

Treasury Management Strategy 2025/26 to 2034/35



Solihull
METROPOLITAN
BOROUGH COUNCIL

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1 Introduction

- 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. A key objective 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, which allow adequate liquidity initially before considering investment return.
- 1.1.2 The treasury management service is also involved in funding the Council's capital programme. The Corporate Capital Strategy provides a guide to the borrowing needs of the Council and the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. The management of longer term cash may involve arranging long or short-term loans, or utilising longer term cashflow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.1.3 CIPFA defines treasury management as:
- “The management of the local authority’s borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*
- 1.1.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.2 Reporting requirements

- 1.2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by a committee before being recommended to the Full Council. This role is undertaken by the Audit Committee.
- 1.2.2 A Treasury Management Strategy (this report) – This will provide members with an outline of how investments and borrowings are to be organised in coming years, including an Investment Strategy and relevant indicators.
- 1.2.3 A Mid-Year Treasury Management Report – This will update members with the current capital position, amend indicators as necessary, and state whether the treasury operations are meeting the strategy or whether any policies require revision.
- 1.2.4 An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.2.5 In addition to these reports Audit Committee receives quarterly monitoring reports to update on treasury activity.

1.2.6 The Treasury Management Strategy covers the following areas:

- the current treasury position and borrowing structure;
- debt and investment projections;
- limits to borrowing activity;
- prospects for interest rates;
- the borrowing and debt strategy;
- limits on treasury management activity;
- investment strategy;
- investment counterparty selection;
- treasury performance indicators;
- scheme of delegations;
- policy on use of external service providers;
- member and officer training;
- use of brokers;
- car loan scheme.

1.2.7 The Council's capital expenditure plans, minimum revenue provision (MRP) policy, and associated prudential indicators which had previously been reported as part of the Treasury Management Strategy are reported as part of the Council's Corporate Capital Strategy.

1.2.8 The elements covered within the Treasury Management and Corporate Capital Strategy meet the requirements of the Local Government Act 2003, the CIPFA Prudential Code, The Ministry of Housing, Communities and Local Government (MHCLG) MRP Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

1.3 Capital Programme 2024/25 – 2034/35

1.3.1 The Council's capital programme, which is approved through the Council's Corporate Capital Strategy, is a key driver of treasury management activity. Approved expenditure which is not financed through other means must be met via borrowing activity and must be considered within the Council's treasury and prudential indicators. The capital programme is summarised below.

	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 to 2034/35 Estimate £m
Non-HRA	58.775	91.565	71.828	36.147	196.218
HRA	21.685	31.736	18.021	18.690	169.868
Total	80.460	123.301	89.849	54.837	366.086
Financed by:					
Capital receipts	1.594	0.964	2.473	0.326	7.361
Capital grants	26.930	47.993	56.779	20.386	80.840
Contributions	1.857	3.117	1.800	0.300	2.100
Revenue	19.583	20.043	14.596	18.732	172.189
Net financing need for the year	30.496	51.184	14.201	15.093	103.596

2 Treasury Management Overview

2.1 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 borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

2.2 Current Treasury Position and Borrowing Structure

2.2.1 The Council's current treasury position is highlighted in the following table.

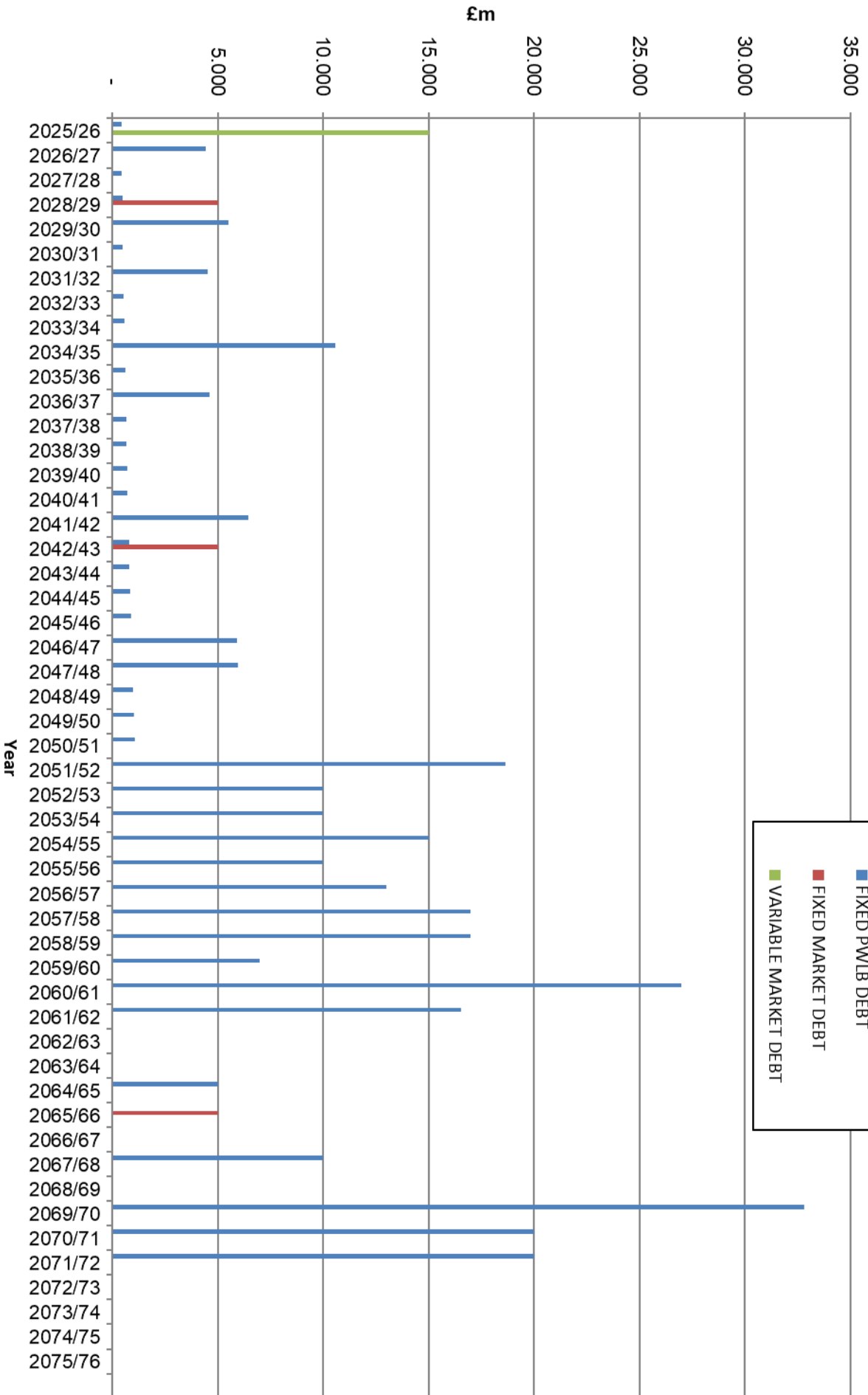
	31/3/2024 (2023/24) Actual £m	Actual Rate 2023/24 %	31/3/2025 (2024/25) Forecast £m	Forecast Rate 2024/25 %
External Borrowing				
Fixed Rate - PWLB ¹	290.174	3.560	309.765	3.652
Fixed Rate - Market	10.000	4.423	15.000	4.415
Variable Rate - Market	15.000	4.658	15.000	4.658
Total Borrowing	315.174	3.640	339.765	3.730
Investments				
Banks	(5.390)		(5.000)	
Money Market Funds	0		(5.000)	
Total Investments	(5.390)	4.614	(10.000)	4.940
Net Borrowing	309.784		329.765	

2.2.2 In addition, the Council is responsible for its proportion of the former West Midlands County Council (WMCC) debt that is repayable by a 10% sinking fund over 40 years (2025/26 will be the last year of this debt) and the interest rate is set each year by Dudley MBC based on the average cost of borrowing in the year. The estimated debt outstanding at 31 March 2025 will be £1.259 million and the average rate of interest for 2025/26 is estimated at 5.837%.

2.2.3 The maturity structure of the Public Works Loan Board (PWLB) and market debt is as shown in the table overleaf. This illustrates that the Council has spread the impact of the maturity over several financial years, to minimise refinancing problems at a later date.

¹ PWLB: Public Works Loan Board, a branch of the Debt Management Office that lends funds to Local Government.

2.2.4 Debt Maturity Profile Table



2.3 Debt Projections 2024/25– 2034/35

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

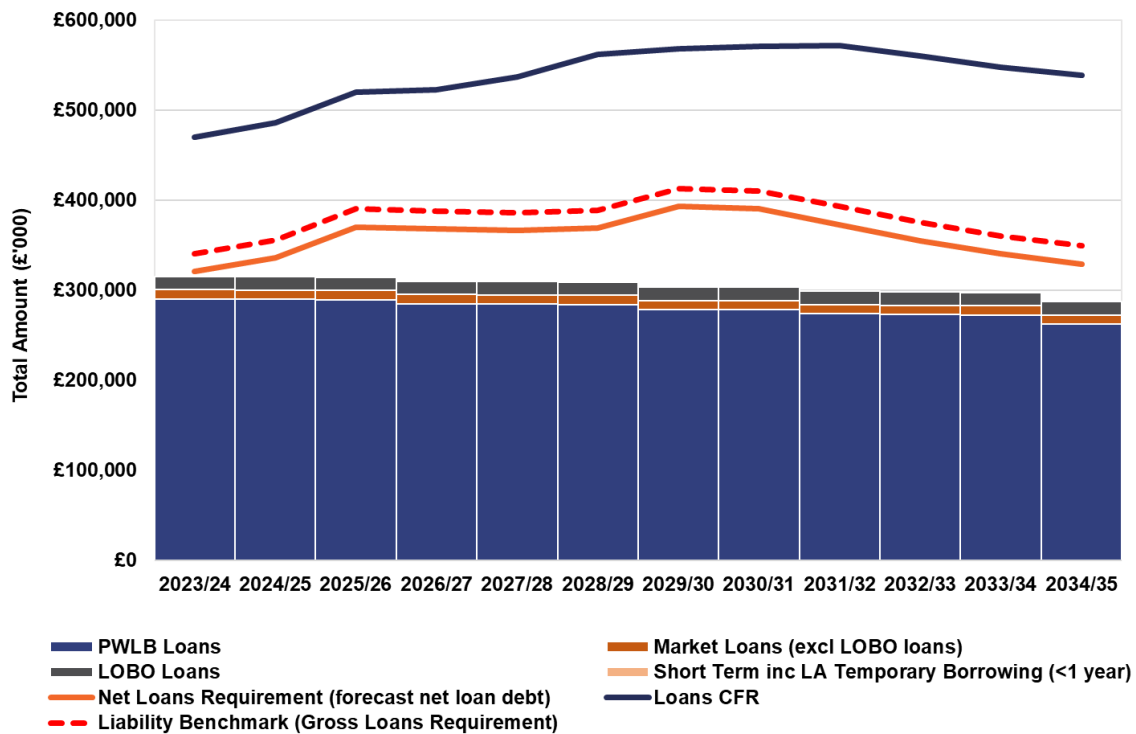
	2023/24 Outturn £m	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
External Debt						
Debt at 1 April	315.568	315.174	339.765	378.032	378.789	379.790
Expected change in debt requirement	(0.394)	24.591	38.267	0.757	1.001	5.421
Debt at 31 March	315.174	339.765	378.032	378.789	379.790	385.211
Other long-term liabilities (OLTL)	47.197	44.094	40.726	36.680	33.752	30.799
Expected change in OLTL	(3.103)	(3.368)	(4.046)	(2.928)	(2.953)	(2.978)
OLTL at 31 March	44.094	40.726	36.680	33.752	30.799	27.821
Gross Debt at 31 March	359.268	380.491	414.712	412.541	410.589	413.032
Capital Financing Requirement	470.271	485.691	519.912	517.741	515.789	518.232
Under / (over) borrowing	111.003	105.200	105.200	105.200	105.200	105.200

	2029/30 Estimate £m	2030/31 Estimate £m	2031/32 Estimate £m	2032/33 Estimate £m	2033/34 Estimate £m	2034/35 Estimate £m
External Debt						
Debt at 1 April	385.211	412.697	413.316	400.012	385.857	375.500
Expected change in debt requirement	27.486	0.619	(13.304)	(14.155)	(10.357)	(6.796)
Debt at 31 March	412.697	413.316	400.012	385.857	375.500	368.704
Other long-term liabilities (OLTL)	27.821	24.783	21.313	17.446	13.590	9.433
Expected change in OLTL	(3.038)	(3.470)	(3.867)	(3.856)	(4.157)	(4.702)
OLTL at 31 March	24.783	21.313	17.446	13.590	9.433	4.731
Gross Debt at 31 March	437.480	434.629	417.458	399.447	384.933	373.435
Capital Financing Requirement	542.680	539.829	522.658	504.647	490.133	478.635
Under / (over) borrowing	105.200	105.200	105.200	105.200	105.200	105.200

- 2.3.2 The above table assumes that for each new capital scheme, which requires borrowing, external borrowing is taken. However, each borrowing decision will be reviewed as it arises and should funds allow, and it is deemed to be the most efficient and cost-effective form of borrowing, then existing cash balances will replace the use of external borrowing. In these instances, the annual change in debt per year (in the table above) will be reduced by the levels of internal funding used, and the underborrowing position will increase. Alternatively it may be that the councils reserves and balances can no longer support the level of underborrowing held and in this case additional borrowing would be taken and the level of underborrowing would reduce.
- 2.3.3 The prudential indicators set within the Corporate Capital Strategy include a number of 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.
- 2.3.4 The section 151 (responsible) officer reports that the Council has complied with this prudential indicator in the current year and that he does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.
- 2.3.5 The CFR in each year includes the public finance initiative (PFI/PPP) schemes, finance leases and transferred debt (including former WMCC debt administered by Dudley Council) which are not classified as borrowing but are included within 'other long-term liabilities.
- 2.3.6 Debt projections have been calculated to 2034/35 in line with the ten-year capital programme. Based on estimated capital projects gross debt will peak in 2029/30 at £437.480 million before reducing to £373.435 million by 2034/35. The CFR will peak at £542.680 million in 2029/30 and reducing to £478.635 million by 2034/35. The projections to 2034/35 are shown pictorially in the chart within paragraph 3.4 below.
- 2.4 **Liability Benchmark** – As part of the Treasury and prudential codes, each authority is required to produce a liability benchmark to show the authority's actual level of debt compared to the level required to support the CFR. There are four components to the Liability benchmark:
- **Existing loan debt outstanding:** the 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 provision to repay debt (MRP)

- **Net loans requirement:** this shows the 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.

2.5 The liability benchmark for the Council is show below and shows that whilst, the Council's current borrowing levels remain below the projected CFR, there is a forecast in the need for additional borrowing in future years. This is taken into account within the financial assumptions throughout this report. This position continues to be monitored inline with forecast cashflows and any borrowing decisions will be made inline with the strategy requirements.



3 Treasury and Prudential Indicators: Limits to Borrowing Activity

3.1 **The Operational Boundary** - This is the level beyond which external borrowing 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 borrowing. The projections to 2034/35 are shown pictorially in paragraph 3.4 below.

	2023/24 Outturn £m	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Borrowing at 1st April	315.568	315.174	339.765	378.032	378.789	379.790
Other long-term liabilities (PFI/PPP etc.) at 1st April	47.197	44.094	40.726	36.680	33.751	30.799
Expected change in debt + other long-term liabilities	(3.497)	21.223	34.221	(2.171)	(1.951)	2.443
Total	359.268	380.491	414.712	412.541	410.589	413.032
Operational Boundary	420.000	420.000	460.000	450.000	450.000	460.000

	2029/30 Estimate £m	2030/31 Estimate £m	2031/32 Estimate £m	2032/33 Estimate £m	2033/34 Estimate £m	2034/35 Estimate £m
Borrowing at 1st April	385.211	412.697	413.316	400.012	385.857	375.500
Other long-term liabilities (PFI/PPP etc.) at 1st April	27.821	24.783	21.313	17.445	13.590	9.433
Expected change in debt + other long-term liabilities	24.448	(2.851)	(17.171)	(18.010)	(14.514)	(11.498)
Total	437.480	434.629	417.458	399.447	384.933	373.435
Operational Boundary	480.000	480.000	460.000	440.000	420.000	410.000

3.2 **The Authorised Limit for External Debt** – A further key prudential indicator represents a control on the overall level of borrowing. This is the limit beyond which external debt is prohibited, and this limit needs to be set or revised by 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. Given the current level of underborrowing within the Council, the proposed Authorised Limit is the same as the CFR plus any headroom within the HRA debt limit for each year of the Treasury Management Strategy.

3.2.1 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 no

such control has yet been exercised. The projections to 2034/35 are shown pictorially in paragraph 3.4 below.

3.2.2 The Council is asked to approve the following Authorised Limit:

	2023/24 Outturn £m	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Maximum Allowable Borrowing 31 March (Including HRA Headroom)	463.245	462.805	501.406	502.364	504.178	508.797
Other long-term liabilities (PFI/PPP etc.)	44.094	40.726	36.680	33.752	30.799	27.821
Authorised Limit	507.339	503.531	538.086	536.116	534.977	536.618

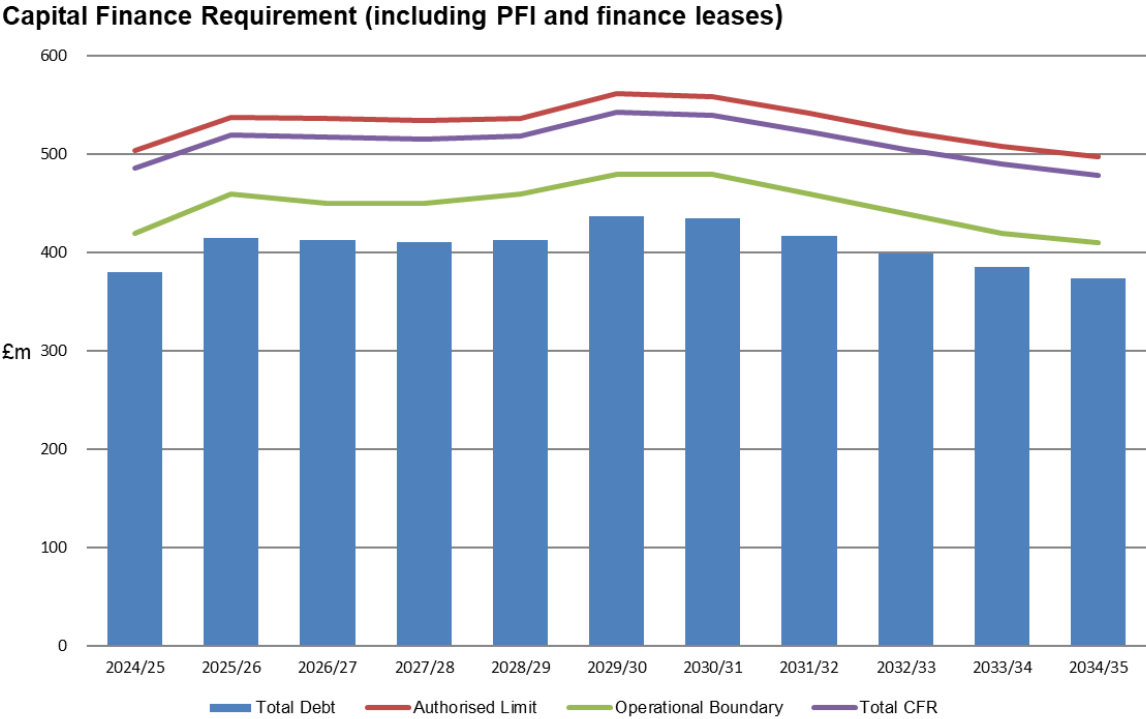
	2029/30 Estimate £m	2030/31 Estimate £m	2031/32 Estimate £m	2032/33 Estimate £m	2033/34 Estimate £m	2034/35 Estimate £m
Maximum Allowable Borrowing 31 March (Including HRA Headroom)	537.067	537.205	524.440	509.846	499.072	492.882
Other long-term liabilities (PFI/PPP etc.)	24.783	21.313	17.446	13.590	9.433	4.731
Authorised Limit	561.850	558.518	541.886	523.436	508.505	497.613

3.3 Separately, through the HRA self-financing regime, the Council is required to set a separate CFR and borrowing limit for its HRA. Historically this was based on a government imposed HRA debt cap (this was set at £179.761 million for the Council); however, this cap was removed by Government in October 2018. The revised limit is based on current HRA borrowing levels and capital expenditure plans; however, any new scheme must be approved separately by members before borrowing can be undertaken.

	2023/24 Outturn £m	2024/25 Forecast £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
HRA CFR	172.933	175.160	180.826	182.626	182.812	183.614
HRA Debt Limit	210.000	193.000	199.000	201.000	202.000	202.000

	2029/30 Estimate £m	2030/31 Estimate £m	2031/32 Estimate £m	2032/33 Estimate £m	2033/34 Estimate £m	2034/35 Estimate £m
HRA CFR	183.831	183.312	182.772	182.211	181.628	181.022
HRA Debt Limit	203.000	202.000	202.000	201.000	200.000	200.000

3.4 The longer-term forecast position, for the period 2023/24 – 2034/35, in respect to the total debt of the Authority and the operational and authorised limit are shown in the chart below.



3.5 **Legislation Changes – Leases (IFRS 16)** – From the 1st of April 2020 new legislation was due to be brought in which will change the accounting treatment for leases entered into by the Authority. However due to the impact of Covid-19 this was delayed to the 1st of April 2024. Now implemented it means that all leased assets will need to be entered on the Council’s balance sheet and will therefore have an offsetting debt liability. This will increase the Council’s CFR and borrowing requirement, but as these types of instruments include a borrowing facility by the lease provider, it will mean the Council is not required to separately borrow for these schemes. At this time the overall impact of these changes is not fully known, but the intention is to increase all limits by an amount equal to this new lease liability. These changes will be reported to members as soon as the information becomes available.

4 Prospects for Interest Rates

(Source – Link Group November 2024)

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

%	Bank Rate	Money Rates			PWLB Borrowing Rates		
		3 month	6 month	1 year	5 year	25 year	50 year
Current	4.75	4.70	4.60	4.50	5.05	5.95	5.70
Mar-25	4.50	4.50	4.40	4.40	4.90	5.50	5.30
Jun-25	4.25	4.30	4.20	4.20	4.80	5.40	5.20
Sep-25	4.00	4.00	3.90	3.90	4.60	5.30	5.10
Dec-25	4.00	4.00	3.90	3.90	4.50	5.20	5.00
Mar-26	3.75	4.00	3.90	3.90	4.50	5.10	4.90
Jun-26	3.75	3.80	3.80	3.80	4.40	5.00	4.80
Sep-26	3.75	3.80	3.80	3.80	4.30	4.90	4.70
Dec-26	3.50	3.80	3.80	3.80	4.20	4.80	4.60
Mar-27	3.50	3.50	3.50	3.50	4.10	4.70	4.50
Jun-27	3.50	3.50	3.50	3.50	4.00	4.60	4.40
Sep-27	3.50	3.50	3.50	3.50	4.00	4.50	4.30
Dec-27	3.50	3.50	3.50	3.50	3.90	4.50	4.30

- 4.2 Following the government budget on the 30th October, the outcome of the US Presidential election on 6th November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7th 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.
- 4.3 Our central view is that those policy announcements made during the 30th October Budget 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.
- 4.4 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 2025 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.

- 4.5 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 official 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 significant government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

Investment and Borrowing Rates

- 4.6 Investment returns have reduced at a gradual rate through 2024/25 inline with actual and anticipated reductions in the official Bank Rate. Rates are expected reduce throughout 2025/26 and over the medium term, as the MPC continue to look at opportunities to reduce the official Bank Rate.
- 4.7 Borrowing interest rates have been volatile during 2024/25 as the reductions in inflation and official Bank Rate has been offset by strong wage growth and global uncertainties. It is forecast that rates will steadily reduce over the coming months, but the pace and size of these reductions will be based on a wider range of factors than those of the investment markets.

5 Borrowing and Debt Strategy 2025/26 – 2034/35

- 5.1 The Council is currently maintaining an underborrowed position. This means that the capital borrowing need (the CFR), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cashflow has been used as a temporary measure. This strategy is prudent as borrowing rates are currently elevated and investment counterparty risk is relatively high.
- 5.2 The Council's policy of avoiding new borrowing by running down spare cash balances in lieu of external borrowing, has been an effective strategy to date. However, with the current pressure seen in the Councils revenue budget and the increasing need to use reserves to support the overall MTFs, this position needs to be carefully monitored. Furthermore the current pressures within the Dedicated Schools Grant (DSG) and the associated deficit reserve being held by the council is having a significant impact in reducing the overall net reserves held by the council, which in turn reduces the reserves and balances available to support underborrowing.
- 5.3 As such it is likely that the councils underborrowing position will need to reduce over coming years, but this will be done in a cautious manner to avoid incurring unnecessary borrowing costs, especially when rates are elevated.
- 5.4 The section 151 (responsible) officer will monitor interest rates in the financial markets and adopt a pragmatic approach to changing

circumstances. Any decisions will be reported at the next available opportunity.

- 5.5 **Borrowing in Advance of Need** - The section 151 (responsible) officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above whilst considering future funding requirements. This may include borrowing in advance of future year's requirements.
- 5.6 The Council's policy on borrowing in advance of need is that it 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.
- 5.7 Risks associated with any advance borrowing activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.
- 5.8 The appropriate form of borrowing referred to in 5.4 considers both PWLB variable and fixed rate debt and the use of market instruments. At present non PWLB debt accounts for approximately 6.7% of the Capital Financing Requirement, excluding other long-term liabilities and the former WMCC debt administered by Dudley MBC.
- 5.9 Based on actual and anticipated borrowing, the forecast amount of borrowing outstanding at 1st April 2025 will be £339.765 million. The total Council borrowing includes £15m of variable market debt (4.4% of total debt, 3.1% of the CFR), and £15m of fixed rate market debt (4.4% of total debt, 3.1% of the CFR).
- 5.10 In addition to the above sources of funding, the Municipal Bond Agency, which was established in recent years, has begun to issue bonds on behalf of local authorities, and could therefore be a viable source of future funding. Consideration will be given in regard of this option as required.

Debt Rescheduling

- 5.11 No debt rescheduling, to date, has been undertaken during 2024/25. The section 151 (responsible) officer and the Council's treasury advisors will monitor prevailing rates for rescheduling opportunities in the future.
- 5.12 Any rescheduling will be in accordance with the strategy position outlined above. The reasons any rescheduling might take place could include:
- to generate cash savings and/or discounted cash flow savings;
 - to help fulfil the treasury strategy;
 - to enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

- 5.13 There is no debt due to mature in 2025/26.
- 5.14 All rescheduling will be reported to the Audit Committee at the earliest meeting following its action.

Budgetary Impact of Borrowing Decisions

5.15 The current base budget and forecast for 2024/25 to 2027/28 identifies further additions to the Treasury Management budget which are incorporated in the Council’s Medium Term Financial Strategy and shown on a year by year basis below. These figures exclude the savings identified for Treasury Management in the Medium Term Financial Strategy:

Treasury Management Base Budget Forecast Additions	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Prudential Borrowing to fund Corporate Capital Programme (including EFS application)	0.504	2.182	3.118	0.493
Prudential Borrowing for other projects	0.395	0.549	0.693	0.682
Total	0.899	2.731	3.811	1.175

- 5.16 The overall cost outlined in the above table will require a base revenue budget allocation of £2.731 million for 2025/26 to support borrowing decisions which has been reflected in the budgets proposed for the year.
- 5.17 The budget process includes bids for projects requiring prudential borrowing such as ICT and corporate property maintenance. To the extent that the revenue consequences of borrowing are approved by Full Cabinet, the Treasury Management budget will be increased to enable the borrowing to be undertaken.

6. Treasury Management Limits on Activity

6.1 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 an adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs and/or improve performance. The indicators are:

- Upper limits on variable rate exposure – this indicator identifies a maximum limit for variable interest rate borrowing based upon the expected net debt position.
- Upper limits on fixed rate exposure – this is similar to the previous indicator and covers a maximum limit on fixed interest rates.
- 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.

6.2 The Council is asked to approve the following limits:

	2025/26	2026/27	2027/28	2028/29	2029/30
	Upper £m	Upper £m	Upper £m	Upper £m	Upper £m
Limits on fixed interest rates (net debt)	501.406	502.364	504.178	508.797	537.067
Limits on variable interest rates (net debt)	150.422	150.709	151.253	152.639	161.120
	2030/31	2031/32	2032/33	2033/34	2034/35
	Upper £m	Upper £m	Upper £m	Upper £m	Upper £m
Limits on fixed interest rates (net debt)	537.205	524.440	509.846	499.072	492.882
Limits on variable interest rates (net debt)	161.162	157.332	152.954	149.722	147.865
Local Indicator – Variable debt not to exceed 30% of total debt					
Maturity Structure of fixed interest rate borrowing					
<i>All years</i>	Lower		Upper		
Under 12 months	0%		20%		
12 months to 2 years	0%		20%		
2 years to 5 years	0%		50%		
5 years to 10 years	0%		50%		
10 years to 20 years	0%		60%		
20 years to 30 years	0%		60%		
30 years to 40 years	0%		80%		
40 years to 50 years	0%		80%		
50 years and above	0%		80%		

7 Investment Strategy 2025/26 – 2034/35

- 7.1 The MHCLG and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Council’s Capital and Property Investment Strategies.
- 7.2 The Council’s investment policy has regard to MHCLG’s Guidance on Local Government Investments and the CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes 2021 (the CIPFA TM Code). The Council’s investment priorities will be security first, then liquidity, and then yield.
- 7.3 In accordance with the above guidance from MHCLG 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. This also enables diversification and thus the avoidance of concentration risk.
- 7.4 It is recognised that ratings will not be the sole determinant of the quality of an institution and that 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 monitor market pricing of credit default swaps² and overlay that information on top of the credit ratings.
- 7.5 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.
- 7.6 The key objectives of the Council’s investment strategy are primarily to safeguard the repayment of the principal and interest on its investments on time and secondly to ensure adequate liquidity. Investment return is the tertiary objective.
- 7.7 Investment risk benchmarks are simple guides to the maximum risk and so 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.

² Credit default swap: this is a form of ‘insurance’ taken out by investors to protect themselves if a borrower fails to make repayments when they fall due.

7.8 Ratings agencies provide details of historic defaults by financial institutions. The historic default tables are shown below and indicate the average risk of default for each type of institution. Highlighted figures indicate those institutions with a rating and investment period that would meet the Council’s investment criteria. The subsequent table indicates the maximum expected risk that the Council would likely to be exposed to for each investment duration. The highlighted sections indicate the acceptable investment periods within this Strategy for each type of credit rating. It should be noted that these benchmarks are an indication of average default and would not constitute an expectation of loss against a particular investment.

Rating Type	Length of Investment (Years)	
	1	2
AAA	0.04%	0.09%
AA	0.02%	0.04%
A	0.05%	0.13%
BBB	0.14%	0.37%
BB	0.64%	1.80%
B	2.64%	6.48%
CCC	18.74%	26.75%
	1 year	2 years
Maximum	0.05%	0.09%

7.9 Security: The Council’s maximum security risk benchmark for the current portfolio, when compared to these historic default tables, is:

- 0.09% historic risk of default when compared to the whole portfolio. Note this benchmark is an average risk default measure and would not constitute an expectation of loss against a particular investment.

7.10 Liquidity – In respect of this area the Council seeks to maintain:

- Adequate liquid short-term deposits available with a week’s notice.
- Weighted Average Life (WAL, average life of all investments held by the Council) benchmark is expected to be 0.25 years, with a maximum WAL of 0.75 years.

7.11 Yield - Local measures of yield benchmarks are:

- Investments – Returns above the annual average SONIA rate (Sterling Overnight Interbank Average rate). SONIA is the weighted average deposit rate for overnight trades of counterparties with very high creditworthiness.

7.12 The initial budget for 2024/25 assumed a return for in-house investments of 5.00% in line with interest rate forecasts at the time. Current forecasts and performance to date suggest that the average rate of return across 2024/25 is likely to be in the region of 4.90-5.00%, but this will depend on the number and timing of any Bank Rate reductions between now and 31st March 2025.

7.13 For 2025/26, the target rate for the investment return is 4.00% for the Council’s investments. This rate takes account of the current forecast interest rates alongside the councils’ current investment strategy. The risk that interest rates do not remain at the level predicted is acknowledged and will be monitored throughout the year and any significant variance to the estimate reported.

8 Investment Counterparty Selection Criteria

8.1 The main 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:

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

8.2 Credit rating information is supplied by the Council’s treasury advisors (Link Group) on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty 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.

8.3 The criteria for providing a pool of high-quality investment counterparties is:

- Banks – Good credit quality. The Council will only use banks which are:
 - i. UK banks; and/or
 - ii. Non-UK and domiciled in a country which has a minimum Sovereign long-term rating of AAA

and have, as a minimum, the following credit ratings:

	Rating Agency		
	Fitch	Moody's	Standard & Poor's
Long-Term	A-	A3	A-
Short-Term	F1	P1	A1

- The Council's own banker (currently Barclays) – for transactional purposes if the Council's bank falls below the criteria detailed above, balances will be restricted to no more than £4 million, and invested on an overnight basis only. Otherwise, the same criteria will apply as those to other banks.
- Bank subsidiary and treasury operations – the Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above. Where a bank has a group structure, limits set will relate to the group in its entirety rather than separately to the individual institutions within it.
- Building Societies – the Council will continue to consider all societies that meet the ratings for banks outlined above.
- Money Market Funds (CNAV and LVNAV) – AAA (rated AAA by at least two credit rating agencies).
- Local authorities (including combined authorities, police and fire authorities) – Excluding those who have issued a Section 114 notice.
- UK Government (including gilts, Treasury Bills, and the Debt Management Office).
- Supranational institutions. These are multilateral banks (i.e. European Investment Bank).

8.4 **Housing Revenue Account (HRA) Self-Financing** – Following the introduction of the HRA Self-Financing regime in April 2012 local authorities are required to recharge the interest on balances between the HRA and General Fund. This is due to differences between the HRA borrowing and the HRA CFR (underlying need to borrow). Interest on the unfunded or overfunded element will be charged at the average rate of debt. Given the expected cashflow this will be broadly neutral to both the General Fund and HRA over time.

8.5 **Country and sector considerations** - Due care will be taken to consider the country, group and sector exposure of the Council's investments. In addition to an acceptable bank and sovereign rating:

- no more than £3m per non-UK country will be invested at any time;
- limits in place above will apply to group companies;
- limits will be monitored regularly for appropriateness.

8.6 Additional requirements under the Code of Practice require the Council to use supplementary information in addition to credit ratings. Whilst the above criteria relies 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 list. This additional market information (e.g. credit default swaps, negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

8.7 The time and monetary limits for institutions on the Council’s counterparty list are as follows:

	Fitch	Moody’s	Standard & Poor’s	Money Limit	Time Limit
Minimum acceptable criteria					
UK Banks	F1/AA-	P1/Aa3	A1/AA-	£8m	2 yrs
	F1/A-	P1/A3	A1/A-	£6m	1 yr
Foreign Banks (AAA sovereign rating)	F1/A-	P1/A3	A1/A-	£3m	1 yr
Building Societies	F1/A-	P1/A3	A1/A-	£4m	9 Months
Money Market Funds (CNAV & LVNAV)	AAAmf	Aaa-mf	AAAm	£8m	Variable
Treasury Bills & Gilts, Debt Management Office	F1/AA-	P1 /Aa3	A1/AA	Unlimited	Variable
Local Authorities	-	-	-	£10m	2 yrs

8.8 All limits are per institution, except for foreign banks, where the limit is per AAA-rated sovereign nation.

8.9 On occasions the Council may consider investment opportunities, which are in line with the Council’s plans and objectives, but which do not meet the criteria outlined above. Where this is the case prior consideration must be given to the criteria outlined above, and approval sought from the section 151 (responsible) officer and Full Council.

8.10 **Investment treasury indicator and limit** - total principal funds invested for greater than 365 days. These limits are set with regard to the Council’s liquidity requirements and to reduce the need for early repayment of an investment and are based on the availability of funds after each year-end.

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

Maximum principal sums invested > 365 days	
	2024/25 to 2034/35 £m
Principal sums invested > 365 days	15

- 8.11 **Economic Investment Considerations** – The criteria for choosing counterparties set out above provide a sound approach to investment in “normal” market circumstances. Whilst Members are asked to approve these base criteria above, under exceptional current market conditions the section 151 (responsible) officer may temporarily restrict further investment activity to those counterparties considered of higher credit quality than the minimum criteria set out for approval. These restrictions will remain in place until the banking system returns to “normal” conditions. Similarly, the time periods for investments will be restricted.
- 8.12 **Environmental, Social and Governance (ESG)**- The Council acknowledges that ESG factors are becoming more of a consideration within treasury markets, and it will, where appropriate, take into account these indicators when making investment and borrowing decisions. However, it should be noted that, at this time there is limited market information available about some ESG factors, including a universal grading system for such considerations. The Council will continue to prioritise the security, liquidity and yield criteria when making investment decision and will use the council investment counterparty selection criteria to support these decisions.
- 8.13 **Property Investment Strategy** – The Council has a separately approved Property Investment Strategy. The Strategy seeks to ensure that the Council’s property related investment is carried out in accordance with an approved process and complies with published guidance on local government capital, treasury management and investments. The strategy along with the decision-making criteria are revised and approved on a regular basis.

9 Treasury Management Scheme of Delegations

- 9.1 The following outlines the key responsibilities relating to treasury management:

Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual and mid-year strategy;
- full powers in relation to all borrowing and investment matters.

Audit Committee

- receiving and reviewing reports on treasury management policies, practices and activities and making recommendations to Full Council;
- considers amendments to the authority’s adopted clauses, treasury management strategy statement and treasury management practices;
- receiving periodic monitoring reports and an annual outturn report;
- budget consideration and approval;
- considers the division of responsibilities;

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;

- 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;
- considers the selection of external service providers and agreeing terms of appointment;
- ensuring the adequacy of internal audit, and liaising with external audit;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments, and treasury management;
- 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 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 on-going risk management of all non-financial investments and long-term liabilities;
- provision of information to members on 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.

The Treasury Accountant

- execution of transactions;
- adherence to agreed policies and practices on a day-to-day basis;
- maintaining relationships with counterparties and external service providers;
- supervising treasury management staff;
- monitoring performance on a day-to-day basis;
- submitting management information reports to the responsible officer;
- identifying and recommending opportunities for improved practices.

10 Policy on the use of External Service Providers

- 10.1 The Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors. The company provides a range of services which include:
- Technical support on treasury matters and capital finance issues;
 - Economic and interest rate analysis;
 - Debt services which include advice on the timing of borrowing;
 - Debt rescheduling advice surrounding the existing portfolio;
 - Generic investment advice on interest rates, timing, and investment instruments;
 - Credit ratings/market information service from the three main credit rating agencies.
- 10.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.
- 10.3 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 and documented, and subjected to regular review.

11 Member and Officer Training

- 11.1 The CIPFA Code states that it is required that “all organisations have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.”
- 11.2 The Council regularly reviews the skills and knowledge required for members and officers who have a role in treasury management. A log is maintained of all officer training in relation to treasury and training materials and good practice advice is regularly shared. For Members with responsibility for Treasury (members of Audit Committee) the Council arrange for annual training to be delivered in addition to ad hoc member seminars as required.
- 11.3 In support of the Code’s training requirements, CIPFA’s Better Governance Forum and Treasury Management Network have produced a ‘self-assessment by members responsible for the scrutiny of treasury management’, which is available from the CIPFA website to download.

12 Use of Brokers

12.1 The Council uses a number of brokers on a regular basis, as well as dealing directly with leading institutions. Wherever possible, the Council tends to spread its business amongst them, but it must be emphasised that this will not always be possible.

12.2 Brokers currently being used are: -

- BGC Brokers
- ICAP
- Imperial Treasury Services
- King & Shaxson
- RP Martins
- Tradition
- Tullet Prebon

12.3 The limited function performed by brokers is acknowledged, however, the Council would expect to be informed if a broker had any doubts about an organisation we were dealing with.

13 Car Loan Scheme

13.1 The Council offers a car loan scheme to essential and approved casual users. The scheme is intended to offer competitive, but not subsidised, rates to members of staff who require a car for work.

13.2 The flat rate at present is 3.38% which equates to an APR of 6.32%.

13.3 The rate is reviewed annually as part of the Treasury Management Strategy and agreed based on annuity rate offered by the Public Works Loans Board (PWLB). The five-year rate issued in PWLB notice 505/24 was 5.32% which would result in a car loan rate of 6.32%. The car loan scheme operates on a flat rate calculation that equates to 3.38% in order to achieve a 6.32% APR. This is the same rate as the previous year and therefore no change in loan rate it currently proposed.

13.4 For illustration, the monthly payment (interest and principal) on a £5,000 5-year loan would remain at £168.92.

13.5 It is recommended that the scheme rate remains as a flat rate of 3.38% (6.32% APR) to reflect the Council's current costs of borrowing.



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