to provide good returns. This is in line with the Council's current practice and it is recommended that the policy should be reaffirmed.

The guidance also requires Councils to categorise their investments as either "specified" or "non-specified" investments.

### **3.8 Specified Investments**

Specified investments are deemed as "safer" investments and must meet certain conditions, i.e. they must:-

- be denominated in sterling
- have less than 12 months duration
- not constitute the acquisition of share or loan capital
- either: be invested in the UK government or a local authority or a body or investment scheme with a "high" credit quality.

The Council is required to specify its creditworthiness policy and how frequently credit ratings should be monitored. It must also specify the minimum level of such investments.

Of the investments currently authorised by the Council, deposits in the Debt Management Office Account and with other Local Authorities automatically qualify as specified investments as they are of less than 12 months duration and are denominated in sterling.

The classification of the other investments is dependent on the counterparty having high credit quality in line with Link's creditworthiness policy. The Council is alerted to any changes in an institutions credit rating by Link Asset Services.

### **3.9 Non Specified Investments**

These are any investments which do not meet the specified investment criteria outlined above. The Council is required to look at non-specified investments in more detail. It must set out:

- procedures for determining which categories of non-specified investments should be used
- the categories deemed to be prudent
- the maximum amount to be held in each category

The Strategy must also set out procedures for determining the maximum period for committing funds.

It is recommended that the following procedure be adopted for determining which categories of non-specified investments should be used:

- the Cabinet/Council should approve categories on an annual basis
- advice should be provided by the S151 Officer
- priority should be given to security and portfolio liquidity ahead of yield

It is recommended that for specified investments the range of maximum limits is set between £5m and £20m for the internal treasury team. For non specified investments it is recommended that the limit for the internal treasury team should be restricted to £70m of the total investment portfolio. Any changes to the maximum limits must be approved by the S151 Officer.

Full details of the specified and non-specified investments are set out in section 6 of the Treasury Strategy.

### **3.10 Temporary Investment Strategy**

The market is continually monitored for opportunities to lock in to higher, longer term rates in order to bring some stability to the returns going forward and add value. However, based on the interest rate assumptions outlined above, we do not expect to lock into longer term deals unless exceptionally attractive rates are available which make longer term deals worthwhile.

For the cash flow generated balances, we will seek to utilise instant access accounts, Money Market Funds and short dated deposits (1-3 months) in order to benefit from the compounding of interest. The present strategy is to diversify investments so as to spread risk over a range of investment types and periods and provide the opportunity to enhance returns. All investments will continue to be made in accordance with the Local Government Act 2003, and with those institutions on the authorised lending list. The credit status of institutions on the approved list is monitored continuously.

### **3.11 Policy on the use of external service providers**

The Council currently uses Link Asset Services, as its external treasury management advisers. The Council recognises that the responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council 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 review.

### **3.12 Scheme of Delegation**

#### Full Council

- Approval of Treasury Strategy.
- Receiving and reviewing reports on treasury management policies, practices and activities including the Annual Treasury Report and Mid-Year Strategy Report.
- Budget consideration and approval

#### Cabinet

- Receiving & reviewing Treasury Strategy, Mid-Year Strategy Report, Annual Treasury Report and Quarterly Treasury Management Update Reports

#### Audit Committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Receiving & reviewing Treasury Strategy, Mid Year Report, Annual Treasury Report.

### **3.13 Role of the Section 151 Officer**

The role of the S151 Officer in relation to treasury management is as follows:-

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly and monitoring compliance.
  - Approval of segregation of responsibilities.
  - Approval of the Treasury Policy Statement and Treasury Management Practices.
  - Submitting regular treasury management policy reports.
  - Submitting budgets and budget variations.
  - Receiving and reviewing management information reports.
  - Reviewing the performance of the treasury management function.
  - Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- Medium Term Financial Strategy Summary
- Ensuring the adequacy of internal audit and liaising with external audit.
  - Recommending the appointment of external service providers.

The above list of specific responsibilities of the s151 Officer in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both Codes, is a major extension of the functions of this role, especially in respect of non-financial investments:-

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing

- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
  - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
  - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
  - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
  - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;
  - Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

### **3.14 Pension Fund Cash**

The Council complies with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and does not pool pension fund cash with its own balances for investment purposes.

## **4. Prudential and Treasury Indicators**

## 4.1 Specified and Locally Adopted Prudential Indicators

The Prudential Code and CIPFA Code of Practice on Treasury Management require the Council to set a number of Prudential and Treasury Indicators. In addition to the specified indicators, we have set further internal indicators for Treasury Management, regarding lower limits on interest rate exposure for both borrowing and investments.

These are summarised below, and details are set out in the following paragraphs.

### Capital Prudential Indicators:

1. Capital Expenditure and Financing
2. Borrowing Need
3. Liability Benchmark

### Treasury Indicators:

4. External debt – Operational Boundary
5. External debt – Authorised Limit
6. External debt - Interest rate exposure; Borrowing (fixed rate and variable rate debt)
7. External investment - Interest rate exposure; investments (fixed rate and variable rate investments)
- 8 External debt – maturity structure (profile of when debts become due in coming years)
- 9.Maturity limits – investments

It should be noted that these indicators should not be used for comparison with indicators from other local authorities as Treasury Management policies and practices vary with local circumstances.

### Prudential Indicator 1 – Capital Expenditure and Financing

The estimated capital expenditure has been split between Non HRA and HRA and represents commitments from previous years to complete ongoing schemes, the expenditure arising from the proposed new schemes within the capital programme for 2022/23, and the estimated expenditure for 2023/24, 2023/24 and 2024/25. This indicator also includes details on the financing of capital expenditure.

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
<b>Capital Expenditure</b>					
Non HRA Capital expenditure	74.2	88.3	88.2	104.9	39.9
HRA Capital expenditure	8.1	16.2	29.3	14.2	9.0
<b>Total Capital expenditure</b>	<b>82.3</b>	<b>99.4</b>	<b>117.5</b>	<b>119.1</b>	<b>48.9</b>
<b>Financing of capital expenditure</b>	<b>2022/23 Actual £m</b>	<b>2023/24 Estimate £m</b>	<b>2024/25 Estimate £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>
Capital receipts	(7.2)	(12.5)	(9.8)	(8.4)	(4.1)
Capital grants	(35.2)	(51.3)	(57.2)	(79.4)	(29.6)
Other Contributions	(14.3)	(7.3)	(5.5)	(6.2)	(0.5)

Major Repairs Allowance	(4.2)	(7.1)	(4.8)	(5.0)	(5.0)
Revenue Contributions	(1.4)	(3.6)	(0.2)	(0.7)	(0.4)
<b>Net Financing need for the year</b>	<b>20.0</b>	<b>17.6</b>	<b>40.0</b>	<b>19.4</b>	<b>9.3</b>

## Prudential Indicator 2 – Borrowing Need

The capital financing requirement (CFR) is the maximum we would expect to borrow based on the total historic outstanding capital expenditure which has not been paid for from either revenue or capital resources. Therefore it is essentially a measure of the Authority's underlying borrowing need. 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.

Compliance with the indicator will mean that this limit has not been breached. Gross borrowing includes debt administered on behalf of Telford and Wrekin Council, Magistrates Courts and Probation Service. It also includes the debt transferred from Oswestry Borough Council and North Shropshire District Council on the 1st April 2009. In accordance with the Code the HRA Capital Financing requirement has been calculated separately and has been updated due to the HRA reform which took place on the 28 March 2012.

<b>Gross borrowing less than CFR</b>	<b>2022/23 Actual £m</b>	<b>2023/24 Estimate £m</b>	<b>2024/25 Estimate £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>
<b>Capital Financing Requirement:</b>					
Non HRA Capital Financing Requirement	304	325	345	337	325
HRA Capital Financing Requirement	92	97	111	119	122
<b>Total CFR</b>	<b>396</b>	<b>422</b>	<b>456</b>	<b>456</b>	<b>447</b>
<b>Movement in CFR</b>	<b>38</b>	<b>26</b>	<b>33</b>	<b>0</b>	<b>(8)</b>
<b>Movement in CFR represented by</b>					
Net financing need for the year (above)	31	27	32	4	1
Less MRP/VRP and other financing movements	7	(1)	1	(4)	(9)
<b>Movement in CFR</b>	<b>38</b>	<b>26</b>	<b>33</b>	<b>0</b>	<b>(8)</b>
Gross Borrowing (including HRA)	292	286	285	285	285
Investments	84	50	50	50	50
<b>Net Borrowing</b>	<b>208</b>	<b>236</b>	<b>235</b>	<b>235</b>	<b>235</b>

## Prudential Indicator 3 – Liability Benchmark

This identifies the net borrowing requirement of a local authority plus a liquidity allowance. There are four components to the Liability benchmark:

**Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.

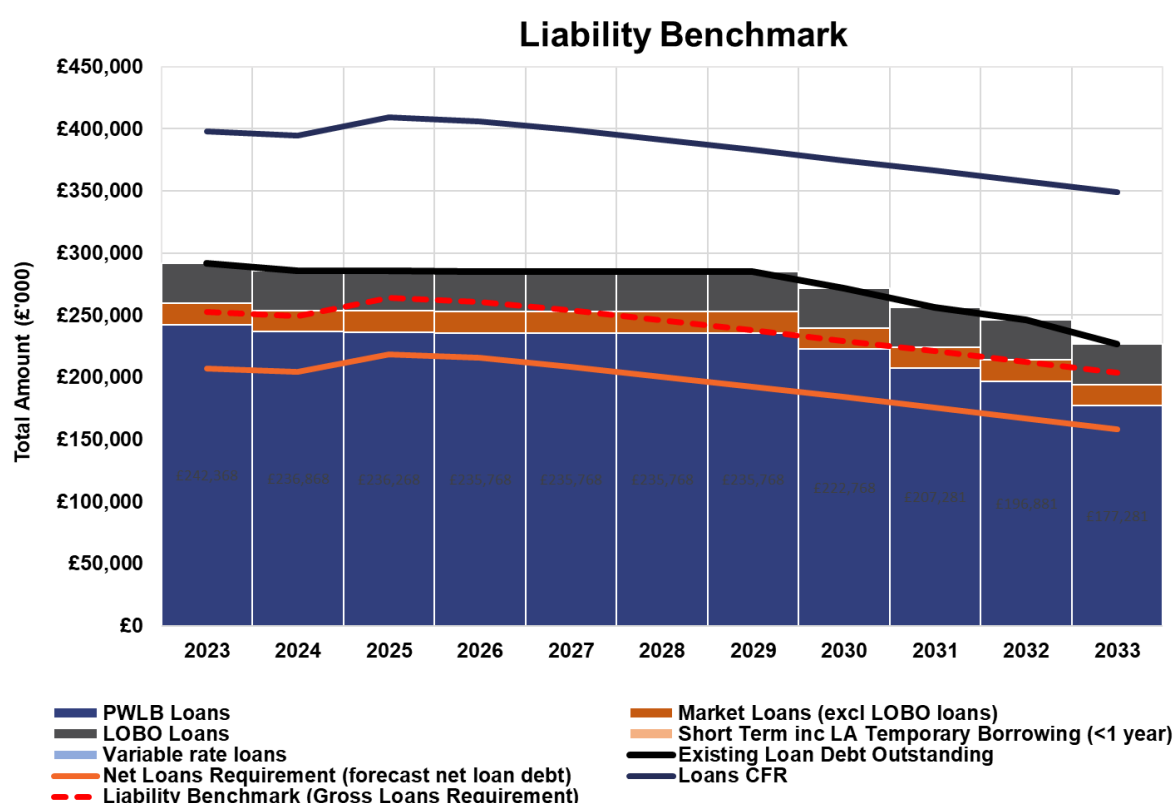
**Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.



**Net loans requirement:** this will show the Authority'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): this equals net loans requirement plus short-term liquidity allowance.

Calculation of the Liability Benchmark is a complex calculation and has been undertaken by officers with assistance from the Council's Treasury Advisors, LINK to produce the information using a complex model.



Shropshire's calculated Liability Benchmark has been determined for ten years, 2023/24 to 2032-33, in accordance with CIPFA's recommendation. As an absolute minimum CIPFA requires the Liability Benchmark to be estimated and measured for the forthcoming financial year and the following two financial years and strongly recommends that the Liability Benchmark is produced for at least ten years.

The data shows that when the Loans Capital Financing Requirement (CFR) falls but remains positive and the Existing Loan Debt Outstanding also begins to fall, the Liability Benchmark and the Net Loan Requirement remain below the Existing Loan Debt Outstanding, so boosting the level of potential external investment.

This may not actually reflect what happens over time however, as the modelling suggested by CIPFA does not take account of any new approved capital expenditure / CFR increases beyond the extent of the currently approved Capital Programme (financial years 2024-25 to 2027-28), i.e. CFR increases projected in the Capital



Strategy are not included in the model. Similarly, the data does not take account of the replacement of any existing loans that mature over the life of the model.

We continue to forecast that internal borrowing will form part of the financing mix for the CFR and that is represented in the chart by the gap between the Loans CFR and the Existing Loan Debt Outstanding (PWLB, Market and LOBO loans). The indicator does suggest we could run greater net borrowing by taking the existing loans down to the Liability Benchmark, but that would require early repayment of some of the current external loans held by the Authority.

#### **Prudential Indicator 4 – External Debt – Operational Boundary**

This is the maximum borrowing limit set for Shropshire Council and includes the HRA borrowing. This indicator shows the maximum permitted amount of outstanding debt for all purposes. It includes three components:

1. The maximum amount for capital purposes;
2. The maximum amount for short term borrowing to meet possible temporary revenue shortfalls;
3. The maximum permitted for items other than long term borrowing i.e. PFI & leasing.

<b>Operational Boundary</b>	<b>2024/25 Estimate £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>
Debt	394	395	387
Other long term liabilities	86	89	85
<b>Total</b>	<b>480</b>	<b>484</b>	<b>473</b>

#### **Prudential Indicator 5 – External Debt – Authorised Limit**

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 by the Full Council. 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.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.
- The Authority is asked to approve the following Authorised Limit:

<b>Authorised Limit</b>	<b>2024/25 Estimate £m</b>	<b>2025/26 Estimate £m</b>	<b>2026/27 Estimate £m</b>
Debt	460	450	443
Other long term liabilities	86	89	85
<b>Total</b>	<b>546</b>	<b>539</b>	<b>528</b>

#### **Prudential Indicator 6 – Interest Rate Exposure – Borrowing Limits**

The Prudential Code requires the Council to set interest rate exposure limits for borrowing and investments.

<b>Interest Rate Exposure</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
<b>Borrowing Limits</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Upper Limit for Fixed Interest Rate Exposure	546	539	528
Upper Limit for Variable Interest Rate Exposure	273	270	264
Lower Limit for Fixed Interest Rate Exposure	273	270	264
Lower Limit on Variable Interest Rate Exposure	0	0	0

These indicators seek to control the amount of debt exposed to fixed and variable interest rates. Variable rate debt carries the risk of unexpected increases in interest rates and consequently increases in cost. The upper limit for variable rate exposure has been set following advice from Link, however, this limit is unlikely to be reached due to authority's objective to have no more than 25% of outstanding debt at variable interest rates.

Calculation of indicators is set out below

- Upper limit for fixed rate exposure; A maximum of 100% of the Authorised Limit (£546m in 2024/25) exposed to fixed rates is consistent with the Authority's objective to have a long term stable debt portfolio.
- Upper limit for variable rate exposure; For efficient management of the debt portfolio it is considered prudent by Link to permit up to 50% (£273m in 2024/25) of the Authorised Limit to be borrowed at variable interest rates.
- Lower limit for fixed rate exposure; Upper limit for fixed rate exposure less the maximum permitted borrowing at variable interest rates
- Lower limit for variable rate exposure; Calculation: To be consistent with the Authority's objective to have a long term stable portfolio all of the debt portfolio could be at a fixed rate therefore the lower limit for variable rate exposure should be nil.

#### **Prudential Indicator 7 – Interest Rate Exposure – Investment Limits**

<b>Interest Rate Exposure</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
<b>Investment Limits</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Upper Limit for Fixed Interest Rate Exposure	250	250	250
Upper Limit for Variable Interest Rate Exposure	250	250	250
Lower Limit for Fixed Interest Rate Exposure	0	0	0
Lower Limit on Variable Interest Rate Exposure	0	0	0

These indicators seek to control the amount of investments exposed to fixed and variable interest rates. Variable rate investments are subject to changes in interest

rates, but have a higher degree of liquidity and action can be taken at short notice in response to interest rate changes.

- Upper limit for fixed rate exposure: Maximum amount of fixed rate investments in order to maintain a stable investment portfolio.
- Upper limit for variable rate exposure: For the purposes of efficient portfolio management in response to interest rate conditions a maximum potential exposure to variable rates of £250m in 2024/25 is recommended.
- Lower limit for fixed rate exposure: A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.
- Lower limit for variable rate exposure: A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.

#### **Prudential Indicator 8 – Upper and lower limits for the maturity structure of debts (borrowings)**

<b>Limits for the maturity structure of debts (borrowing)</b>	<b>Upper Limit</b>	<b>Lower Limit</b>
<b>Maturity Structure of Fixed/Variable Rate Borrowing During 2024/25*</b>	<b>%</b>	<b>%</b>
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years & within 10 years	75	0
10 years & within 20 years	100	0
20 years & within 30 years	100	0
30 years & within 40 years	100	0
40 years & within 50 years	100	0
50 years and above	100	0

\* Internal limit is to have no more than 15% of total outstanding debt maturing in any one financial year. This is to ensure that the risk of having to replace maturing debt at times of high interest rates is controlled.

#### **Prudential Indicator 9 – Maturity Limits - Investments**

The Council is required to set maximum levels for investments over 365 days for both the internal treasury team and an external fund manager if appointed

<b>Maturity Limits &gt; 365 days</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
<b>Investment Limits</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Upper Limit for Total Principal Sums Invested for over 365 days:			
Externally Managed (if appointed)	50	50	50
Internally Managed	70	70	70

## **5. Minimum Revenue Provision (MRP) Statement**



## **The Council's Annual Minimum Revenue Provision Statement**

### **5.1 Statutory Requirements**

The Council is required by statute to set aside a minimum revenue provision (MRP) to repay external debt. The calculation of the minimum revenue provision (MRP) is as per the Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414]. In regulation 28, detailed rules were replaced with a simple duty for an authority to make an amount of MRP which it considers to be "prudent".

The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant. The guidance includes four options (and there are two alternatives under Option three) for the calculation of a prudent provision.

There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial years. There is also no requirement to charge MRP on the Housing Revenue Account share of the CFR.

The legislation recommends that before the start of each financial year the Council prepares a statement of its policy on making MRP in respect of that financial year and submits it to the Full Council for approval.

The Department for Levelling Up, Housing & Communities (DLUHC) issued "Consultation on changes to the capital framework: Minimum Revenue Provision" on 30<sup>th</sup> November 2021. The consultation paper primarily covered the concerns that the government has in respect of compliance with the duty to make a prudent revenue provision, which in their view, results in an underpayment of Minimum Revenue Provision (MRP). The consultation document states that the DLUHC are not intending to change the statutory MRP guidance, but to clearly set out in legislation the practices that authorities should already be following.

The government is proposing additional text to be added to the 2003 Regulations to make explicit that:

1. Capital receipts may not be used in place of the revenue charge. The intent is to prevent authorities avoiding, in whole or part, a prudent charge to revenue. It is not the intention to prevent authorities using capital receipts to reduce their overall debt position, which may have the effect of reducing the MRP made with respect to the remaining debt balance.
2. Prudent MRP must be determined with respect to the authority's total capital financing requirement. The intent is to stop the intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. Authorities should still be able to charge MRP over the period in which their capital expenditure provides benefits and begin charging MRP in the year

following capital expenditure, in accordance with proper accounting practices set out in the government's statutory guidance on Minimum Revenue Provision.

The consultation identified two main issues:

- Some authorities use capital receipts in lieu of all or part of the revenue charge (MRP).
- Some authorities exclude investment assets from the MRP determination.

The government's view is that both practices are not permitted under the Framework.

The government have not yet issued a final response to the consultation though and so members will be updated on any implications for the Council's MRP policy once the regulation changes are finalised.

## **5.2 Policy for Calculation of Prudent Provision**

The options for the calculation of a Prudent Provision are detailed in section 5.11 of this report. Authorities must always have regard for the guidance and the decision on what is prudent is for the authority to conclude, taking into account detailed local circumstances, including specific project timetables and revenue-earning profiles.

Following a review of the MRP policy from 2018/19 the prudent provision for Supported Borrowing has been calculated based on the expected useful life of the asset on an annuity calculation basis.

Option 3a - Asset life method (Unsupported Borrowing) - equal instalment method will continue to be used for unsupported borrowing agreed prior to 2018/19 and specific treatment for PFI Assets and assets held under Finance Leases and long-term capital loans. For any approved unsupported borrowing from 2018/19 the prudent provision will be calculated on an annuity basis linked to the expected useful life of the asset for consistency with the Supported Borrowing calculation, Option 3b.

## **5.3 Supported Borrowing**

From 2016/17 the approach for calculating the MRP was on a straight line (equal instalments) calculation basis on the remaining asset life of the assets linked to the borrowing. An analysis of the average remaining asset life of the assets financed from previous supported borrowing, determined the average remaining life to be around 45 years and this was used as the basis of calculation.

From 2018/19 Council approved to adopt the annuity calculation method for supported borrowing whilst retaining the link to the average remaining useful life of the assets it was used to finance. The annuity calculation method results in lower MRP payments in the early years, but higher payments in later years. This method has the advantage of linking MRP to the flow of benefits from an asset where these are expected to increase in later years.

CIPFA puts forward the following reasons for using the annuity method in CIPFA's "The Practitioner's Guide to Capital Finance in Local Government" (2008) which states:

- The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 year's time, is less of a burden than paying £100 now.
- The schedule of charges produced by the annuity method results in a consistent charge over an asset's life, taking into account the real value of the amounts when they fall due.
- The annuity method is a prudent basis for providing for assets that provide a steady flow of benefits over their useful life.

For 2018/19 and onwards the Council has adopted the annuity-based calculation on a 45- year basis.

#### **5.4 Unsupported Borrowing - Asset Life Method**

For new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed (unsupported borrowing) the MRP has been calculated in accordance with Option 3 Asset Life Method. Option 3 is to make provision over the estimated life of the asset for which the borrowing is undertaken.

Freehold land cannot properly have a life attributed to it, so for the purposes of Option 3 it should be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate may be used for the land.

To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate. For energy efficiency schemes the payback period of scheme is used as the basis for calculating the period over which MRP is calculated.

This method is a straightforward calculation of MRP for unsupported borrowing which calculates MRP based on asset life.

Provision for debt under Option 3 will normally commence in the financial year following the one in which the expenditure is incurred. But the guidance highlights an important exception to the rule. In the case of a new asset, MRP would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This "MRP holiday" would be perhaps two or three years in the case of major projects, or possibly longer for some complex infrastructure schemes, and could make them more affordable.

Prior to 2018/19 the Council adopted the Option 3a Straight Line calculation for unsupported borrowing. From 2018/19 Council approved to adopt the Option 3b annuity calculation method for new unsupported borrowing whilst retaining the link to the average remaining useful life of the assets it was used to finance. The annuity

calculation method results in lower MRP payments in the early years, but higher payments in later years. This method has the advantage of linking MRP to the flow of benefits from an asset where these are expected to increase in later years.

The authority can still make voluntary extra provision for MRP in any year.

### **5.5 Adjustment A**

This is an accounting adjustment to the MRP calculation that ensures consistency with previous capital regulations. Once calculated, the amount remains constant within the MRP calculations.

Between 2016/17 and 2017/18 the adjustment A was not included in the MRP calculation but continues to be a legitimate part of the calculation under the 2003 Regulations (Regulation 28) and can therefore continue to be used to reduce the supported borrowing CFR for MRP purposes. It has been considered to be prudent to include the Adjustment A value from 2018/19 onwards to calculate the CFR value. For Shropshire the fixed Adjustment A calculation is £4,446,483.75.

### **5.6 PFI Assets and Assets Held Under Finance Leases**

For assets under on-balance sheet PFI contracts and finance leases, the annual principal payment amount in the PFI or finance lease model is used as the MRP payment amount, with no additional charges above those within the contract.

### **5.7 Long Term Capital Loans**

The Council has made available a small number of capital loans to Housing Associations and Village Halls and also to the Council's wholly owned housing company, Cornovii Developments Limited (CDL), financed from the Council's balances.

The revenue MRP charge for long term capital loans is calculated using the Asset Life Method and the loan term.

### **5.8 Housing Revenue Account MRP**

As at 31/03/23 the HRA CFR is £92m, this includes the £83.35m transferred to the Council as part of housing self-financing. In managing the HRA debt and considering the HRA business plan there is no mandatory requirement to make provision in the HRA for annual MRP payments. However, the Council will make annual voluntary provision for debt repayment in the HRA based on affordable levels in the HRA against the need for investment and delivering services in the HRA. The annual level of provision will be determined annually as part of the closure of the HRA.

### **5.9 2024/25 Annual MRP Statement**

Section 5.11 provides the MRP statement for the 2024/25 financial year.

### **5.10 Capital Receipts Set Aside**



The current regulations, Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414] state that the minimum revenue provision is calculated using the previous year's closing Capital Financing Requirement for supported borrowing.

In 2009/10 Shropshire Council got DCLG approval to allow the new council to voluntarily set aside capital receipts as at 1st April 2009 to reduce the CFR and consequently reduce the MRP charge for 2009/10. This approach was discussed with our Treasury Advisors and External Auditors and was approved by Members in a report to Council in December 2009.

As the extent of new borrowing is not subject to any limitation the sum of capital receipts set aside are still available to support capital expenditure in future years. This will increase the CFR to its previous level and the MRP charge in future years will increase, but not beyond the level had the saving not been generated in 2009/10. Thus, the saving in MRP is therefore temporary, albeit very helpful to the short-term financial position.

As the full level of capital receipts set aside were not required to finance capital expenditure between 2009/10 and 2020/21, a balance was retained as set aside as at the end of each financial year to enable a further MRP saving in the following financial years. In the 2024/25 MRP Statement it has been assumed all the capital receipts retained as set aside as at 31 March 2024 to reduce the CFR will be offset by an increase in the CFR in 2024/25 from capital expenditure incurred in 2024/25. In the event that the level of capital expenditure in 2024/25 to be financed from the capital receipts set aside is below the level of capital receipts set aside, it is proposed to retain the balance in capital receipts as set aside in order to achieve a further MRP saving in 2025/26. This will be reported for approval as part of the Capital Outturn report 2024/25.

## **5.11 Options for Prudent Provision**

### **Option 1: Regulatory Method (Supported borrowing)**

MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, as if they had not been revoked by the 2008 Regulations. For the purposes of that calculation, the Adjustment A should normally continue to have the value attributed to it by the authority in the financial year 2004-05. However, it would be reasonable for authorities to correct any perceived errors in Adjustment A, if the correction would be in their favour.

### **Option 2: CFR Method (Supported borrowing)**

MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation. Option 3: Asset Life Method (Unsupported borrowing) Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. There are two main methods by

which this can be achieved, as described below. Under both variations, authorities may in any year make additional voluntary revenue provision, in which case they may make an appropriate reduction in later years' levels of MRP.

#### **(a) Equal Instalment Method**

MRP is the amount given by the following formula:

$$\frac{A - B}{C}$$

Where:

**A** is the amount of the capital expenditure in respect of the asset financed by borrowing or credit arrangements

**B** is the total provision made before the current financial year in respect of that expenditure

**C** is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires.

For the purpose of the above formula in the initial year of making the MRP the variable "C" should be given the maximum values set out in the following table:

Expenditure Type	Maximum value of "C" in initial year
Expenditure capitalised by virtue of a direction under s16(2)(b)	"C" equals 20 years
Regulation 25(1)(a) Expenditure on computer programs	"C" equals the value it would have for computer hardware
Regulation 25(1)(b) Loans and grants towards capital expenditure by third parties	"C" equals the estimated life of the assets in relation to which the third-party expenditure is incurred
Regulation 25(1)(c) Repayment of grants and loans for capital expenditure	"C" equals 25 years, or the period of the loan, if longer
Regulation 25(1)(d) Acquisition of share or loan capital	"C" equals 20 years
Regulation 25(1)(e) Expenditure on works to assets not owned by the authority	"C" equals the estimated life of the assets
Regulation 25(1)(ea) Expenditure on assets for use by others	"C" equals the estimated life of the assets
Regulation 25(1)(f) Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings	"C" equals 25 years

#### **(b) Annuity Method**

MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during the repayment period (e.g. by the application of capital receipts) should be made as necessary.

**Option 4: Depreciation Method (Unsupported borrowing)**

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment chargeable to the Income and Expenditure Account.

For this purpose, standard depreciation accounting procedures should be followed, except in the following respects.

- a. MRP should continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed by borrowing or credit arrangements. Thereafter the authority may cease to make MRP.
- b. On disposal of the asset, the charge should continue in accordance with the depreciation schedule as if the disposal had not taken place. But this does not affect the ability to apply capital receipts or other funding sources at any time to repay all or part of the outstanding debt.
- c. Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

## Minimum Revenue Provision Statement 2024/25

	£
<b>General Fund</b>	
Closing CFR 2022/23	186,074,365
Proposed use of capital receipts voluntarily set aside to be applied in 2023/24	17,465,369
Adjustment A	-4,446,484
Less transfer of asset from GF to HRA	0
	<u>199,093,251</u>
Less LGR (98) Debt	-30,184
	<u>199,063,067</u>
Less MRP 2023/24	-2,698,778
Add Back LGR (98) Debt	30,184
	<u>196,394,473</u>
<b>CFR for Supported Borrowing MRP Calculation</b>	
Add Back Adjustment A	4,446,484
	<u>200,840,957</u>
<b>Closing CFR 31/03/24 - Supported Borrowing (GF)</b>	
	<u>200,840,957</u>
<b>Housing Revenue Account</b>	
Closing CFR 2022/23	92,251,785
Add profiled prudential borrowing 2023/24	12,541,579
Add transfer of asset from GF to HRA	0
Less MRP 2023/24 (none budgeted as per HRA MRP policy)	0
	<u>104,793,363</u>
	<u>305,634,320</u>
<b>Closing CFR 31/03/24 - Supported Borrowing (GF &amp; HRA)</b>	
	<u>305,634,320</u>
<b><u>Unsupported Borrowing - Asset Life (based on individual assets)</u></b>	
Unsupported Borrowing brought forward	118,417,022
Add profiled prudential borrowing 2023/24	20,602,961
Less MRP - 2022/23	-3,503,481
	<u>135,516,502</u>
<b>Closing CFR 31/03/24 - Unsupported Borrowing</b>	
	<u>135,516,502</u>
<b>Closing CFR (GF &amp; HRA) 31/03/24 - Unsupported Borrowing</b>	
	<u>441,150,823</u>
Additional items included:	
Village Hall Loans	258,446
Housing Associations Loans	14,665,822
Cornovii Developments Ltd	13,250,000
	<u>469,325,091</u>
<b><u>Summary MRP</u></b>	
MRP 2024/25 on Annuity Basis at 45 year life from 2018/19	2,768,360
LGR (98) Debt MRP	6,329
Prudential Borrowing MRP	3,926,166
	<u>6,700,855</u>
<b>TOTAL MRP 2024/25</b>	
	<u>6,700,855</u>



## 6. Specified Investments



**LOCAL GOVERNMENT INVESTMENTS (England)**  
**SPECIFIED INVESTMENTS**

All investments listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security/ Minimum Credit Criteria	Capital Expenditure?	Circumstance of use	Maximum period
<b>Term deposits</b> with the UK government (e.g. DMO Account) or with local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	No	Yes	High security although most LAs not credit rated.	No	In-house and by external fund manager	1 year
<b>Term deposits</b> with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	No	Yes	Yes – Minimum colour band green	No	In-house and by external fund manager	1 year
<b>Certificates of Deposit</b> issued by credit-rated deposit takers (banks and building societies) up to 1 year. Custodial arrangement required prior to purchase	No	Yes	Yes – Minimum colour band green	No	In house buy and hold and External fund managers	1 year
<b>Banks nationalised by high credit rated (sovereign rating) countries – non UK</b>	No	Yes	Minimum Sovereign Rating AA	No	In house and external fund managers	1 year
<b>UK Nationalised &amp; Part Nationalised banks</b>	No	Yes	Yes – Minimum colour band green	No	In house and external managers	1 year
<b>Government guarantee (explicit) on all deposits by high credit rated (sovereign rating) countries</b>	No	Yes	Yes – Minimum Sovereign Rating AA- / UK Sovereign Rating	No	In house and external fund managers	1 year
<b>Bonds issued by multilateral development banks</b> (Euro Sterling Bonds as defined in SI 2004 No 534) <b>Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail</b> Custodial arrangement required prior to purchase	No	Yes	AAA	No	In-House on a buy and hold basis after consultation/advice from Link also for use by External fund manager	1 year
Gilt Funds and Bond Funds (including Ultra-Short Dated Bond Funds)	No	Yes	UK sovereign rating	No	In House and by external fund managers	1 year
	No	Yes	AAA	No		



Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security/ Minimum Credit Criteria	Capital Expenditure?	Circumstance of use	Maximum period
<b>Gilts</b> : up to 1 year Custodial arrangement required prior to purchase	No	Yes	Govt-backed UK Sovereign Rating	No	In House on a buy and hold basis and for trading by external fund manager subject to the guidelines and parameters agreed with them	1 year
<b>Money Market Funds (CNAV), Enhanced Money Market Funds (LVNAV &amp; VNAV) &amp; Government Liquidity Funds (including CCLA Fund)</b>	No	Yes	Yes AAA rated & UK sovereign rating. Enhanced MMFs minimum colour Dark Pink/Light Pink & AAA rated	No	In-house and by external fund managers subject to the guidelines and parameters agreed with them	the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements.  Deposits are repayable at call.
<b>Treasury bills</b> [Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value]  Custodial arrangement required prior to purchase	No	Yes	Govt-backed UK Sovereign Rating	No	In House or external fund managers subject to the guidelines and parameters agreed with them	1 year

### Monitoring of credit ratings:

All credit ratings will be monitored continuously and formally updated on a monthly basis if required. If a counterparty or investment scheme is downgraded with the result that it no longer meets the Council's minimum credit criteria, the use of that counterparty / investment scheme will be withdrawn.

Any intra-month credit rating downgrade which the Council has identified that affects the Council's pre-set criteria will also be similarly dealt with.

**LOCAL GOVERNMENT INVESTMENTS (England)**  
**NON-SPECIFIED INVESTMENTS**

All investments listed below must be sterling-denominated (with the exception of the WME US dollar account).

Investment	a) Why use it? b) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security/ Minimum Credit Criteria	Capital Expenditure?	Circumstance of use	Max % of overall investments	Maximum maturity of investment
<b>Certificates of Deposit</b> with credit rated deposit takers (banks and building societies) with maturities greater than 1 year <i>Custodial arrangement required prior to purchase</i>	(A) tradable more liquid than fixed term deposits  (B) (i) 'Market or interest rate risk': Yield subject to movement during life of CD which could negatively impact on price of the CD. (ii) Although in theory tradable, are relatively illiquid.	No	Yes	UK Sovereign rating	No	In house on a buy and hold basis after consultation/advice from Link & external cash fund manager(s) subject to the guidelines and parameters agreed with them.	50%	Suggested limit: Average duration in the portfolio not to exceed 5 years
<b>Collateralised deposit</b>	Deposits are backed by collateral of AAA rated local authority	No	Yes	UK Sovereign rating	No	In house & External Manager	25%	5 years
<b>UK government gilts</b> with maturities in excess of 1 year  <i>Custodial arrangement required prior to purchase</i>	(A)((i) Excellent credit quality. (ii)Very Liquid). (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk  (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	UK Sovereign rating	No	In house on a buy & hold basis following advice from Link and for trading by external cash fund manager subject to the guidelines and parameters agreed with them	50%	Suggested limit : Average duration in the portfolio not to exceed 5 years

Investment	a) Why use it? b) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security/ Minimum Credit Criteria	Capital Expenditure?	Circumstance of use	Max % of overall investments	Maximum maturity of investment
<b>Term deposits with UK government, other Local Authorities, and credit rated deposit takers (banks and building societies) including callable deposits with maturities greater than 1 year</b>	A) (i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment.  (B) (i) Illiquid: as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk: potential for greater deterioration in credit quality over longer period	No	No	Minimum colour band purple	No	In-House  For trading by external cash fund manager subject to the guidelines and parameters agreed with them	£40 million  50%	Suggested limit: 3 years
<b>Sovereign bond issues ex UK Government Gilts: any maturity</b>	A. (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk  B. (i) “Market or interest rate risk” : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss	No	Yes	AAA	No	For trading by external cash fund manager only subject to the guidelines and parameters agreed with them	50%	Suggested limit: 5 years
<b>Bonds issued by multilateral development banks (Euro-Sterling Bonds) or issued by a financial institution guaranteed by UK government Custodial</b>	(A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk	Yes	Yes	AAA	No	In house on a buy and hold basis after consultation/advice from Link.  Also for use by external fund managers	10%  50%	5 years

Investment	a) Why use it? b) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security/ Minimum Credit Criteria	Capital Expenditure?	Circumstance of use	Max % of overall investments	Maximum maturity of investment
<b>arrangement required prior to purchase</b>	(B) (i) "Market or interest rate risk" : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss							
<b>Corporate Bonds &amp; Corporate Bond funds (the use of these investments would constitute capital expenditure although this is currently under review)</b>	(A)(i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk  (B)(i) "Market or interest rate risk" : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss	Yes	Yes	Minimum Sovereign rating AA	Yes	To be used by external fund managers only	50%	Suggested limit: 5 years
<b>Pooled property funds – including CCLA Local Authorities Property Fund</b>	Enhanced return but increased risk, only to be used following advice from Link	No	Yes	No Minimum Credit rating need to assess underlying assets within fund following advice taken from Link	No	In House Use & External Fund managers following advice from Link	20%	5 years
<b>Floating Rate notes</b>	(A)(i) Rate of return tied to some measure of current interest rates, so when interest rates are expected to go up they offer protection to investors against such rises (ii) In some	Yes	Yes	Minimum Colour band green	No	In House Use & External Fund managers following advice from Link	10%	3 years

Investment	a) Why use it? b) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security/ Minimum Credit Criteria	Capital Expenditure?	Circumstance of use	Max % of overall investments	Maximum maturity of investment
	<p>circumstances may have access to banks which meet minimum credit criteria but generally don't take small fixed term deposit cash amounts</p> <p>(B)(i) Credit quality : if financial health of issuer deteriorates, investors will demand a greater yield and the price of the bond will fall</p>							
<b>US Dollar Deposits (WME Only)</b>	<p>US dollar account to be utilised as a part of West Mercia Energy prudent management of income and expenditure, ensuring that ongoing US dollar commitments can be hedged, thus extinguishing any adverse risk of exposure to movements in the exchange rate and guaranteeing a known cashflow for West Mercia Energy. The account is only to be used for this purpose and not for the purpose of speculative or trading transactions.</p>	No	Yes	Minimum Colour band green	No	West Mercia Energy only	N/A	3 months