Bolton Council

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| **Report to:** | Cabinet | | |
| **Date of meeting:** | 03 February 2025 | | |
| **Report of:** | Lee Fallows, Director of Corporate Resources | **Report Number:** | 35447 |
| **Reporting Officer:** | Graeme Wilson, Borough Treasurer | | |
| **Contact Officer:** | Lisa Butcher, Head of Finance - Corporate | | |
| **Report title:** | Treasury Management and Investment Strategies for 2025/26 to 2028/29 | | |
| **CONFIDENTIALITY**<br><br>**Non- confidential**<br>This report does not contain information which means it should be considered without the press or members of the public being present. | | | |
| **Purpose:** | To outline the Council's prudential indicators for 2025/26 to 2028/29 and set the expected treasury operations for this period. | | |
| **Recommendations:** | Cabinet is asked to recommend to the Council for Approval:<br>I. The Treasury Management Strategy 2025/26 to 2028/29 and the treasury limits on activity contained within this report.<br>II. The Authorised Limit Prudential Indicator<br>III. The Investment Strategy 2025/26 contained in the treasury management strategy. | | |
| **Decision:** | | | |
| **Background documents:** | Schedule to the Treasury Management Practices 2025-26 Appendix 1 to 3 | | |
| **Signed:** | Leader/Executive Cabinet Member | Monitoring Officer | |
| **Date:** | | | |

| **Consultation with other officers** | | | |
|---|---|---|---|
| Finance | Yes | 16/12/24 | Lisa Butcher |
| Legal | No | N/A | N/A |
| HR | No | N/A | N/A |
| Procurement | No | N/A | N/A |
| Climate Change | No | N/A | N/A |
| Information Governance | No | N/A | N/A |
| Equality Impact Assessment | No | N/A | N/A |

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| **Post consultation reports**<br>Please confirm that the consultation response has been taken into consideration in making the recommendations. | No |

| **Vision outcomes**<br>Please identify the appropriate Vision outcome(s) that this report relates or contributes to by putting a cross in the relevant box. | | |
|---|---|---|
| | 1. Start Well | ☒ |
| | 2. Live Well | ☒ |
| | 3. Age Well | ☒ |
| | 4. Prosperous | ☒ |
| | 5. Clean and Green | ☒ |
| | 6. Strong and Distinctive | ☒ |

# 1 INTRODUCTION

## 1.1 Background

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

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

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

1.1.4 CIPFA defines treasury management as:

> "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.1.5 This authority has not engaged in any commercial investments and has no non-treasury investments.

## 1.2 Reporting requirements

1.2.1 <u>Capital Strategy</u>

1.2.2 The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which will provide 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

1.2.3 The aim of this 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.

1.2.4 The Capital Strategy 2025-2028 is a separate item on the agenda and incorporates.

- the capital expenditure and financing plan (including prudential indicators)
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)

1.2.5 Treasury Management Reporting

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

1.2.7 Prudential and treasury indicators and treasury strategy (this report) covers:

- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

1.2.8 Quarterly update reports (including the year-end report) are taken to the Executive Cabinet Member Leader's Portfolio meeting. This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision, if applicable.

**1.3 Scrutiny**

1.3.1 The above reports are required to be adequately scrutinised before being recommended to Council. This role is undertaken by the Audit Committee.

**1.4 Treasury Management Strategy for 2025/26**

1.4.1 The strategy for 2025/26 covers two main areas:

1.4.2 Capital issues (per the Capital Strategy Report)

- the capital expenditure plans and the associated prudential indicators.
- the minimum revenue provision (MRP) policy.

1.4.3 Treasury management issues

- the current treasury position.
- treasury indicators which limit the treasury risk and activities of the Council.
- prospects for interest rates.
- the borrowing strategy.
- policy on borrowing in advance of need.
- debt rescheduling.
- the investment strategy.
- creditworthiness policy; and
- the policy on use of external service providers.

1.4.4 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

**1.5 Training**

1.5.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will take place over Summer / Autumn 2025.

1.5.2 The training needs of officers involved with treasury management are periodically reviewed.

### 1.6 Treasury management advisors

1.6.1 The Council's current external treasury management advisor is MUFG Corporate Markets formerly named Link Asset Services.

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

1.6.3 It 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, documented and subjected to regular review.

## 2 BORROWING

2.1.1 The capital expenditure plans, set out in another item on this agenda, provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

### 2.2 Current portfolio position

2.2.1 The Council's treasury portfolio position as at 31 March 2024, with forward projections, is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

| £m | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|---|---|---|---|---|---|
| | Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| **External Debt** | | | | | | |
| Debt at 1 April | 158.500 | 188.500 | 158.500 | 158.500 | 158.500 | 158.500 |
| Expected change in Debt | 30.000 | -30.000 | 0.000 | 0.000 | 0.000 | 0.000 |
| Other long-term liabilities (OLTL) at 1 April | 3.592 | 3.592 | 13.054 | 13.054 | 13.054 | 13.054 |
| Expected change in OLTL | 0.000 | 9.462 | 0.000 | 0.000 | 0.000 | 0.000 |
| **Actual gross debt at 31 March** | **192.092** | **171.554** | **171.554** | **171.554** | **171.554** | **171.554** |
| **The Capital Financing Requirement (CFR)** | **274.310** | **279.499** | **280.499** | **281.499** | **282.499** | **283.499** |
| **Maximum Under Borrowing** | **82.218** | **107.945** | **108.945** | **109.945** | **110.945** | **111.945** |

2.2.2 Within the prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

2.2.3 The Borough Treasurer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans, and the proposals in this budget report.

**2.3 Treasury Indicators: limits to borrowing activity**

2.3.1 **The operational boundary** - This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt.

| Operational boundary £m | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|---|---|---|---|---|---|
| | Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| **Total** | **284.3** | **289.5** | **290.5** | **291.5** | **292.5** | **293.5** |

2.3.2 **The authorised limit for external debt -** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a 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 councils' plans, or those of a specific council, although this power has not yet been exercised.

The Council is asked to approve the following authorised limit:

| Authorised limit £m | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|---|---|---|---|---|---|
| | Actual | Estimate | Estimate | Estimate | Estimate | Estimate |
| **Total** | **304.3** | **309.5** | **310.5** | **311.5** | **312.5** | **313.5** |

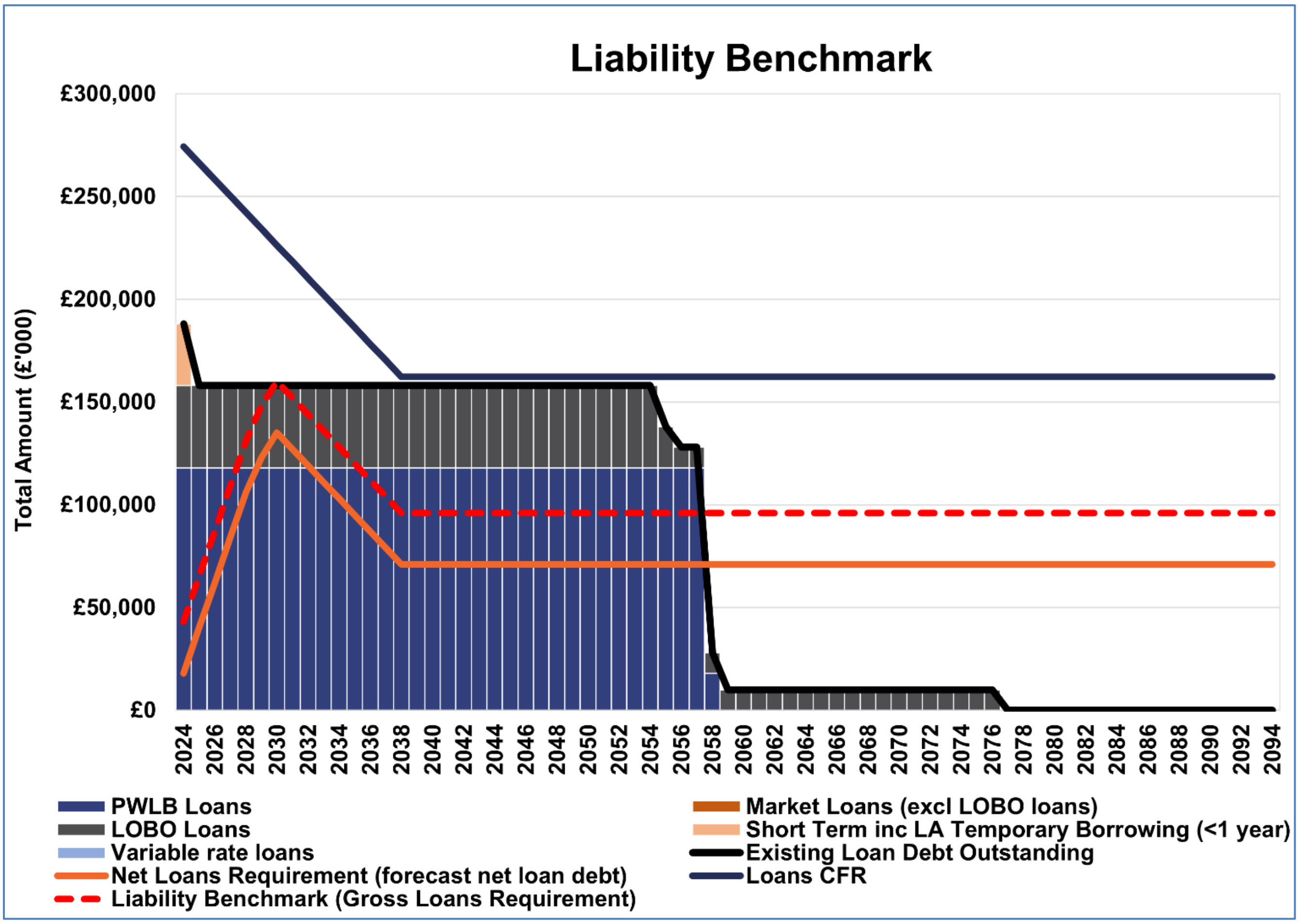
2.3.3 **The Liability Benchmark** – a third and new prudential indicator introduced in 2023/24 was the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the Liability Benchmark:

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **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.
3. **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.

4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.




2.3.4 The Liability Benchmark is a comparison of the existing loan portfolio against the committed borrowing need. The graph indicates that based on currently approved prudential indicators, the Council is within its borrowing need (both the Net Loans Requirement line and the Liability Benchmark line fall below the Existing Loan Debt Outstanding block).

## 2.4 Prospects for interest rates

The Council has appointed Link Group, now renamed as MUFG Corporate Markets as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 11th November 2024. These are forecasts for certainty rates, gilt yields plus 80bps:

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

*Additional notes by Link on this forecast table: -*

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

- If we reflect on the 30 October Budget, our central case is that those policy announcements will be inflationary, at least in the near-term. The Office for Budgetary Responsibility and the Bank of England concur with that view. The latter have the CPI measure of inflation hitting 2.5% y/y by the end of 2024 and staying sticky until at least 2026. The Bank forecasts CPI to be 2.7% y/y (Q4 2025) and 2.2% (Q4 2026) before dropping back in 2027 to 1.8% y/y.

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

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

- Our central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. We forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

- Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025. The fact that the November MPC rate cut decision saw a split vote of 8-1 confirms that there are already some concerns around inflation's stickiness, and with recent public sector wage increases beginning to funnel their way into headline average earnings data, the market will be looking very closely at those releases.

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

- So far, we have made little mention of the US President election. Nonetheless, Donald Trump's victory paves the way for the introduction/extension of tariffs that could prove inflationary whilst the same could be said of further tax cuts and an expansion of the current US budget deficit. Invariably the direction of US Treasury yields in reaction to his core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.

### 2.5 The following is a commentary on interest rates from Link Asset Services

***Gilt yields and PWLB rates***

The overall longer-run trend is for gilt yields and PWLB rates to fall back over the timeline of our forecasts, but the risks to our forecasts are to the upsides. Our target borrowing rates are set **two years forward** (as we expect rates to fall back) and the current PWLB (certainty) borrowing rates are set out below: -

| PWLB debt | Current borrowing rate as at 11.11.24 p.m. | Target borrowing rate now (end of Q3 2026) | Target borrowing rate previous (end of Q3 2026) |
|---|---|---|---|
| 5 years | 5.02% | 4.30% | 3.90% |
| 10 years | 5.23% | 4.50% | 4.10% |
| 25 years | 5.66% | 4.90% | 4.40% |
| 50 years | 5.42% | 4.70% | 4.20% |

**Borrowing advice:** Our long-term (beyond 10 years) forecast for Bank Rate has been increased to 3.25% (from 3%). As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should also be considered. Temporary borrowing rates will, generally, fall in line with Bank Rate cuts.

Our suggested budgeted earnings rates for investments up to about three months' duration in each financial year are set out below.

| Average earnings in each year | Now | Previously |
|---|---|---|
| 2024/25 (residual) | 4.60% | 4.25% |
| 2025/26 | 4.10% | 3.35% |
| 2026/27 | 3.70% | 3.10% |
| 2027/28 | 3.50% | 3.25% |
| 2028/29 | 3.50% | 3.25% |
| Years 6 to 10 | 3.50% | 3.25% |
| Years 10+ | 3.50% | 3.50% |

We will continue to monitor economic and market developments as they unfold. Typically, we formally review our forecasts following the quarterly release of the Bank of England's Monetary Policy Report but will consider our position on an ad hoc basis as required.

Our interest rate forecast for Bank Rate is in steps of 25 bps, whereas PWLB forecasts have been rounded to the nearest 10 bps and are central forecasts within bands of + / - 25 bps. Naturally, we continue to monitor events and will update our forecasts as and when appropriate.

## 2.6 Borrowing strategy

2.6.1 The Authority is currently maintaining an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Authority's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.

2.6.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Borough Treasurer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* then borrowing will be postponed.
- *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

2.6.3 Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

## 3 Treasury management limits on activity

3.1.1 There are three debt related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates for both investments and debt.
- Upper limits on fixed interest rate exposure. This is like the previous indicator and covers a maximum limit on fixed interest rates for both investments and debt.
-

| % | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|---|---|---|---|
| **Interest rate exposures** | | | | |
| | **Upper** | **Upper** | **Upper** | **Upper** |
| **Borrowing - Fixed Interest Rate exposure** | 100% | 100% | 100% | 100% |
| **Borrowing - Variable Interest Rate exposure** | 50% | 50% | 50% | 50% |
| **Investments - Fixed Interest Rate Exposure** | 100% | 100% | 100% | 100% |
| **Investments - Variable Interest Rate Exposure** | 50% | 50% | 50% | 50% |

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large, fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limit:

| **Maturity structure of fixed interest rate borrowing 2025/26** | | |
|---|---|---|
| **Time to Maturity** | **Lower Limit** | **Upper Limit** |
| Under 12 months | 0 | 80.00% |
| 12 months to 2 years | 0 | 80.00% |
| 2 years to 5 years | 0 | 80.00% |
| 5 years to 10 years | 0 | 80.00% |
| 10 years to 15 years | 0 | 80.00% |
| 15 years to 20 years | 0 | 80.00% |
| 20 years to 25 years | 0 | 80.00% |
| 25 years to 30 years | 0 | 80.00% |
| 30 years to 35 years | 0 | 80.00% |
| 35 years to 40 years | 0 | 80.00% |
| 40 years to 45 years | 0 | 80.00% |
| 45 years to 50 years | 0 | 80.00% |
| 50 years and above | 0 | 80.00% |

### 3.2 Policy on borrowing in advance of need

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

### 3.3 Debt rescheduling

3.3.1 With the repayment of all the Council's PWLB debt following the housing stock transfer in March 2011, whilst the Council has subsequently borrowed from PWLB, the opportunities for debt rescheduling are limited. However, if the lenders of the Market Loans exercise their option to increase rates this may provide the Council with an opportunity to switch to either fixed rate or cheaper shorter-term debt.

3.3.2 All rescheduling will be reported to Executive Cabinet Member Leader's Portfolio at the earliest meeting following its action.

## 4 ANNUAL INVESTMENT STRATEGY

### 4.1 Investment policy

4.1.1 The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

4.1.2 The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regards to the Council's risk appetite.

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

4.1.4 The above guidance from the MHCLG and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.
- Other information: ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration 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.
- Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
- The Council has defined the list of types of investment instruments that the treasury management team are authorised to use. Specified investments are those with a high level of credit quality and subject to a maturity limit of one year. These are shown per Appendix 4.
- This authority has engaged external consultants, to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.
- As a result of the change in accounting standards for 2023/24 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending

31.3.23. Subsequently, a further extension to the over-ride to **31.3.25** was agreed by Government.

4.1.5 However, this authority will also pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

### 4.2 Changes in risk management policy from last year.

4.2.1 The above criteria are unchanged from last year.

### 4.3 Creditworthiness policy

4.3.1 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that:

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

4.3.2 The Borough Treasurer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

4.3.3 The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Council's criteria and the other does not, then the institution will fall outside the lending criteria. Credit rating information is supplied by Link Asset Services, our treasury consultants, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer-term change) are provided to officers almost immediately after they occur, and this information is considered before dealing. The criteria for providing a pool of high-quality investment counterparties (both specified and non-specified investments) are:

| | |
|---|---|
| **Banks 1 -** good credit quality | The Council will only use banks which are UK banks; and have, as a minimum, the following Fitch, Moody's and Standard and Poor's credit ratings (where rated).<br><br>Short term – F1/P1/A1<br><br>Long term – A-/A3/A- |
| **Banks 2** - Part nationalised UK banks - Lloyds Banking Group (Lloyds Bank and Bank of Scotland) and Royal Bank of Scotland (Royal Bank of Scotland and National Westminster Bank). | These banks can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above. |
| **Banks 3** | The Council's own banker if the bank falls below the above criteria. |
| **Building Societies** | The Council will use all societies which meet the ratings for Banks 1 outlined above |
| **UK Government (the DMADF)** | |
| **Local authorities, parish councils etc.** | |
| **Money Market Funds** | AAA with a Fixed Net Asset Value (NAV). |

4.3.4 **Group and sector considerations** - Due care will be taken to consider the group and sector exposure of the Council's investments.

4.3.5 **Use of additional information other than credit ratings -** Additional requirements under the Code requires the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

4.3.6 **Time and monetary limits applying to investments -** The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

| | Fitch Long Term Rating (or equivalent) | Money Limit | Time Limit |
|---|---|---|---|
| Banks 1 | F1 | £30m | 1 year |
| Banks 2 – part nationalised | N/A | £30m | 1 year |
| Banks 3 – Council's banker (if not meeting Banks 1 or Banks 2) | N/A | £20m | 1 year |
| Building Societies (meeting the criteria for Banks 1 above) | F1 | £30m | 1 year |
| DMADF | N/A | unlimited | 6 months |
| Local Authorities | N/A | £15m | 3 years |
| Money Market Funds | AAA | £40m | Liquid |

4.3.7 **The monitoring of investment counterparties** - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Borough Treasurer, and if required new counterparties which meet the criteria will be added to the list following approval by the Council.

### 4.4 UK banks – ring fencing

4.4.1 The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), were required, by UK law, to separate core retail banking services from their investment and international banking activities by 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.

4.4.2 Ring-fencing is a regulatory initiative created in response to the global financial crisis in 2008. 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.

4.4.3 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.

4.4.4 **Creditworthiness -** Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, more recently the UK sovereign debt rating has been placed on Negative Outlook by the three major rating agencies in the wake of the Truss/Kwarteng unfunded tax-cuts policy. Although the Sunak/Hunt government has calmed markets, the outcome of the rating agency reviews is unknown at present, but it is possible the UK sovereign debt rating will be downgraded. Accordingly, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

## 4.5 Investment strategy

4.5.1 **In-house funds.** Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that the risks are relatively balanced between Bank Rate staying higher for longer, if inflation picks up markedly through 2025 post the 30 October 2024 Budget, or it may be cut quicker than expected if the economy stagnates. The economy only grew 0.1% in Q3 2024, but the CPI measure of inflation is now markedly above the 2% target rate set by the Bank of England's Monetary Policy Committee two to three years forward.

4.5.2 Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

4.5.3 **Investment returns expectations.** The current forecast shown, includes a forecast for Bank Rate to a low of 3.5%.

4.5.4 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

| Average earnings in each year | Now | Previously |
|---|---|---|
| 2024/25 (residual) | 4.60% | 4.25% |
| 2025/26 | 4.10% | 3.35% |
| 2026/27 | 3.70% | 3.10% |
| 2027/28 | 3.50% | 3.25% |
| 2028/29 | 3.50% | 3.25% |
| Years 6 to 10 | 3.50% | 3.25% |
| Years 10+ | 3.50% | 3.50% |

4.5.5 As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

4.5.6 **Investment treasury indicator and limit** - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

4.5.7 The Council is asked to approve the treasury indicator and limit: -

| Maximum principal sums (£m) invested > 364 days | | | | |
|---|---|---|---|---|
| | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
| Principal sums invested > 364 days | £15m | £15m | £15m | £15m |

## 4.6 Investment risk benchmarking

4.6.1 These benchmarks are simple guides to maximum risk, so they may be breached from time to time, depending on movements in interest rates and counterparty criteria. The purpose of the benchmark is that officers will monitor the current and trend position and amend the operational strategy to manage risk as conditions change. Any breach of the benchmarks will be reported, with supporting reasons to the Executive Cabinet Member Leader's Portfolio.

4.6.2 **Security** - The Council's maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.025% historic risk of default when compared to the whole portfolio.

4.6.3 **Liquidity** – in respect of this area the Council seeks to maintain:

- Liquid short-term deposits of at least £10m available with a week's notice
- Weighted average life benchmark is expected to be between 0.25 and 0.75 years.

4.6.4 **Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7-day SONIA compounded rate.

## 4.7 End of year investment report

4.7.1 The fourth quarter treasury report will provide details of the overall investment activity for the year in question.

## 5 EQUALITY IMPACT ASSESSMENT (EIA)

5.1 Under the Equality Act 2010, the council has a general duty to have due regard to the need to:

- eliminate unlawful discrimination, harassment, victimisation and any other conduct prohibited by the Act.
- advance equality of opportunity between people who share a protected characteristic and people who do not share it; and

- foster good relations between people who share a protected characteristic and people who do not share it.

5.2 It is important to consider how the proposals contained within this report may impact positively or negatively on protected characteristics.

5.3 Due to the nature of the report, it is not anticipated that the proposals within this report will have a differential impact on any of Bolton's diversity groups, including staff. A full EIA is therefore not required; however, the EIA Screening Tool has been completed and is included at Appendix 6.

**6 Consultation and Engagement**

6.1 Not applicable.

**7 VISION 2030**

**8** Robust financial monitoring supports delivery of all Vision Outcomes, and particularly a prosperous borough.

**9** Recommendations

**9.1 Cabinet is asked to recommend to the Council for Approval:**

9.1.1 The Treasury Management Strategy 2025/26 to 2028/29 and the treasury limits on activity contained within this report.

9.1.2 The Authorised Limit Prudential Indicator.

9.1.3 The Investment Strategy 2025/26 contained in the Treasury Management Strategy.

**Appendix 1**

## Code of Practice for Treasury Management in Local Authorities

### Introduction

In 2011 CIPFA issued Codes of Practice on Treasury Management in The Public Services. This was subsequently revised in 2017 and 2021.

These were due to increased attention being given to cash management and the Institute felt there was a need for expertise and caution in money market transactions.

As Bolton Council has always adopted a prudent approach to Treasury Management and has worked within the framework of CIPFA recommendations, the new Code of Practice has now been adopted.

As recommended by CIPFA, this document includes a Treasury Policy Statement and Treasury Management Practices (TMPs). The Schedules to the TMPs, various control systems and documentation that relate to Treasury Management in this Authority are held by the Corporate Accounting Team.

The Code of Practice for Treasury Management in Public Services issued by CIPFA in 2021 sets out a Policy and 12 Treasury Management Practices which Local Authorities are urged to formally adopt.

**Key Principles (section 4 of the 2017 Code)**

The Code recommended the formal adoption of the following clauses.

The Council previously adopted on 17th February 2021 the 3 key principles of CIPFA's "Treasury Management in the Public Services: Code of Practice" (the Code) as described in Section 4 of that Code.

(a) The Council should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

(b) Policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.

(c) The Council should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

**Clauses to be formally adopted (section 5 of the 2017 and 2021 code)**

The Council will create and maintain, as the cornerstones for effective Treasury Management

- a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury management activities
- suitable treasury management practices (TMPs), setting out the way the organisation will seek to achieve those policies and objectives, and prescribing how it will manage and control those activities.

The content of the policy statement and TMPs will follow the recommendations contained in Sections 6 and 7 of the Code, subject only to amendment where necessary to reflect the circumstances of this organisation. Such amendments will not result in the organisation materially deviating from the Code's key principles.

This organisation will receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan of the year, and quarterly reports, in the form prescribed in its TMPs.

This organisation delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Executive Cabinet Member Leader's Portfolio, and for the execution and administration of treasury management decisions to the Borough Treasurer who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management. This organisation nominates the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies.

**TMP Statement (section 6 of the 2017 and 2021 Code)**

This organisation defines its treasury management activities as:

1) The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
2) This organisation regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered to manage these risks.
3) This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

**Investments that are not part of the Treasury Management Activity**

Where, in addition to treasury management investment activity, organisations invest in other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that the same robust procedures for the consideration of risk and return are applied to these decisions.

**Management Practices for Non-Treasury Investments**

This organisation recognises that investment in other financial assets and property primarily for financial return, taken for non-treasury management purposes, requires careful investment management. Such activity includes loans supporting service outcomes, investments in subsidiaries, and investment property portfolios.

This organisation will ensure that all the organisation's investments are covered in the capital strategy, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

The organisation will maintain a schedule setting out a summary of existing material investments, subsidiaries, joint ventures and liabilities including financial guarantees and the organisation's risk exposure.

**APPENDIX 2**

## Treasury Management Practices

### TMP 1 – Risk Management

**General statement**

This organisation regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that robust due diligence procedures cover all external investment.

The responsible officer will design, implement and monitor all arrangements for the identification, management and control of treasury management risk, will report at least annually on the adequacy/suitability thereof, and will report, as a matter of urgency, the circumstances of any actual or likely difficulty in achieving the organisation's objectives in this respect, all in accordance with the procedures set out in TMP6 *Reporting requirements and management information arrangements*.

In respect of each of the following risks, the arrangements which seek to ensure compliance with these objectives are set out in the schedule to this document.

**[1] Credit and counterparty risk management**

This organisation will ensure that its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited and will limit its treasury management investment activities to the instruments, methods and techniques referred to in TMP4 *Approved instruments, methods and techniques* and listed in the schedule to this document. It also recognises the need to have, and will therefore maintain, a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter other financing or derivative arrangements.

**[2] Liquidity risk management**

This organisation will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to always enable it to have the level of funds available to it which are necessary for the achievement of its business/service objectives.

This organisation will only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

**[3] Interest rate risk management**

This organisation will manage its exposure to fluctuations in interest rates with a view to containing its interest costs, or securing its interest revenues, in accordance with the amounts provided in its budgetary arrangements as amended in accordance with TMP6 Reporting requirements and management information arrangements.

It will achieve this by the prudent use of its approved instruments, methods and techniques, primarily to create stability and certainty of costs and revenues, but at the same time retaining a sufficient degree of flexibility to take advantage of unexpected, potentially advantageous changes in the level or structure of interest rates. This should be subject to the consideration and, if required, approval of any policy or budgetary implications.

It will ensure that any hedging tools such as derivatives are only used for the management of risk and the prudent management of financial affairs and that the policy for the use of derivatives is clearly detailed in the annual strategy.

**[4] Exchange rate risk management**

It will manage its exposure to fluctuations in exchange rates to minimise any detrimental impact on its budgeted income/expenditure levels.

**[5] Inflation risk management**

The organisation will keep under review the sensitivity of its treasury assets and liabilities to inflation and will seek to manage the risk accordingly in the context of the whole organisation's inflation exposures.

**[6] Refinancing risk management**

This organisation will ensure that its borrowing, private financing and partnership arrangements are negotiated, structured and documented, and the maturity profile of the monies so raised is managed, with a view to obtaining offer terms for renewal or refinancing, if required, which are competitive and as favourable to the organisation as can reasonably be achieved in the light of market conditions prevailing at the time.

It will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid overreliance on any one source of funding if this might jeopardise achievement of the above.

**[7] Legal and regulatory risk management**

This organisation will ensure that all its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty policy under TMP1[1] credit and counterparty risk management, it will ensure that there is evidence of counterparties' powers, authority and compliance in respect of the transactions they may effect with the organisation, particularly regarding duty of care and fees charged.

This organisation recognises that future legislative or regulatory changes may impact on its treasury management activities and, so far as it is reasonably able to do so, will seek to minimise the risk of these impacting adversely on the organisation.

**[8] Fraud, error and corruption, and contingency management**

This organisation will ensure that it has identified the circumstances which may expose it to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings. Accordingly, it will employ suitable systems and procedures, and will maintain effective contingency management arrangements, to these ends.

**[9] Price risk management**

This organisation will seek to ensure that its stated treasury management policies and objectives will not be compromised by adverse market fluctuations in the value of the principal sums it invests and will accordingly seek to protect itself from the effects of such fluctuations.

**<u>TMP 2 – Performance Management</u>**

This organisation is committed to the pursuit of value for money in its treasury management activities, and to the use of performance methodology in support of that aim, within the framework set out in its treasury management policy statement.

Accordingly, the treasury management function will be the subject of ongoing analysis of the value it adds in support of the organisation’s stated business or service objectives. It will be the subject of regular examination of alternative methods of service delivery, of the availability of fiscal or other grant or subsidy incentives, and of the scope for other potential improvements. The performance of the treasury management function will be measured using the criteria set out in the schedule to this document.

## TMP 3 – Decision Making and Analysis

This organisation will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were considered at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the schedule to this document.

## TMP 4 - Approved Instruments, Methods and Techniques

This organisation will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the schedule to this document, and within the limits and parameters defined in TMP1 Risk management.

Where this organisation intends to use derivative instruments for the management of risks, these will be limited to those set out in its annual treasury strategy. The organisation will seek proper advice and will consider that advice when entering arrangements to use such products to ensure that it fully understands those products.

This organisation has reviewed its classification with financial institutions under MIFID II and has set out in the schedule to this document those organisations with which it is registered as a professional client and those with which it has an application outstanding to register as a professional client.

## TMP 5 - Organisation, Clarity and Segregation of Responsibilities and Dealing Arrangements

This organisation considers it essential, for the purposes of the effective control and monitoring of its treasury management activities, for the reduction of the risk of fraud or error, and for the pursuit of optimum performance, that these activities are structured and managed in a fully integrated manner, and that there is always a clarity of treasury management responsibilities.

The principle on which this will be based is a clear distinction between those charged with setting treasury management policies and those charged with implementing and controlling these policies, particularly regarding the execution and transmission of funds, the recording and administering of treasury management decisions, and the audit and review of the treasury management function.

If and when this organisation intends, as a result of lack of resources or other circumstances, to depart from these principles, the responsible officer will ensure that the reasons are properly reported in accordance with TMP6 Reporting requirements and management information arrangements, and the implications properly considered and evaluated.

The responsible officer will ensure that there are clear written statements of the responsibilities for each post engaged in treasury management, and the arrangements for absence cover. The responsible officer will also always ensure that those engaged in treasury management will follow the policies and procedures set out. The present arrangements are detailed in the schedule to this document.

The responsible officer will ensure there is proper documentation for all deals and transactions, and that procedures exist for the effective transmission of funds. The present arrangements are detailed in the schedule to this document.

The delegations to the responsible officer in respect of treasury management are set out in the schedule to this document. The responsible officer will fulfil all such responsibilities in accordance with the organisation's policy statement and TMPs and, if a CIPFA member, the Standard of Professional Practice on Treasury Management.

## TMP 6 – Reporting Requirements and Management Information Arrangements

Bolton Council will ensure that regular reports are prepared and considered on the implementation of its Treasury Management Policies, on the effects of decisions taken and transactions executed in pursuit of those policies, on the implications of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its Treasury Management activities and on the performance of the Treasury management function.
Cabinet will receive an Annual Report on the Strategy and Plan to be pursued in the coming year.

The Executive Cabinet Member Leader's Portfolio will receive regular monitoring reports on treasury management activities and risks. The Audit Committee will have responsibility for the scrutiny of the treasury management policies or practices. Bolton will report the treasury management indicators as detailed in their sector specific guidance notes. The present arrangements and the form of these reports are detailed in the Treasury Management Documentation Papers maintained in the Corporate Accounting and Strategy Team.

## TMP 7 - Budgeting, Accounting and Audit Arrangements

The responsible officer will prepare, and this organisation will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all the costs involved in running the treasury management function, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 Risk management, TMP2 Performance measurement, and TMP4 Approved instruments, methods and techniques. The responsible officer will exercise effective controls over this budget and will report upon and recommend any changes required in accordance with TMP6 Reporting requirements and management information arrangements.

This organisation will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

## TMP 8 – Cash and Cashflow Management

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the responsible officer and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring compliance with TMP1[2] liquidity risk management. The present arrangements for preparing cash flow projections, and their form, are set out in the schedule to this document.

**TMP 9 - Money Laundering**

This organisation is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions and will ensure that staff involved in this are properly trained. The present arrangements, including the name of the officer to whom reports should be made, are detailed in the schedule to this document.

**TMP 10 – Staff Training and Qualifications**

This organisation recognises the importance of ensuring that all staff involved in the treasury management function are fully equipped to undertake the duties and responsibilities allocated to them. It will therefore seek to appoint individuals who are both capable and experienced and will provide training for staff to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills. The responsible officer will recommend and implement the necessary arrangements.

The responsible officer will ensure that board/council members tasked with treasury management responsibilities, including those responsible for scrutiny, have access to training relevant to their needs and those responsibilities.

Those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively. The present arrangements are detailed in the schedule to this document.

**TMP 11 – Use of External Service Providers**

This organisation recognises that responsibility for treasury management decisions always remains with the organisation. It recognises that there may be potential value in employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies. Where services are subject to formal tender or re-tender arrangements, legislative requirements will always be observed. The monitoring of such arrangements rests with the responsible officer, and details of the current arrangements are set out in the schedule to this document.

**TMP 12 – Corporate Governance**

This organisation is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved.

Accordingly, the treasury management function and its treasury management activities will be undertaken with openness and transparency, honesty, integrity and accountability. This organisation has adopted and has implemented the key principles of the Code. This, together with the other arrangements detailed in the schedule to this document, is considered vital to the achievement of proper corporate governance in treasury management, and the responsible officer will monitor and, if and when necessary, report upon the effectiveness of these arrangements.

## APPENDIX 4

### Counterparty List

The recommended (2025/26) Counterparty list based upon the policy is:

| | Fitch Rating | | Moody's Ratings | | S&P Ratings | | | |
|---|---|---|---|---|---|---|---|---|
| **Name** | **Short Term** | **Long Term** | **Short Term** | **Long Term** | **Short Term** | **Long Term** | **Time Limit** | **Money Limit** |
| United Kingdom (Sovereign rating) | | AA- | | Aa3 | | AA | | |
| Barclays Bank | F1 | A+ | P-1 | A1 | A-1 | A | 1 year | £20m |
| Bolton at Home | | | | | | | 90 days | £3m |
| Coventry Building Society | F1 | A- | P-1 | A2 | | | 1 year | £30m |
| UK Debt Management Office (which is an Executive Agency of HM Treasury) | | | | | | | 6 months | No limit |
| Goldman Sachs International Bank | F1 | A+ | P-1 | A1 | A-1 | A+ | 1 year | £30m |
| HSBC Bank | F1+ | AA- | P-1 | A1 | A-1 | A+ | 1 year | £30m |
| Lloyds Bank / Bank of Scotland | F1 | A+ | P-1 | A1 | A-1 | A+ | 1 year | £30m |
| Local Authorities | | | | | | | 3 years | £15m ea |
| Money Market Funds | AAA with a Fixed Net Asset Value (NAV) | | | | | | Liquid | £40m ea |
| Nationwide Building Society | F1 | A | P-1 | A1 | A-1 | A+ | 1 year | £30m |
| Santander UK Plc | F1 | A+ | P-1 | A1 | A-1 | A | 1 year | £30m |
| Standard Chartered Bank | F1 | A+ | P-1 | A1 | A-1 | A+ | 1 year | £30m |
| *Sumitomo Mitsui Banking Corporation Europe Ltd* | *F1* | *A* | *P-1* | *A1* | *A-1* | *A* | *1 year* | *£30m* |

Counterparties in italics do not normally borrow from Local Authorities

**APPENDIX 5**

## ECONOMIC BACKGROUND – (to September 2024)

### Commentary from Link Asset Services

- The third quarter of 2024 (July to September) saw:
- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July.
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August.
- Core CPI inflation increasing from 3.3% in July to 3.6% in August.
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting.
- 10-year gilt yields falling to 4.0% in September.
- The economy's stagnation in June and July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3. Additionally, the services PMI future activity balance showed an uptick in September, although readings after the Chancellor's announcements at the Budget on 30th October will be more meaningful.
- The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales. As a result, some of that strength is probably temporary.
- The Government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it. Our colleagues at Capital Economics suggest GDP growth will hit 1.2% in 2024 before reaching 1.5% for both 2025 and 2026.
- The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023. Excluding bonuses, the 3myy rate fell from 5.4% to 5.1%.
- Other labour market indicators also point to a further loosening in the labour market. The 59,000 fall in the alternative PAYE measure of the number of employees in August marked the fourth fall in the past five months. And the 77,000 decline in the three months to August was the biggest drop since November 2020. Moreover, the number of workforce jobs fell by 28,000 in Q2. The downward trend

in job vacancies continued too. The number of job vacancies fell from 872,000 in the three months to July to 857,000 in the three months to August. That leaves it 34% below its peak in May 2022, and just 5% above its pre-pandemic level. Nonetheless, the Bank of England is still more concerned about the inflationary influence of the labour market rather than the risk of a major slowdown in labour market activity.

- CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation, recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.

- The Bank initiated its loosening cycle in August with a 25bps rate cut, lowering rates from 5.25% to 5.0%. In its September meeting, the Bank, resembling the ECB more than the Fed, opted to hold rates steady at 5.0%, signalling a preference for a more gradual approach to rate cuts. Notably, one Monetary Policy Committee (MPC) member (Swati Dhingra) voted for a consecutive 25bps cut, while four members swung back to voting to leave rates unchanged. That meant the slim 5-4 vote in favour of a cut in August shifted to a solid 8-1 vote in favour of no change.

- Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%. In the second half of 2025, though, we think a more marked easing in inflation will prompt the Bank to speed up, resulting in rates eventually reaching 3.0%, rather than the 3.25-3.50% currently priced in by financial markets.

- Our forecast is next due to be updated around mid-November following the 30 October Budget, 5 November US presidential election and the 7 November MPC meeting and the release of the Bank of England Quarterly Monetary Policy Report.

- Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement. This likely reflected the fact that money markets had priced in a 25% chance of a rate cut prior to the meeting. The yield had already increased by about 10bps in the days leading up to the meeting, driven in part by the Fed's "hawkish cut" on 18 September. There is a possibility that gilt yields will rise near-term as UK policymakers remain cautious due to persistent inflation concerns, before declining in the longer term as rates fall to 3.0%.

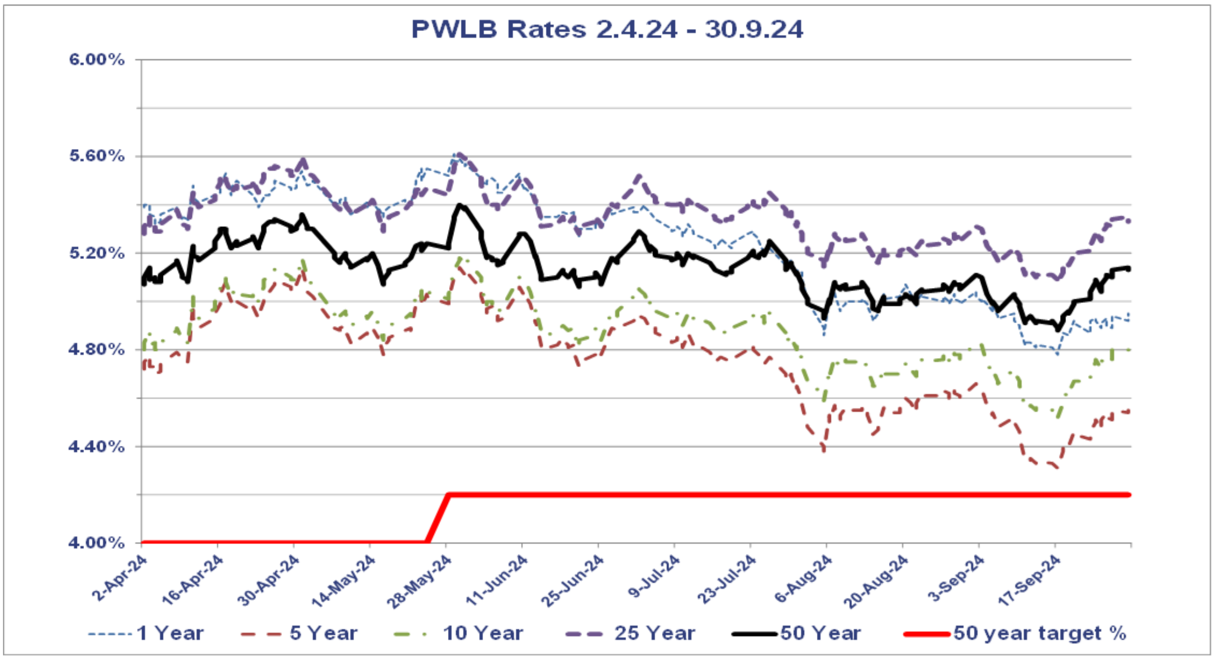
- The FTSE 100 reached a peak of 8,380 in the third quarter of 2024, but its performance is firmly in the shade of the US S&P500, which has breached the 5,700 threshold on several occasions recently. Its progress, however, may pause for the time being whilst investors wait to see who is elected the next US President, and how events in the Middle East (and Ukraine) unfold. The catalyst for any further rally (or not) is likely to be the degree of investors' faith in AI.

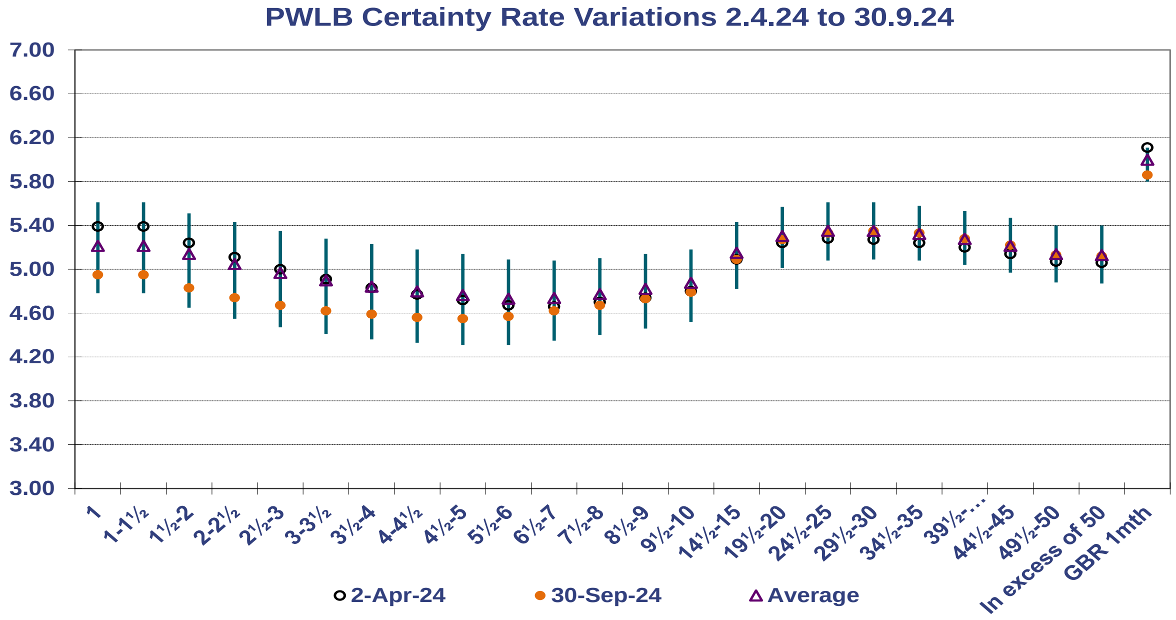
**MPC meetings: 9 May, 20 June, 1 August, 19 September 2024**

- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time.
- Markets thought there may be an outside chance of a further Bank Rate reduction in September, following the 50bps cut by the FOMC, but this came to nothing.
- Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

In the chart below, despite a considerable gilt market rally in mid-September, rates started and finished the six-month period under review in broadly the same position.

**PWLB RATES 02.04.24 - 30.09.24**






## HIGH/LOW/AVERAGE PWLB RATES FOR 02.04.24 – 30.09.24

| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|---|---|---|---|---|---|
| **02/04/2024** | 5.39% | 4.72% | 4.80% | 5.28% | 5.07% |
| **30/09/2024** | 4.95% | 4.55% | 4.79% | 5.33% | 5.13% |
| **Low** | 4.78% | 4.31% | 4.52% | 5.08% | 4.88% |
| **Low date** | 17/09/2024 | 17/09/2024 | 17/09/2024 | 17/09/2024 | 17/09/2024 |
| **High** | 5.61% | 5.14% | 5.18% | 5.61% | 5.40% |
| **High date** | 29/05/2024 | 01/05/2024 | 01/05/2024 | 01/05/2024 | 01/05/2024 |
| **Average** | 5.21% | 4.76% | 4.88% | 5.35% | 5.14% |
| **Spread** | 0.83% | 0.83% | 0.66% | 0.53% | 0.52% |

# Equality Impact Assessment

## Initial Screening for relevance: Details of Impact (Part 1)

| | | | |
|---|---|---|---|
| **Directorate:** | Chief Executives | | |
| **Section:** | Finance | | |
| **Person completing this form:** | Lisa Butcher | **Date:** | 06/01/2025 |

| **Title of report or proposal:** | **Report No** |
|---|---|
| Treasury Management and Investment Strategies for 2025/26 to 2028/29 | 35447 |
| **Brief details of proposal, including the aims, objectives and purpose (all strategies, policies, reviews, projects, existing proposals, etc will be referred to as 'proposal':** | |
| To outline the Council's prudential indicators for 2024/25 to 2027/28 and set the expected treasury operations for this period. | |

| | | | | |
|---|---|---|---|---|
| **'Proposal' status (please tick)** | Proposed / New | ☐ | **Existing (i.e.: routine recommission)** (If an EIA has previously been completed, please include the date) Click or tap to enter a date. | ☒ |
| **Bolton Council Led** | ☒ | **Partner Led** (Please attach partner EIA, and complete section 3 - EIA sign off sheet, as screening not needed) | Click or tap here to enter text. | |

Public sector bodies need to be able to evidence that they have given due regard to the impact and potential impact on all people with 'protected characteristics' in shaping policy, in delivering services, and in relation to their workforce.

Under the Equality Act 2010, the council has a general duty to have due regard to the need to:

1. **eliminate unlawful discrimination, harassment**, victimisation and any other conduct prohibited by the Act.
2. **advance equality of opportunity** between people who share a protected characteristic and people who do not share it; and
3. **foster good relations** between people who share a protected characteristic and people who do not share it.

By completing the following questions, the three parts of the equality duty will be consciously considered as part of the decision-making process. Details of the outcome of the Equality Impact Assessment must also be included in the main body of the report.

Initial Screening for relevance: Details of Impact (Part 1)

| **Which stakeholder groups will potentially be impacted?** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Residents** | ☐ | **Partners** | ☐ | **Workforce** | ☐ | **Service users** | ☐ | **Businesses** | ☐ |
| **CVS Sector** | ☐ | **Members** | ☐ | **Other (please state)** | | None – Information Only | | | |

| Anticipated Negative Impacts | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Protected Characteristics / Groups** | **N/A** | Age | Armed Forces | Care Leavers | Caring Status | Disability | Gender Reassignment | Marriage / Civil Partnership | Pregnancy & maternity | Race | Religion / Belief | Sex | Sexual Orientation | Socio-economic |
| 1) Will the 'proposal' **potentially present any challenges / barriers** to any protected groups? | ☒ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 2) Will any group be **potentially excluded** as a result of implementing your 'proposal' | ☒ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 3) Does the 'proposal' have the potential to **worsen** existing discrimination or inequality? | ☒ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 4) Will the 'proposal' have a **potential negative impact** on community / partnership relations? | ☒ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |

| Anticipated Positive Impacts | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Protected Characteristics / Groups** | **N/A** | Age | Armed Forces | Care Leavers | Caring Status | Disability | Gender Reassignment | Marriage / Civil Partnership | Pregnancy & maternity | Race | Religion / Belief | Sex | Sexual Orientation | Socio-economic |
| 5) The 'proposal' could potentially **reduce known inequalities**, promoting equality of outcome or opportunity. | ☒ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 6) The 'proposal' has the potential to support **inclusion and engagement** from protected groups. | ☒ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 7) The 'proposal' has the potential to foster **good relations** between people. | ☒ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| 8) The proposal could reduce the potential for **harassment or discrimination.** | ☒ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ | ☐ |
| Consultation / engagement / research findings | Not Applicable | | | | | | | | | | | | | |

| **Brief bullet point summary of positive / negative impacts:** | |
|---|---|
| No impacts identified; report is for internal operation controls only. | |
| **Details of any cumulative impact** | None. |

**Decision:**
* All reports to the Executive Member which propose a new policy / procedure or are a savings review should continue to undertake a full EIA (part 2).

| | |
|---|---|
| **No major adverse impact identified; therefore, a full EIA is not required (complete sign off sheet in section 3 and send to your Departmental Equalities Lead)** | ☒ |
| **Impacts identified in screening process, therefore a full EIA is required.** | ☐ |
| **This is a new policy, business improvement review or savings review, therefore a full EIA is required.** | ☐ |

# Equality Impact Assessment

**EIA Sign Off**

**This EIA form and report has been checked and countersigned by the Directorate Equalities Officer before proceeding to Executive Cabinet Member(s)**

| | | | | |
|---|---|---|---|---|
| **Screening tool completed (please tick)** | ☒ | **Full EIA completed (please tick)** | Yes | N/A |
| | | | ☐ | ☒ |
| **EIA review date (if applicable).** | | Click or tap to enter a date. | | |

**Please confirm the outcome of this EIA:**

Click or tap here to enter text.

| | | |
|---|---|---|
| Positive impact for one or more groups justified on the grounds of promoting equality - proceed | ☐ | |
| No major impact identified, therefore no major changes required – proceed | ☒ | |
| Adjustments to remove barriers / promote equality (mitigate impact) have been identified – proceed | ☐ | |
| Continue despite having identified potential for adverse impact/missed opportunities for promoting equality – this requires a strong justification | ☐ | |
| The EIA identifies actual or potential discrimination - stop and rethink | ☐ | |

| | |
|---|---|
| **Report Officer** | |
| Name: | Lisa Butcher |
| Date: | 06 January 2025 |
| **Directorate Equalities Lead Officer** | |
| Name: | Click or tap here to enter text. |
| Date: | Click or tap to enter a date. |