South Downs
National Park Authority

Agenda Item 11

Report PR24/25-21

Report to	**South Downs National Park Policy & Resources Committee**
Date	**20 February 2025**
By	**Chief Finance Officer / Head of Finance and Corporate Services**
Title of Report	**Treasury Management Strategy 2025/26**
Decision	

Recommendation: The Committee is recommended to:

1. **Recommend that the National Park Authority ("NPA") approves the Treasury Management Strategy 2025/26 as set out in Appendix 1 comprising the:**
   - **Treasury Management Policy Statement 2025/26;**
   - **Borrowing Strategy 2025/26;**
   - **Prudential and Treasury Indicators 2025/26 to 2027/28;**
   - **Minimum Revenue Provision Policy Statement; and**
   - **Annual Investment Strategy 2025/26 including the benchmark risk factor of 0.05%.**

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1. Introduction

1.1 Part 1 of the Local Government Act 2003 requires the Authority to adopt and comply with requirements issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and investment guidance issued by the Secretary of State. This report is presented in order to comply with the requirements of:

- The CIPFA Code of Practice on Treasury Management in the Public Services;
- The CIPFA Prudential Code for Capital Finance in Local Authorities; and
- The Ministry of Housing, Communities and Local Government (MHCLG) (formally Department of Levelling Up, Housing and Communities' (DLUHC)) Guidance on Local Government Investments and Minimum Revenue Provision.

1.2 In accordance with Financial Procedures, Policy & Resources Committee will receive an annual strategy on treasury management policies and activities in advance of the financial year for recommendation to the Authority.

1.3 This report proposes the Treasury Management Strategy 2025/26 as set out in Appendix 1 comprising of the:

- Treasury Management Policy Statement 2025/26;
- Treasury Management Practices 2025/26;
- Borrowing Strategy for 2025/26;
- Prudential and Treasury Indicators 2025/26 to 2027/28;
- Minimum Revenue Provision (MRP) Policy Statement; and

- Annual Investment Strategy 2025/26, including the benchmark risk factor of 0.05%.

2. Policy Context

2.1 The Treasury Management Strategy supports the Authority's overall financial objectives and reflects its risk appetite as a public authority, focusing on security and liquidity over yield. The Treasury Management Strategy will accommodate the Authority's financing and investment requirements in pursuit of Partnership Management Plan objectives and approved capital programme investments.

3. Issues for consideration

Treasury Management Strategy 2025/26

3.1 The Code of Practice on Treasury Management published by CIPFA ("the Code") has been produced to satisfy a number of key purposes for treasury management including:

- to assist in the development and maintenance of firm foundations and clear objectives;
- to emphasise the overriding importance of effective risk management as the foundation;
- to encourage the pursuit of value for money.

3.2 To help facilitate the standardisation and codification of policies and practices. The Treasury Management Policy Statement set out in section 2 of **Appendix 1** complies with the requirements of the Code. All monies will be invested by the Authority's treasury team and investment income will be reported as part of quarterly monitoring.

Borrowing Strategy 2025/26

3.3 A key function of treasury management is to ensure that the Authority's capital plans are appropriately funded by managing the longer-term cash flow requirements. The borrowing strategy identifies meeting the authority's anticipated borrowing need from internal borrowing where possible i.e. avoiding external borrowing by utilising the Authority's own cash flow balances. This will reduce the net revenue cost of borrowing and reduce counterparty risk within the Authority's investment portfolio by reducing the portfolio size. The balance between internal and external borrowing will need to be continuously reviewed to consider long term interest rate forecasts and the 'cost of carry' (the difference between borrowing costs and investment rates) to reduce the risk of revenue loss between borrowing costs and investment returns.

3.4 The Authority is required to have regard to the Prudential Code and to set up Prudential Indicators to ensure that the Authority's capital investment plans are affordable, prudent and sustainable. The Prudential and Treasury Indicators have been calculated and determined by officers in compliance with the Codes of Practice.

3.5 Where borrowing is undertaken, the Authority is required to pay off an element of its accumulated capital spend each year through a revenue charge known as the Minimum Revenue Provision (MRP). MHCLG regulations require the Authority to approve an MRP Statement in advance of each year, which is included in Section 6 of **Appendix 1**.

Annual Investment Strategy 2025/26

3.6 The Annual Investment Strategy as set out in section 7 of **Appendix 1** sets out the parameters within which the Authority's cash balances and reserves will be invested. The strategy concentrates on two key objectives:

a) capital security through investment in institutions with the highest credit ratings, and;

b) liquidity by limiting the maximum period of investment.

3.7 There are no proposed changes to the Annual Investment Strategy for 2025/26.

3.8 The Annual Investment Strategy complies with the investment guide issued by the Secretary of State.

3.9 The investment strategy details the criteria used for selecting suitable counterparties for investing funds. The strategy recommends a weighted average benchmark risk indicator of 0.05% (unchanged from 2024/25). This risk indicator represents the probability of capital loss within the

authority's investment portfolio. A risk factor of 0.00% cannot be achieved and the benchmark is a simple target that measures investment risk based on the financial standing of counterparties and the length of each investment based on historic default rates. The risk factor is a way of setting a parameter and monitoring the on-going security of the authority's portfolio but does not equate to an expected loss in the portfolio.

3.10 The Authority's bank balance continues to be maintained at £50,000. This process simply limits the risk of exposure to the Authority's operational bank but does not reflect an expectation of loss.

Economic Background

3.11 **Appendix 2** to this report provides an economic overview provided by Brighton & Hove City Council's Treasury Advisors, Link Asset Services.

Treasury Management Function

3.12 The Authority's treasury management and Section 151 function is provided through a service contract with Brighton & Hove City Council. The treasury function complies with all statutory powers and regulatory requirements and is carried out by staff with relevant training and qualifications to undertake the duties and responsibilities allocated to them and is regularly reviewed by Internal Audit.

3.13 The authority's day to day cash requirement is currently invested in Brighton & Hove City Council. This is considered the most cost-effective way to run the service for the Authority, and has the following added benefits:

a) The Authority is able to have access to daily liquidity to manage day-to-day cash flow requirements;

b) By investing in Brighton & Hove City Council, the Authority benefits from enhanced rates as the average rate earned on the whole of the Brighton & Hove City Council's investment portfolio is payable to the Authority on its balances, including investments held on a longer-term basis. The Authority, investing alone, would have barriers in investing in instruments that are readily open to larger authorities such as Brighton & Hove City Council.

3.14 This report is presented by both the Section 151 Chief Finance Officer and the Head of Finance & Corporate Services who is able, if necessary, to seek independent advice from treasury specialists other than from Brighton & Hove City Council.

4. Options & cost implications

4.1 The Treasury Management Strategy recommended in this report seeks to minimise the cost of external borrowing and optimise return on the Authority's investments, subject to ensuring the security of the Authority's resources.

5. Next steps

5.1 This report makes recommendations for the Authority's approval of the Treasury Management Strategy 2025/26. The Authority will be asked to approve these documents at its meeting of 27 March 2025.

5.2 Quarterly update reports and an annual report after the close of the financial year, in the form prescribed in the treasury management policies will be submitted to the Policy & Resources Committee.

6. Other implications

Implication	Yes/No
Will further decisions be required by another committee/full authority?	Yes - This report makes recommendations for full Authority approval.

Implication	Yes/No
Does the proposal raise any Resource implications?	Yes – Policy & Resources Committee will be advised at least four times per year on the financial implications arising from the Treasury Management activity.
How does the proposal represent Value for Money?	The Treasury Management Strategy recommended in this report seeks to minimise the cost of external borrowing and optimise return on the Authority's investments, subject to ensuring the security of the Authority's resources.
Which Partnership Management Plan Outcomes/Corporate plan objectives does this deliver against	This strategy document enables/provides the framework for the effective and efficient financial management of the Authority.
Links to other projects or partner organisations	Brighton & Hove City Council (contracted Treasury Management service provider).
How does this decision contribute to the Authority's climate change objectives	N/A (no direct contribution but indirectly supports the activities of the Authority which deliver climate change objectives).
Are there any Social Value implications arising from the proposal?	No
Have you taken regard of the South Downs National Park Authority's equality duty as contained within the Equality Act 2010?	Yes – there are no implications arising directly from the report.
Are there any Human Rights implications arising from the proposal?	No
Are there any Crime & Disorder implications arising from the proposal?	No
Are there any Health & Safety implications arising from the proposal?	No
Are there any Data Protection implications?	No

7. Risks Associated with the Proposed Decision

7.1 A risk assessment is contained within the treasury management practices set out in **Appendix 1** of this report.

Nigel Manvell

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South Downs National Park Authority

Victoria Turner

Head of Finance and Corporate Services

South Downs National Park Authority

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Appendices	1. Treasury Management Strategy 2025/26
	2. Economic Overview
SDNPA Consultees	Chief Executive; Director of Landscape and Strategy; Director of Planning; Chief Finance Officer; Head of Governance and Monitoring Officer; Legal Services; Business Service Manager
External Consultees	None
Background Documents	This report is presented in accordance with the Authority's Financial Regulations and Financial Procedures

Agenda Item 11 Report PR24/25-21 Appendix 1

South Downs National Park Authority

Treasury Management Strategy 2025/26

Contents

1. Introduction
2. Reporting Requirements
3. Treasury Management Policy Statement 2025/26
4. Borrowing Strategy
5. Prudential and Treasury Indicators 2025/26 to 2027/28
6. Minimum Revenue Provision Policy Statement
7. Annual Investment Strategy 2025/26
8. Other Treasury Matters

1. Introduction

The Authority 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 counterparties or instruments commensurate with the Authority's risk appetite, prioritising adequate liquidity before considering investment return.

The second main function of the Treasury Management service is the funding of the Authority's capital plans. These capital plans provide a guide to the borrowing need of the Authority, essentially the longer-term cash flow planning, to ensure that the Authority 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 down may be restructured to meet risk or cost objectives.

2. Treasury Management Policy Statement 2025/26

The following paragraphs set out the Authority's Treasury Management Policy Statement for the year commencing 1 April 2025:

1 The Authority defines its treasury management activities as:

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

2 The Authority regards the successful identification, monitoring and management 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 Authority.

3 The Authority 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 best value in treasury management and to employing suitable performance measurement techniques within the context of effective risk management.

3. Reporting Requirements

Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, to 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 risks are managed;

- the implications for future financial sustainability.

The aim of the strategy is to ensure that all the Authority's elected members fully understand the overall long-term policy objectives and resulting Capital Strategy requirements, governance procedures and risk appetite.

This Capital Strategy is reported separately from the Treasury Management Strategy Statement with non-treasury investments being reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy-driven and commercial investments usually driven by expenditure on an asset.

Treasury Management Reporting

The Authority 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.

a. **Prudential and treasury indicators, and treasury strategy** (this report) - The first, and most important report, is forward looking and covers:

   i. the capital investment plans, (including prudential indicators);

   ii. a Minimum Revenue Provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);

   iii. the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and

   iv. an Annual Investment Strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – 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. This requirement is incorporated into the Month 6 Budget Monitoring report.

c. **An annual treasury management repor**t – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. This requirement is incorporated into the Outturn report.

The Authority delegates responsibility for implementation and monitoring of Treasury Management to Policy & Resources committee (P&R) and responsibility for the execution and administration of treasury management decisions to the Section 151 Officer.

In addition to the above, quarterly reporting is provided on the Treasury position and Prudential Indicators are included in the Month 4 and Month 9 Budget Monitoring reports to fulfil the reporting requirements per the update of the 2021 Treasury Code.

4. Borrowing Strategy

The capital expenditure plans of the Authority are set out in the approved Capital Strategy and shown in Table 1 below. The treasury management function of the Authority ensures that the Authority's cash is managed in accordance with the relevant professional codes so that sufficient cash is available to meet the capital expenditure plans.

Any capital investment that is not funded from new and/or existing resources (e.g. capital grants, receipts from asset sales, revenue contributions or earmarked reserves) increases the Authority's need to borrow, represented by the Authority's Capital Financing Requirement (CFR). However, external borrowing does not have to take place immediately to finance related capital expenditure: the Authority can utilise cash being held for other purposes (such as earmarked reserves and working capital balances) to temporarily defer the need for external borrowing. This is known as 'internal borrowing' or 'under-borrowing'.

The Authority's primary objective is to strike an appropriate balance between securing cost certainty and securing low interest rates.

Capital Prudential Indicators

The Authority's capital expenditure plans are a key driver for Treasury Management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Tables 1 and 2 show the capital expenditure plans of the Authority, and the implications of these on the Capital Financing Requirement over the 3-year period to 2027/28. These indicators have been included in the Treasury Management Strategy for a number of years to demonstrate the affordability and sustainability of the Authority's capital activity.

A further prudential indicator required by the 2021 code for 2025/26 is the Liability Benchmark. This benchmark measures the authority's external debt levels net of the external investments, with the inclusion of a liquidity buffer against the Authority's CFR projection. This measure assumes that the authority will internally borrow against its available cash balances held in reserves and balances, with an allowance to ensure it is able to meet is cash obligations.

The liability benchmark has been produced as Graph 1 below with notes included to explain each element of the graph and the Authority's assumptions and forward view.

Borrowing Strategy for 2025/26

The Authority's has a fully funded capital programme for the period 2025/26 to 2027/28, therefore no new borrowing is required in the period as shown in **Table 1** below.

2024/25 Estimate £'000	Table 1: Borrowing Need	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000	Total £'000
975	Capital Expenditure	411	-	-	**0**
(975)	Financed by New / Existing Resources	(411)	-	-	**0**
0	**Borrowing Need**	**0**	**0**	**0**	**0**

If a borrowing need occurs, the strategy will focus on meeting any borrowing need internally i.e. avoiding external borrowing by utilising the Authority's own surplus cash flows. This will reduce the net revenue cost of borrowing and reduce counterparty risk within the Authority's investment portfolio by reducing the portfolio size. The internal borrowing position needs to be closely monitored and continually reviewed to avoid incurring higher borrowing costs in the future at a time when the authority may not be able to avoid new borrowing to finance capital expenditure.

There will remain a cost of carry (the difference between borrowing costs and investment returns) to any new long-term borrowing that causes a temporary increase in cash balances which will, most likely, lead to an additional short-term revenue cost.

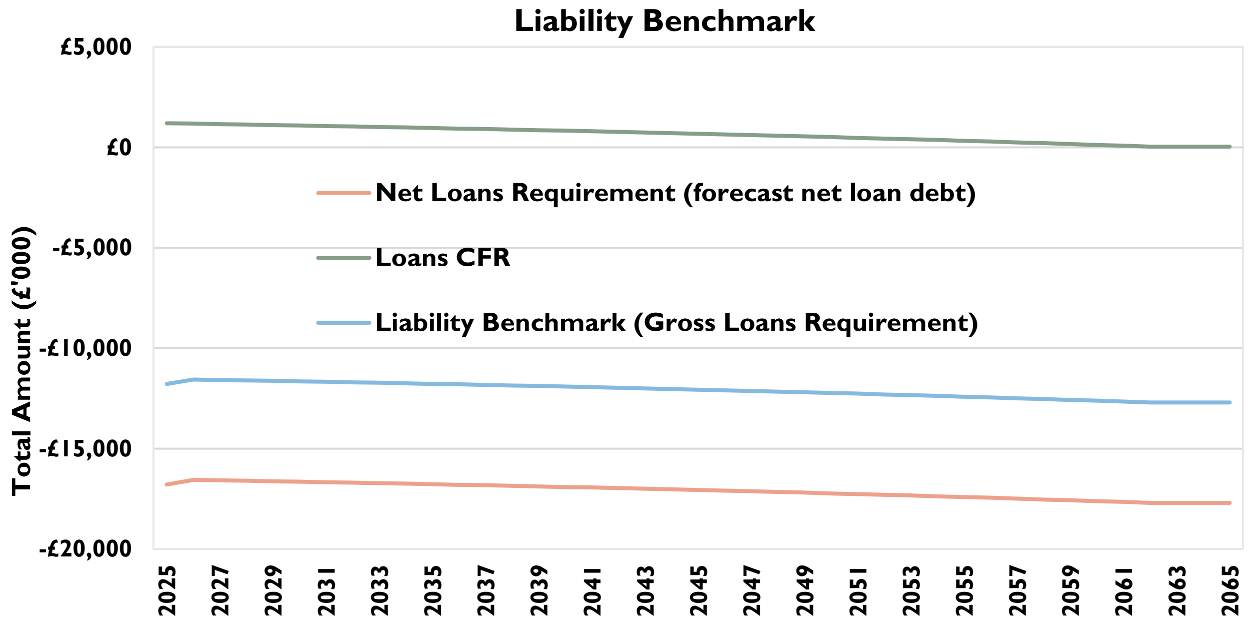
Table 2 below shows the movement in the Authority's Capital Financing Requirement (CFR) and compares this to the expected external debt level. This demonstrates that the CFR is expected to be entirely internally borrowed over the period.

2024/25 Estimate £'000	Table 2: Change in the CFR compared to External Debt	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
0	External Debt at 1 April	0	0	0
0	Expected change in Debt	0	0	0
0	**External Debt at 31 March**	**0**	**0**	**0**
1,221	CFR* at 1 April	1,200	1,178	1,156
0	Borrowing need (Table 1)	0	0	0
(21)	MRP	(22)	(22)	(22)
1,200	**CFR* at 31 March**	**1,178**	**1,156**	**1,134**
1,200	**Under / (Over) borrowing**	**1,178**	**1,156**	**1,134**

**The CFR in Table 2 above shows the underlying need to borrow and excludes lease arrangements (which is included in the CFR figure in the Prudential Indicators in Section 4)*

Liability benchmark

The Liability Benchmark is a measure of the Authority's borrowing need were it to fully utilise its cash-backed reserves and balances to avoid external borrowing. It assumes a liquidity buffer is maintained to ensure the Authority's obligations are able to be met.



1) **External Debt** – The maturity profile of the Authority's debt portfolio would be shown as bars within this chart, but as the Authority is currently debt free, this is not present in the graph.
2) **Loans CFR** - This is the projection of the Authority's underlying borrowing requirement (or CFR) based on the capital plans, and is shown by the top, grey line. The 2024/25 opening Loans CFR was £1.221m, and it is expected to fall in future years. This only shows the Loans CFR projection based on the current capital programme therefore if ongoing borrowing is required then the CFR would rise further and for longer.
3) **Net Loans Requirement** – The expected net treasury position is shown by the bottom orange line. This shows a projection of the loans requirements measured by opening external debt for 2024/25 (£0.000m) less the opening external investments for 2024/25 (£14.566m). The projections are then based on the expected borrowing within the capital programme and the expected movement in reserves and balances. This shows that the Authority had more external investments than external debt as at 31/03/24, which is expected to continue as there is no borrowing requirement.
4) **Liability Benchmark** – The liability benchmark is calculated as the Net Loan Requirement, with a liquidity buffer of £5m incorporated to ensure the Authority has sufficient cash to meet its obligations. This measure shows the level to which the Authority can internally borrow based on the projection of the capital programme and movement of reserves, allowing for a liquidity buffer. Due to the level of reserves expected over the long-term, the liability benchmark remains a negative figure for the whole forecast period.

This graph demonstrates that the Authority does not need to externally borrow and instead can afford to meet its borrowing requirement by internally borrowing the cash held within its own reserves and balances.

Whilst the Liability Benchmark is a good indicator of the Authority's direction of travel in terms of borrowing need, it assumes that capital borrowing stops after the current capital planning period, and ignores future borrowing beyond the planning period. Therefore it should not be used in isolation when making long term decisions, but as part of a range of factors.

Policy on Borrowing in Advance of Need

The Authority will not borrow purely in order to profit from investment of extra sums borrowed. Any decision to borrow in advance will be within approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Authority can ensure the security of such funds. Risks associated with any borrowing-in-advance activity will be subject to prior appraisal and subsequent reporting.

Debt Rescheduling

Should the Authority carry debt in future, opportunities for debt rescheduling will be considered as a matter of course where there is a clear difference between new borrowing and repayment rates which could result in savings.

Interest Rate Risk & Continual Review

The Authority's maximum underlying borrowing need of £1.200 million as identified in Table 2 is the extent to which the Authority is subject to interest rate risk over the next three years. Officers will review the need to borrow taking into consideration the potential increases in borrowing costs, the need to finance new capital expenditure, the need to refinance maturing debt (if any), availability of internal borrowing, and the cost of carry that might incur a revenue loss between borrowing costs and investment returns. The Chief Finance Officer will therefore continue to monitor interest rates in financial markets and adopt a proactive approach to changing circumstances.

5. Prudential and Treasury Indicators 2025/26 to 2027/28

The Authority's capital expenditure plans are a key driver to treasury management activities. The output of the capital expenditure plans are reflected in prudential indicators. The Authority is required to 'have regard to' the Prudential Code and to set up Prudential Indicators to ensure that the Authority's capital investment plans are affordable, prudent and sustainable. The Code sets out the indicators that must be used but does not suggest limits, as these are for the authority to set itself.

The Prudential Indicators to 2025/26 to 2027/28 are set out in **Table 3** below:

Table 3: Prudential Indicators	2025/26 Estimate £'000	2026/27 Estimate £'000	2027/28 Estimate £'000
Capital Expenditure Capital expenditure plans	411	-	-
Capital Financing Requirement* Measures the underlying need to borrow for capital purposes	2,528	2,471	2,414
Ratio of financing costs to net revenue stream** Identifies the trend in the cost of capital (borrowing and other long-term obligation costs) against revenue stream	0.18%	0.19%	0.19%

* The CFR includes an estimate for leases that will be bought onto the balance sheet under a change in leasing accounting regulations. Where it may not be currently possible to be precise about such adjustment figures until detailed data gathering has been substantially completed at the end of the 2024/25 financial year, the impact on the Capital Financing Requirement includes initial estimates of the likely effect of this change, and these indicators may need to be amended mid-year once the detailed impact is known.

** The ratio of financing costs to net revenue stream illustrates the percentage of the net revenue budget being used to finance the authority's borrowing.

The Treasury Management Code requires that a number of indicators are set for treasury performance in addition to the Prudential Indicators which fall under the Prudential Code. The Treasury Indicators for 2025/26 to 2027/28 are set out in Tables 4 & 5 below. The Treasury Indicators have been calculated and determined by officers in compliance with the Treasury Management Code of Practice.

Table 4: Treasury Performance Indicators	**2025/26 Estimate £'000**	**2026/27 Estimate £'000**	**2027/28 Estimate £'000**
Authorised Limit for External Debt* The Authority is expected to set a maximum authorised limit for external debt. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Authority.	3,100	3,100	3,000
Operational boundary for external debt* The Authority is required to set an operational boundary for external debt. This is the limit that external debt is not normally expected to exceed. This indicator can be breached temporarily for operational reasons.	2,800	2,800	2,700
Principal Sums invested for longer than 365 days	2,000	2,000	2,000

* From 2024/25 The Authorised Limit and Operational Boundary includes an estimate for leases that will be bought onto the balance sheet under a change in leasing accounting regulations. Where it may not be currently possible to be precise about such adjustment figures until detailed data gathering has been substantially completed at the end of the 2024/25 financial year, the impact on the Authority Limit and Operational Boundary includes initial estimates of the likely effect of this change, and these indicators may need to be amended mid-year once the detailed impact is known.

Table 5: Maturity Structure of fixed interest rate borrowing **The Authority needs to set upper and lower limits with respect of the maturity structure of its borrowing.**		
	Lower Limit	**Upper Limit**
Under 12 months	0%	40%
12 months to 2 years	0%	40%
2 years to 5 years	0%	50%
5 years to 10 years	0%	75%
Over 10 years	40%	100%

6. <u>Minimum Revenue Provision Policy Statement</u>

The authority is required to pay off an element of the accumulated capital spend each year (the Capital Financing Requirement - CFR) through a revenue charge (the Minimum Revenue Provision - MRP). MHCLG regulations require the Authority to approve an MRP Statement in advance of each year if borrowing has been undertaken. A variety of options are available, so long as the principle of

any option selected ensures a prudent provision to redeem its debt liability over a period commensurate with that over which the capital expenditure is estimated to provide benefits (i.e. estimated useful life of the asset being financed).

The Authority is recommended to approve the following MRP Statement for 2025/26:

For all debt where the government has provided revenue support (supported capital expenditure), the MRP policy will be:

- Provision on a straight line basis over 50 years.

For all debt where the government does not provide revenue support:

- Where the debt relates to an asset, the Authority will set aside a sum equivalent to repaying the debt over the life of the asset either in equal instalments or on an annuity basis over a maximum life of 50 years. The method to be adopted will be determined according to which is the most financially beneficial to the Authority over the life of the asset.
- Where the debt relates to expenditure which is subject to a capitalisation direction issued by the government, the Authority will set aside a sum equivalent to repaying the debt over a period consistent with the nature of the expenditure on an annuity basis.
- In the case of assets under construction, MRP will be delayed until the relevant asset becomes operational.

Where the debt relates to capital loans to a third party:

- The repayments of principal will be set aside as capital receipts to finance the initial capital advance in lieu of making an MRP.

For on-balance sheet PFI schemes and leases:

- Asset Life Method - the MRP will be calculated according to the flow of benefits from the asset. Any related MRP will be equivalent to the "capital repayment element" of the annual charge payable.

There is the option to charge more than the prudent provision of MRP each year through a Voluntary Revenue Provision (VRP).

7. Annual Investment Strategy 2025/26

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals with financial investments. Non-financial investments are covered in the Capital Strategy.

The Authority'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

Investments will be made with reference to the core balance, cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

Greater returns are usually achievable by investing for longer periods. While most cash balances are required in order to manage the peaks and troughs 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.

The annual investment strategy sets out the parameters within which the Authority's cash balances and reserves will be invested. The strategy concentrates on two key objectives:

a) capital security through investment in institutions with the highest credit ratings, and;

b) liquidity by limiting the maximum period of investment.

Investment classification (regulatory)

The investment guidance issued by the Secretary of State requires the Authority to identify investments as either 'specified' or 'non-specified'.

This authority 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. The limits and permitted instruments for specified investments are listed within Table 6.
- **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use. The limits and permitted instruments for non-specified investments are listed within Table 7.

Criteria to be used for creating / managing approved counterparty lists / limits

Each counterparty included on the Authority's approved lending list must meet the criteria set out below. Without the prior approval of the Section 151 Officer, no investment will be made in a counterparty that falls outside the list below.

Any change in investment parameters and allowable investment instruments must be presented for approval by the Authority.

Credit ratings will be based on those issued periodically by the Fitch Ratings Group, Moody's and Standard & Poors.

Table 6 below summarises the types of specified investment counterparties available to the Authority, and the maximum amount and maturity periods that can be placed with each of these. A full list of the Authority's counterparties and the current limits for 2025/26 are provided at **Table 8.**

When assessing credit ratings to ascertain limits for each counterparty, the lowest short and long term ratings from each of the three ratings agencies is applied. For simplicity, the ratings for Standard & Poor's are used in the tables below.

Table 6: Criteria for Specified Investments	Country/ Domicile	Minimum Capital Requirements	Min. Credit Criteria (L/term / S/term)	Max. Amount	Max. maturity period
UK Banks & Building Societies	UK	Must meet minimum credit criteria	AA- / A-1+	£10m	12 months
			A / A-1	£5m	12 months
			BBB / A-2	£5m	6 months
Debt Management and Deposit Facilities (DMADF)	UK	N/A	N/A	£5m	12 months
UK Local Authorities (excluding Brighton & Hove City Council)	UK	N/A	UK Sovereign Rating	£5m	12 months
Brighton & Hove City Council*	UK	N/A	N/A	N/A	Liquid

Table 6: Criteria for Specified Investments	Country/ Domicile	Minimum Capital Requirements	Min. Credit Criteria (L/term / S/term)	Max. Amount	Max. maturity period
Non-rated Building Societies	UK	Must have an asset base of at least £5bn at the time of investment	N/A	£5m	6 months
Money Market Funds (CNAV and LVNAV)	UK/Ireland/ EU domiciled	Must meet minimum credit criteria	AAA	£5m	Liquid

* The amount invested in Brighton & Hove City Council will be the amount available for investment less investment made in any other approved counterparty.

Table 7: Criteria for Non-Specified Investments	Country/ Domicile	Min. Credit Criteria	Max. Amount	Max. maturity period
Short Date Bond Funds	UK/Ireland/ EU domiciled	Short Dated bond funds are not rated. A selection process will evaluate relative risks & returns. Security of the Authority's money and fund volatility will be key measures of suitability.	£2m	Liquid

Maximum permitted investment by counterparty / sector

The maximum amount invested in any one counterparty will be established in accordance with the criteria set out **Tables 6 and 7** above, based on each counterparty's credit rating.

The maximum amount invested in any one sector will be 100%, with the exception of the building society sector where the maximum limit will be 75%.

Where practicable, no one counterparty may have more than 75% of the relevant sector total at the time the investment is made.

Approved methodology for changing limits and adding / removing counterparties

A counterparty shall be removed from the Authority's list where a change in their credit rating results in a failure to meet the minimum credit rating set out in "Criteria to be used for creating / managing approved counterparty lists / limits" above.

A new counterparty may only be added to the list with the written prior approval of the Chief Finance Officer and only where the counterparty meets the minimum criteria set out above.

A counterparty's exposure limit and investment period will be reviewed and (changed where necessary) in accordance with the criteria set out in **Tables 6 and 7** following notification of a change in that counterparty's credit rating or a view expressed by the credit rating agency warrants a change.

A counterparty's exposure limit will also be reviewed where information contained in the financial press or other similar publications indicates a possible worsening in credit worthiness of a counterparty. The review may lead to the suspension of a counterparty where it is considered appropriate to do so by the Section 151 Officer.

Full individual listings of UK Bank and Building Society counterparties and counterparty limits

A full list of UK Bank and Building Society counterparties, together with counterparty limits, is set out in **Table 8.**

Table 8 – Schedule of Counterparties and counterparty limits		
Institution	**Lending Limit**	**Duration limit (months)**
UK Banks		
Lloyds Banking Group:		
Bank of Scotland PLC (RFB)	£5m	12
Lloyds Bank PLC (RFB)	£5m	12
Lloyds Bank Corporate Markets PLC (NRFB)	£5m	12
**Total max. exposure to Lloyds Banking Group	£5m	12
Barclays Banking Group:		
Barclays Bank PLC (NRFB)	£5m	12
Barclays Bank UK PLC (RFB)	£5m	12
**Total max. exposure to Barclays Banking Group:	£5m	12
RBS/Natwest Group:		
Natwest Markets PLC (NRFB)	£5m	12
National Westminster Bank PLC (RFB)	£5m	12
The Royal Bank of Scotland PLC	£5m	12
**Total max. exposure to RBS/Natwest Group:	£5m	12
HSBC Group:		
HSBC Bank PLC (NRFB)	£5m	12
HSBC UK Bank PLC (RFB)	£5m	12
**Total max. exposure to HSBC Group:	£5m	12
Goldman Sachs International Bank	£5m	12
Santander UK PLC	£5m	12
Standard Chartered Bank	£5m	12
UK Building Societies		
Nationwide	£5m	12

** Where there are multiple counterparties within a banking group, exposure to the overall group will be the largest limit, but exposure to individual counterparties within the group will be based on the individual counterparty limit.

Permitted types of investment instrument

All investments will be denominated in Sterling and in fixed term and/or variable term cash deposits, money market funds, short-dated bond funds and open-ended investment companies.

Investment risk

In addition to credit ratings, the Authority will apply additional operational market information before making any specific investment decision. This additional market information will be applied to compare the relative security of different investment counterparties.

The Authority is recommended to agree a benchmark risk factor for 2025/26 of 0.05%. The purpose of the benchmark is to monitor current and trend positions and amend the operational strategy depending on any changes.

Liquidity is achieved by limiting the maximum period for investment and by investing to dates where cash flow demands are known or forecast.

Ethical investment statement

South Downs National Park Authority, in making investments through its treasury management function, fully supports the ethos of socially responsible investments. The Authority will actively seek to communicate this support to those institutions invested in as well as those it is considering investing in by:

- encouraging those institutions to adopt and publicise policies on socially responsible investments;
- requesting those institutions to apply the Authority's deposits in a socially responsible manner.

8. Other Treasury Matters

Banking Services

Lloyds Bank plc currently provides banking services for the Authority.

Training

The CIPFA Treasury Management 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.

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ Authority members have the required knowledge and skills to undertake their roles and whether they have been able to maintain those skills and keep them up to date.

As a minimum, authorities should carry out the following to monitor and review knowledge and skills:

- Record attendance at training and ensure action is taken where poor attendance is identified.
- Prepare tailored learning plans for treasury management officers and board/Authority members.
- Require treasury management officers and board/Authority members to undertake self-assessment against the required competencies (as set out in the schedule that may be adopted by the organisation).
- Have regular communication with officers and board/Authority members, encouraging them to highlight training needs on an ongoing basis."

In further support of the revised 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.

Training was last provided for members before the pandemic, and therefore updated training will be required during 2025/26.

The training needs of treasury management officers are periodically reviewed.

A formal record of the training received by officers central to the Treasury function and members who are responsible for decision making and scrutiny of the Treasury function is maintained by the Principal Accountant (Treasury).

Policy on the use of External Service Providers

Brighton & Hove City Council uses Link Asset Services as its external treasury management advisors on behalf of the Authority.

The Authority recognises that responsibility for treasury management decisions remains with the Authority at all times and will ensure that undue reliance is not placed upon our external service providers. 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 Treasury Management service will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

Lending to Third Parties

The Authority has the power to lend monies to third parties subject to a number of criteria. These are not treasury type investments, rather they are policy investments. Any activity will only take place after relevant due diligence has been undertaken, as described in the Capital Strategy.

Update to Treasury and Prudential CIFPA Codes

CIPFA published the revised Treasury and Prudential codes in 2021. Full adoption of the new Codes was incorporated within the strategy from 2023/24.

Updates to Accounting Requirements

- **IFRS 9 – local authority override – English local authorities**

  The MHCLG enacted a statutory over-ride from 1 April 2018 for a five year period until 31 March 2023 following the introduction of IFRS 9 and the requirement for any capital gains or losses on marketable funds to be chargeable in year. This was extended for a further two years, having the effect of allowing any capital losses on funds to be held on the balance sheet until 31 March 2025, allowing authorities to initiate an orderly withdrawal of funds if required. The ending of the statutory override is currently subject to government consultation.

  The Authority doesn't currently invest in any funds that will be impacted by this change.

- **IFRS 16 – Leasing**

  The CIPFA LAASAC Local Authority Accounting Code Board deferred implementation of IFRS16 until 1 April 2024, the 2024/25 financial year. This will have the following impact to the Treasury Management Strategy:

  - The Authority's Capital Financing Requirement, authorised limit and operational boundary expectations for 2024/25 onwards has been increased to reflect the estimated effect of this change.

  - The MRP policy statement sets out how MRP will be applied for leases bought onto the balance sheet.

ECONOMIC OVERVIEW & INTEREST RATE VIEW

Provided by Link Asset Services December 2024

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.

Over the aforementioned period, the economy's stagnation in June and July pointed more to a mild slowdown in UK GDP growth than a sudden drop back into a recession. However, in the interim period, to 12 December, arguably the biggest impact on the economy's performance has been the negative market sentiment in respect of the fallout from the Chancellor's Budget on 30 October.

If we reflect on the 30 October Budget, our central case is that those policy announcements will prove to 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 elevated at 2.7% y/y (Q4 2025) before dropping back to sub-2% in 2027. Nonetheless, since the Budget, the October inflation print has shown the CPI measure of inflation bouncing up to 2.3% y/y with the prospect that it will be close to 3% by the end of the year before falling back slowly through 2025. The RPI measure has also increased significantly to 3.4% y/y.

How high inflation goes will primarily be determined by several key factors. First amongst those is that the major investment in the public sector, according to the Bank of England, will 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 in the June 2025 Spending Review (pushed back from the end of March), and a tepid GDP performance.

Regarding having a sufficiently large pool of flexible and healthy workers, the initial outlook does not look bright. Research from Capital Economics has alluded to an increase of some 500,000 construction workers being needed to provide any chance of the Government hitting its target of 300,000 new homes being built in each of the next five years (234,000 net additional dwellings in England in 2022/23). But the last time such an increase was needed, and construction employment is currently at a nine-year low, it took 12 years to get there (1996 to 2008). Also note, as of October 2024, job vacancies in the construction sector were still higher than at any time in the 20 years preceding the pandemic.

Currently, it also seems likely that net inward migration is set to fall, so there is likely to be a smaller pool of migrant workers available who, in the past, have filled the requirement for construction worker demand. The Government plans to heavily promote training schemes, particularly to the one million 16- to 24-year-olds who are neither in education nor work. But it is arguable as to whether the employee shortfall can be made up from this source in the requisite time, even if more do enter the workforce.

Against, this backdrop, there may be a near-term boost to inflation caused by a wave of public sector cash chasing the same construction providers over the course of the next year or so, whilst wages remain higher than the Bank currently forecasts because of general labour shortages, including in social care where Government accepts there is a 150,000 shortfall at present.

Unemployment stands at a low 4.3% (September), whilst wages are rising at 4.3% y/y (including bonuses) and 4.8% (excluding bonuses). The Bank would ideally like to see further wage moderation to underpin any further gradual relaxing of monetary policy. Indeed, over the next six months, the market is currently only pricing in Bank Rate reductions in February and May – which would see Bank Rate fall to 4.25% - but further cuts, thereafter, are highly likely to be even more data-dependent.

If we focus on borrowing, a term we are likely to hear throughout 2025 is "bond vigilante". Essentially, this represents a generic term for when the market is ill at ease with the level of government borrowing and demands a higher return for holding debt issuance. In the UK, we do not need to go back too far to recall the negative market reaction to the Truss/Kwarteng budget of 2022. But long-term borrowing rates have already gradually moved back to those levels since their recent low point in the middle of September 2024. Of course, the UK is not alone in this respect. Concerns prevail as to what the size of the budget deficit will be in the US, following the election of Donald Trump as President, and in France there are on-going struggles to form a government to address a large budget deficit problem too. Throw into the mix the uncertain outcome to German elections, and there is plenty of bond investor concern to be seen.

Staying with the US, 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. 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 continue to abound in Europe, the Middle East and Asia.

In the past month, the US Core CPI measure of inflation has indicated that inflation is still a concern (3.3% y/y, 0.3% m/m), as has the November Producer Prices Data (up 3.0 y/y v a market estimate of 2.6% y/y, 0.4% m/m v an estimate of 0.2% m/m) albeit probably insufficient to deter the FOMC from cutting US rates a further 0.25% at its December meeting. However, with Trump's inauguration as President being held on 20 January, further rate reductions and their timing will very much be determined by his policy announcements and their implications for both inflation and Treasury issuance.

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. More recently, however, 10 year gilt yields have spiked back up to 4.35%.

The FTSE 100 reached a peak of 8,380 in the third quarter of 2024 (currently 8.304), but its performance is firmly in the shade of the US S&P500, which has breached the 6,000 threshold on several occasions recently, delivering returns upwards of 25% y/y. The catalyst for any further rally (or not) is likely to be the breadth of AI's impact on business growth and performance.

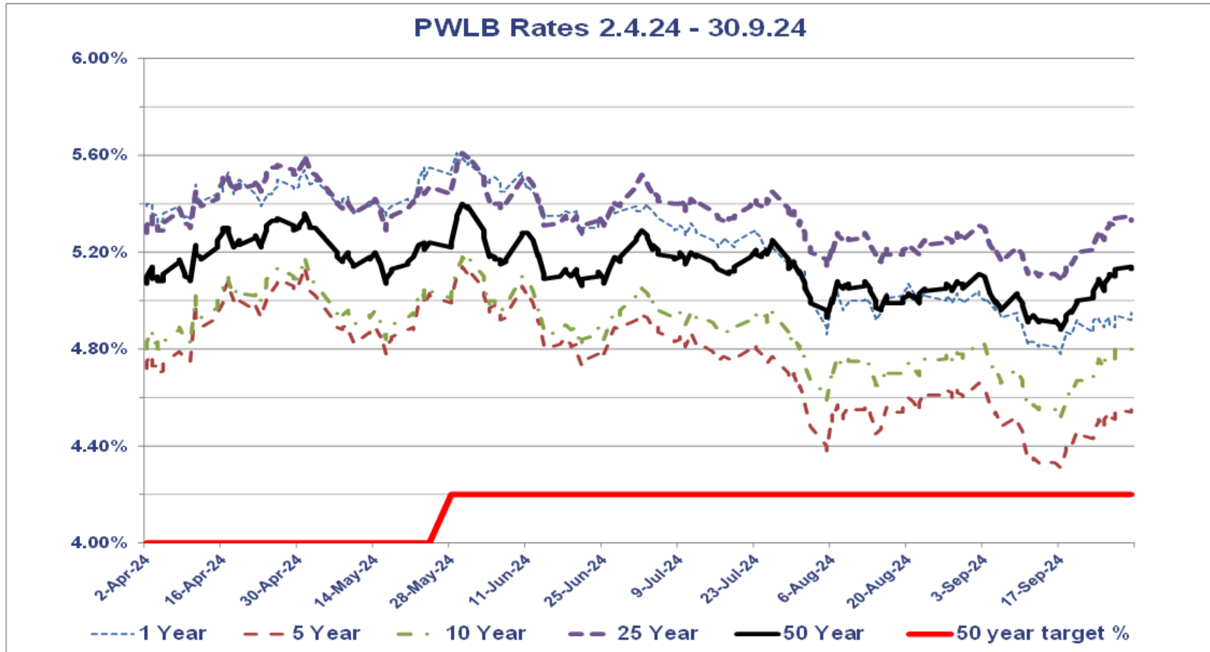
MPC meetings: 9 May, 20 June, 1 August, 19 September, 7 November 2024

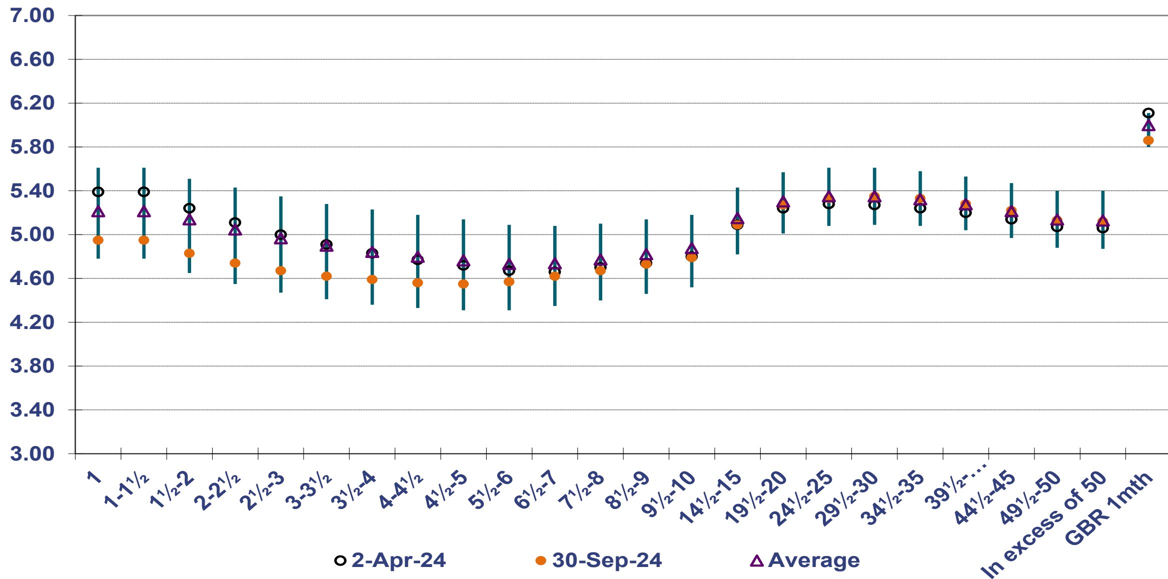
- On 9 May, the Bank of England's Monetary Policy Committee (MPC) voted 7-2 to keep Bank Rate at 5.25%. This outcome was repeated on 20th June.
- However, by the time of the August meeting, there was a 5-4 vote in place for rates to be cut by 25bps to 5%. However, subsequent speeches from MPC members 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.
- On 7 November, Bank Rate was cut by 0.25% to 4.75%. The vote was 8-1 in favour of the cut but the language used by the MPC emphasised "gradual" reductions would be the way ahead with an emphasis on the inflation and employment data releases, as well as geo-political events.

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.

(Please note these charts are updated quarterly and will next be updated early January.)

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%