Avon Fire Authority

TREASURY MANAGEMENT STRATEGY 2024/25 – 2026/27

Purpose

1. The purpose of this Strategy is to provide a plan for the management of the Fire Authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

2. The Fire Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the Fire Authority.

3. Effective Treasury Management will provide support towards the achievement of the Fire Authority's approved business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management and to employing suitable, comprehensive performance management techniques within the context of effective risk management.

Key Principles and Objectives of a Treasury Management Strategy

4. The key principles and objectives of a robust Treasury Management Strategy are:

   - To support the Fire Authority's strategic priorities approved within the Service Plan.
   - To ensure Value for Money is attained on public spending.
   - Affordability within the approved Annual Budget and Medium-Term Financial Plan (MTFP).
   - Ethical investment is considered in all investments.
   - Minimising risk to public funds.
   - To accord to the required prudential indicators, to ensure external borrowings on capital expenditure are affordable, prudent and sustainable.

- To ensure the Treasury Management function and its activities will be undertaken with openness and transparency, honesty, integrity and accountability.
- To ensure Treasury Management and other investment decisions are taken in accordance with professional good practice.
- To ensure the Fire Authority has the required liquidity to undertake its activities, including funding the approved capital programme.

5. Under section 12 of the Local Government Act 2003, the Authority has the power to invest for ‘any purpose relevant to its functions’ and ‘for the purposes of the prudent management of its financial affairs’.

Treasury Management Policy Statement

6. The purpose of this Strategy is to provide a plan for the Authority’s Treasury Management activities. The Fire Authority defines its Treasury Management activities as:

   - The management of the Fire Authority’s borrowings, investments and cash flows.
   - Its banking, money market and capital market transactions.
   - The effective control of the risks associated with those activities.
   - The pursuit of optimum performance consistent with those risks.

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

8. The Fire Authority acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principals of achieving Value for Money in Treasury Management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

9. The Fire Authority’s high level policies for borrowing and investments are:
   - The Fire Authority’s borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Fire Authority transparency and control over its debt.
   - The Fire Authority’s primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Fire Authority’s investments followed by the yield earned on investments remain important but secondary considerations.

Reporting Requirements – Treasury Management

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

    a. **A Treasury Strategy including Prudential and Treasury indicators** - the first, and most important report covers:
        i. the capital 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 investment strategy (the parameters on how investments are to be managed).

    b. **A Mid-Year Treasury Management Report** – this will update the Authority with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury activity is meeting the strategy or whether any policies require revision.

    c. **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.

11. The above reports are required to be adequately scrutinised and approved, a role which is undertaken by the full Fire Authority.

12. **Quarterly reports** – in addition to the three major reports detailed above, there is also provision for quarterly reporting (end of June/end of December) on Treasury/Prudential indicators, if required to do so. These additional reports do not have to be reported to Fire Authority but, there is an expectation that they will be appropriately scrutinised. This role is completed by the Policy and Resources Committee as part of the quarterly Financial Monitoring papers.

Treasury Management Practices

13. The CIPFA Code of Practice on Treasury Management in the Public Services (2021) recommends Treasury Management Practices (TMPs) are set out, which will support the organisation to achieve these objectives and outline how it will manage and control these activities.

14. A number of elements of the Treasury Management function are undertaken on behalf of the Fire Authority by Bristol City Council (BCC), in conjunction with the Finance Team, under the terms of a Financial Services Contract.

15. Treasury Management Practices have been reviewed by the Statutory Finance Officer, working with BCC technical leads during 2023/24. These are published as a separate document to this Strategy.

Statutory & CIPFA Code Requirements

16. The Fire Authority is required to adhere to the Local Government Act 2003 and by regulation 24 of The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, to have regard to any prevailing CIPFA Treasury Management Code of Practice.

17. The Fire Authority must determine its Treasury Management decisions prudently and comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (2021) and the revised CIPFA Code of Practice for Treasury Management in the Public Services (2021).

18. The Fire Authority must be able to monitor and review its ability to borrow and invest effectively, demonstrating Value for Money and affordability.

19. As part of the Fire Authority's ongoing Treasury Management Strategy, reference to the CIPFA Prudential Code for Capital Finance in Local Authorities (2021) needs to be adhered to.

Treasury Management Strategy for 2024/25

20. The Treasury Management Strategy for 2024/25 covers two main areas:

    a. **Capital Issues**
        i. The capital plans and the prudential indicators
        ii. The minimum revenue provision (MRP) policy.
    b. **Treasury Management Issues**
        i. current and projected treasury position
        ii. treasury indicators which limit the treasury risk and activities of the council
        iii. prospects for interest rates
        iv. the borrowing strategy
        v. policy on borrowing in advance of need
        vi. debt rescheduling
        vii. the investment strategy
        viii. creditworthiness policy; and

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

21. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in this area. This especially applies to members responsible for scrutiny. Training requirements will be reviewed and considered during 2024/25.

22. The training needs of treasury management officers are also periodically reviewed.

23. The Authority has not appointed external Treasury Management Advisors. However, the Authority recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. Should the Authority take the decision to appoint external Treasury Management Advisors, it will ensure that the terms of any appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

24. The Authority recognises that responsibility for treasury management decisions remains with the Service at all times to avoid any undue reliance being placed upon any service providers. All decisions will be undertaken with regards to all available information, including treasury advisers should they be appointed.

25. As part of the current Financial Services Contract, Bristol City Council manage the Authority's bank account within a pool of accounts under the Councils control. BCC pays monthly interest to the Authority based on the average bank account balance at a rate of average SONIA less 25 basis points. The scope of investments within the Council's Treasury operations includes the placing of residual cash from the Council's functions in various products such as fixed term deposits, call accounts and money markets with a variety of financial institutions.

26. External borrowing to fund the Capital Programme has continued to be deferred to date. This has been achieved by utilising internal sources of funding, mainly relating to the unused capital receipt from the sale of the previous headquarters, which equated to £18m, and underspends from previous Capital Programmes. As confirmed within the 2024-2027 Capital Programme, additional external borrowing is expected to be required during 2025/26. This will be subject to the utilisation of available reserves in the first instance and assumes all projected capital spend takes place in line with the proposed timescales. If this is the case, the Fire Authority will require £9.8m of borrowing in 2025/26 and £18.9m in 2026/27.

27. In considering additional external borrowing, the CIPFA Prudential Code requires authorities to self-regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans, by setting estimates and limits, and by publishing actuals, for a range of prudential indicators. The Prudential Code has been developed alongside the Treasury Management Code and it is important for the Fire Authority to be aware of the interaction between the two codes. Compliance with both codes is a statutory requirement for local authorities in the UK.

28. As confirmed within the 2024-27 Capital Strategy, the Prudential Code recognises that, in making its capital investment decisions, the Fire Authority must take into consideration its strategic objectives included in its Service Plan. The code allows the Fire Authority to borrow external funding as part of its funding options evaluation, to ensure Value for Money.

The Capital Prudential Indicators for 2024/25 – 2027/28

29. The Authority's capital expenditure plans are the key driver of 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.

30. All Prudential and Treasury Management Indicators are published separately to this Strategy.

Capital Expenditure

31. This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. The table below also summarises how the capital expenditure plans are being financed. Any shortfall of resources results in a borrowing need.

Funding and Expenditure	2024/25 Programme £'000	2025/26 Programme £'000	2026/27 Programme £'000	Total Programme £'000
Capital Receipt from fleet disposals	25	25	25	75
Capital Reserve	4,959	134	-	5,093
Contribution from Revenue	500	-	-	500
Prudential borrowing	-	9,781	18,855	28,636
Total Funding	**5,484**	**9,940**	**18,880**	**34,304**
Premises	2,805	5,700	17,400	25,905
Operational Equipment	100	110	120	330
Fleet	1,499	1,800	1,000	4,299
ICT	300	330	360	990
Transformation	50	-	-	50
Control	730	2,000	-	2,730
Total Expenditure	**5,484**	**9,940**	**18,880**	**34,304**

The Authority's borrowing need (the Capital Financing Requirement)

32. The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

33. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

34. The CFR includes any long-term liabilities (e.g. PFI schemes). Whilst these increase the CFR, and therefore the Authority's borrowing requirement, these types of schemes include a borrowing facility and so the Authority is not required to separately borrow for these schemes. The Authority currently has

just one PFI scheme, for the Joint Training Centre in Avonmouth, accounting for £1m within the CFR for 2024/25.

Liability Benchmark

35. The Authority is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum.

36. There are four components to the Liability Benchmark:

a. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
b. **Loans Capital Financing Requirement** (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 Minimum Revenue Provision.
c. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned Minimum Revenue Provision and any other major cash flows forecast.
d. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Affordability Prudential Indicator

37. The previous indicators cover the overall capital and control of borrowing prudential indicators but, within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Authority's overall finances.

38. **Ratio of financing costs to net revenue stream**. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. The estimates of financing costs include current commitments and the proposals in the 2024/25 budget and Medium-Term Financial Plan.

Minimum Revenue Provision Strategy

39. The Authority is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision), although it is also allowed to undertake additional voluntary payments if required (Voluntary Revenue Provision).

40. The Department for Levelling-Up, Communities and Housing (DLUCH) regulations have been issued which require the Authority to approve a Minimum Revenue Provision Statement in advance of each year. A variety of options are provided under which Minimum Revenue Provision could be made, with an overriding recommendation that the Authority should make prudent provision to

redeem its debt liability over a period which is reasonably commensurate with that over which the capital expenditure is estimated to provide benefits.

41. The Authority does not plan to make any Voluntary Revenue Provisions within the next three years.

42. Although four main options are provided under the guidance, the Authority has adopted:

<u>The Asset Life Method</u>
Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, Minimum Revenue Provision is to be made in equal annual instalments over the life of the asset. In this circumstance the asset life is to be determined when Minimum Revenue Provision commences and not changed after that.

Minimum Revenue Provision should normally commence in the financial year following the one in which the expenditure is incurred. However, when borrowing to construct an asset, the Authority may treat the asset life as commencing in the year in which the asset first becomes operational. It may accordingly postpone beginning to make Minimum Revenue Provision until that year. Investment properties should be regarded as becoming operational when they begin to generate revenues.

43. As some types of capital expenditure incurred by the Authority are not capable of being related to an individual asset, asset lives will be assessed on a basis which most reasonably reflects the anticipated period of benefit that arises from the expenditure. Types of expenditure will be grouped together in a manner which reflects the nature of the main component of expenditure and will only be divided up in cases where there are two or more major components with substantially different useful economic lives.

44. A draft Minimum Revenue Provision Statement for 2024/25 is published separately to this strategy.

45. The financing of the approved 2024-25 Capital Programme, and the resultant prudential indicators have been set based on the content of this statement.

Borrowing

46. The capital expenditure plans are set out in the Capital Strategy, with summary details presented within the Prudential Indicators. The treasury management activities ensures that the Authority's cash is organised so that sufficient cash is available to meet daily requirements and the Authority's capital strategy. This will involve, where capital plans require, the arrangement of appropriate borrowing facilities. The strategy covers the relevant treasury/prudential indicators, the current and projected debt positions and the Annual Investment Strategy.

Existing Fire Authority Loans

47. At present, the Fire Authority has loans totalling £7m owed to the Public Works Loan Board (PWLB) as shown below.

Loan Period (years)	Start date	End date	Financial year	Capital	Interest rate
15	**05/03/2015**	**05/03/2030**	**2029/30**	**£3,500,000**	**2.99%**
25	**05/03/2015**	**05/03/2040**	**2039/40**	**£3,500,000**	**3.33%**

These loans are provided on an interest only basis and additional repayment estimates are included within the revenue budgets, via an MRP adjustment, to ensure that the Service is able to fund the repayments once due*.*

Borrowing requirements over the three-year capital programme are summarised in the table below:

	2024/25 £'000	2025/26 £'000	2026/27 £'000
Existing Borrowing b/f	7,000	7,000	16,781
New Borrowing	-	9,781	18,855
Total Borrowing c/f	**7,000**	**16,781**	**28,636**

Gross Debt and the Capital Financing Requirement

48. Within the prudential indicators there are several key indicators to ensure that the Authority operates its activities within defined limits. One of these is that the Authority 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 2024/25 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 or speculative purposes.

49. The Statutory Finance Officer reports that the Authority complied with this prudential indicator in the current year and does not envisage any difficulties for future compliance. This view takes into account current commitments, existing plans, and the proposals in the 2024/25 budget and Medium Term Financial Plan reports.

Treasury Indicators: Limits to borrowing activity

The operational boundary for external debt

50. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and ability to fund under-borrowing by other cash resources.

The authorised limit for external debt

51. A further key prudential indicator represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Fire Authority. 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.

52. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Prospects for interest rates

53. Bristol City Council has appointed professional treasury advisors, who routinely provide information on the prospects for interest rates to support the council in formulating its view on interest rates. This information is set out in the following table.

Period	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)			
		5 year	10 year	25 year	50 year
Mar 2024	5.25	4.90	5.00	5.30	5.10
Mar 2025	4.00	4.20	4.20	4.50	4.30
Mar 2026	3.00	3.60	3.70	4.10	3.90
Mar 2027	3.00	3.50	3.50	4.00	3.80

54. The above forecast reflects the view that the Monetary Policy Committee are keen to demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least September 2024. Rate cuts are expected to start when both the Core Price Inflation (CPI) and wage / employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent Gross Domestic Product (GDP) releases have surprised markets with their on-going robustness.

55. The timing on this will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late, and any downturn or recession may be prolonged.

56. The above forecast expects the MPC to keep Bank Rate at 5.25% for the first half of 2024 to combat on-going inflationary and wage pressures. The council's treasury advisors do not think that the MPC will increase Bank Rate above 5.25%, but it is a possibility.

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

Investment and borrowing rates

58. **Investment percentage returns** are expected to be similar in 2024/25 due to the expected fall in interest rates over the second half of the year, as inflationary pressures ease.

59. **Borrowing interest rates** - the forecast for PWLB borrowing rates show a general downward trend across all maturity bands over the next three years. There is likely to be exceptional volatility and unpredictability in respect of gilt yields and PWLB rates from numerous factors.

There are risks to these forecasts as set out in the Economic Interest Rate Forecast section of this Strategy.

60. **Borrowing for capital expenditure.** The long-term (beyond 10 years), forecast for Bank Rate is 3.00%. As the PWLB certainty rates are significantly above 3.00%, there remains value in considering short term / temporary borrowing as these rates are likely to remain near Bank Rate, that is below forecasted PWLB rates over the medium to long term and may also prove attractive as part of having a balanced debt portfolio.

61. The policy of avoiding new borrowing by using spare cash balances, from the sale of the previous Headquarters site, has served well over the last few years. However, the Authority is unable to avoid new borrowing to finance capital expenditure from 2025/26 onwards.

62. There could be a cost of carry, (the difference between higher borrowing costs and lower investment returns), to any new long-term borrowing that causes a temporary increase in cash balances as this position will, most likely, incur a revenue cost.

63. There are also alternative sources of long-term borrowing available, besides PWLB, if the Authority is seeking to avoid a “cost of carry” but also wishes to mitigate future re-financing risk, and these sources will be considered.

Borrowing Strategy

64. The main reason the Fire Authority needs to undertake external borrowing is to fund the 2024-2027 Capital Programme. As shown in the separate Capital Strategy report, the Fire Authority is proposing projected new prudential borrowings of £28.6m over the next 3 years. This assumes there is no slippage in the Capital Programme. To ensure Value for Money and affordability, the financing of the Capital Programme will be first through the utilisation of remaining usable capital reserves, thereby reducing the cost of borrowing to the Fire Authority.

65. The most significant consideration from a treasury management perspective is the timing and duration of this borrowing. Should the financial environment change and borrowing is deemed advantageous, the Authority will seek to

borrow long-term loans near / below a “target rate” of 4.00% and short to medium term loans near / below the “target rate” of 5.50%.

66. Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Statutory Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

a. If it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing would be postponed.
b. if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

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

a. Long term and short-term fixed interest rates are expected to fall over the medium term. The Statutory Finance 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 Economic Interest Rate Forecast section.
b. The strategy of postponing borrowing and running down capital receipt balances has been applied in 2023/24 and will continue into 2024/25 until the capital reserves are depleted, which is forecast to be around June 2025, at which point external borrowing will be required. The Authority recognises that, depending on prevailing interest rates and progression of the Capital Programme, the timing of the requirement for external borrowing could change. As such, the Authority recognises that external borrowing could be required during 2024/25.
c. The Authority’s borrowing strategy will consider new borrowing in the following ways:
    i. The cheapest borrowing in recent years has been internal borrowing by running down cash balances and foregoing interest earned at historically low rates, however over the past 2 years, investment returns have increased significantly and the savings generated from internal borrowing over the coming year will be negligible.
    In view of the overall forecast for long-term borrowing rates to fall over the medium term, consideration will continue to be given to the short-term advantage of internal borrowing while also considering taking short to medium term funding from the PWLB as long term borrowing rates are expected to fall during the medium term.
    ii. Short to medium funding from local authorities and financial institutions at rates lower than the PWLB.
    iii. PWLB loans for up to 10 years where rates are expected to be lower than rates for longer periods. This offers a range of options for new borrowing, which will spread debt maturities.

iv. PWLB loans in excess of 10 years where rates are considered to be low and offer the Authority the opportunity to lock into low value long-term finance.
v. Long term fixed rate market loans at rates significantly below PWLB rates for the equivalent maturity period (where available) and to maintain an appropriate balance between PWLB and market debt in the debt portfolio.
vi. Long-term borrowing from the Municipal Bond Agency and the UK Infrastructure bank if available and appropriate and the rates are lower than those offered by the Public Works Loan Board (PWLB).
vii. Financial institutions, primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a "cost of carry" or to achieve refinancing certainty over the next few years.

68. The Authority is planning net borrowing of £28.6m over the coming three year period, to finance the expected Prudential Borrowing requirement as set out in the Capital Programme. The level of borrowing will ensure the Authority maintains adequate liquidity levels as set out in the Strategy.

69. The Authority will seek to undertake temporary borrowing (less than one year) loans to cover day-to-day cashflow requirements if required. Such a decision will be based on the availability of and access to cash in deposit accounts and money market funds, for example held by Bristol City Council, to cover the cashflow requirement, whilst also considering the most cost-effective method for the Authority.

Policy on borrowing in advance of need

70. The Authority will not borrow more than or in advance of its needs purely to invest to make an additional return. 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 Authority can ensure the security of such funds.

71. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Debt Rescheduling

72. As the yield curve is relatively flat there are limited opportunities to generate savings by switching from long term debt to short term debt. In addition, rescheduling of our PWLB loans is unlikely to be beneficial due to how the repayment penalties and discounts are calculated. Any savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

73. The reasons for any rescheduling to take place will include:

a. the generation of cash savings and / or discounted cash flow savings.
b. helping to fulfil the treasury management strategy.
c. enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

74. All rescheduling will be reported to the Fire Authority at the earliest meeting following its action.

Annual Investment Strategy

Investment Policy

75. The Department of Levelling Up, Housing and Communities (DLUHC, formerly the Ministry of Housing, Communities and Local Government (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 at BCC and finance team with the Authority). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the capital strategy (a separate report approved by the Fire Authority).

76. The Authority's investment policy has regard to the following:

a. DLUHC's Guidance on Local Government Investments ("the Guidance")
b. CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
c. CIPFA Treasury Management Guidance Notes 2021.

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

78. The current investment strategy is to invest all day-to-day cash balances in Bristol City Council (BCC), the Fire Authority's Financial Services provider, which is effectively at zero risk. Interest is paid on these balances based on the SONIA rate less 25bps. In addition, the Fire Authority's strategy is to reduce additional new borrowings where possible and fund some of the existing capital programme by utilising available reserves and cash balances. This enables the Fire Authority to reduce its cash balances and thus reduce counterparty risk exposure, as well as providing a hedge against the fall in investments returns.

79. In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs.

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

a. Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term credit ratings.
b. Credit ratings are collated by Bristol City Councils advisors from the major credit rating agencies such as Moody's, S&P and Fitch.
c. Other information: credit ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. Should the Authority be considering investment opportunities, it will consider the engagement of a professional advisor to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.
d. Other information sources used will include the financial press, share price and other such information pertaining to the financial sector, in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
e. The Authority has defined the list of types of investment instruments that the treasury management team at BCC are authorised to use upon receiving instruction from the Authority (see table at paragraph 89). Counterparty limits are set through the Authority's treasury management practices – schedules using the parameters below:
    i. **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or those which could be for a longer period but where the Authority has the right to be repay within 12 months if it wishes or have less than a year left to run to maturity if originally they were classified as being non-specified investments solely due to the maturity period exceeding one year.
    ii. **Non-specified investments** are those with less high credit quality, maybe 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.
    iii. **Counterparty lending limits** (amounts and maturity) will be set using the investment criteria below.

<u>Creditworthiness policy</u>

81. The primary principle governing the Authority's investment criteria is the security of its investments, whilst liquidity and the yield on the investment is also a key consideration. After this main principle, the council will ensure that:

a. It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
b. It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may

prudently be committed. These procedures also apply to the council's prudential indicators covering the maximum principal sums invested.

82. Bristol City Council will provide a counterparty list in compliance with their criteria, which is then tailored in light of the Fire Authority's specific approach. The Statutory Finance Officer will revise the criteria and submit them to Fire Authority for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Authority may use, rather than defining what types of investment instruments are to be used.

83. The minimum rating criteria uses the lowest common denominator method of selecting counterparties and applying limits. This means that the application of the Authority's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one meets the Authority's criteria, the other does not, the institution will fall outside the lending criteria. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer-term change) are considered before making investment decisions.

84. The criteria for providing a pool of high-quality investment counterparties (both specified and non-specified investments) is:

a. **Banks 1**: good credit quality – the Authority will only use banks which:
    i. are UK banks; and/or
    ii. are non-UK and domiciled in a country which has a minimum sovereign long-term rating of AA- and have, as a minimum, the following Fitch, Moody's and Standard and Poors credit ratings (where rated):
        1. Short term – F1 (or equivalent)
        2. Long term – A- (or equivalent)

b. **Banks 2:** part nationalised UK banks – Royal Bank of Scotland ring-fenced operations. This bank can be included if they continue to be part nationalised or they meet the ratings in Banks 1 above.
c. **Banks 3**: the Authority's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time.
d. **Bank subsidiary and treasury operation**: the Authority will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings outlined above.
e. **Building societies**: the Authority will use all societies which meet the ratings for banks outlined above.
f. **Money Market Funds** (CNAV Constant Net Asset Value): AAA rated (sterling)
g. **Money Market Funds** (LVNAV Low Volatility Net Asset Value): AAA rated (sterling)
h. **Money Market Funds** (VNAV Variable Net Asset Value): AAA rated (sterling)

i. **Ultra-Short dated Bond Funds with a volatility rating of S1+**
j. **UK Government** (including gilts, Treasury Bills and the DMADF)
k. **Local authorities, parish councils etc**
l. **Supranational institutions**

BCC apply a limit of £50 million to the use of non-specified investments. The limit applied for the Fire Authority is £10m, as approved by the Fire Authority in previous Treasury Management Strategies.

85. The criteria for choosing counterparties set out above provide a sound approach to investment in "normal" market circumstances. Whilst Members are asked to approve the base criteria above, under exceptional market conditions the Statutory Finance 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 market returns to "normal" conditions. Similarly, the time periods for investments will be restricted.

86. The Fire Authority normally invests with BCC, who are considered zero risk, although investments have previously been made with counterparties classified under category "Bank 1" identified above. Other restrictions could be the greater use of the Debt Management Deposit Account Facility (DMADF – a Government body which accepts local authority deposits), Money Market Funds, guaranteed deposit facilities and strongly rated institutions offered support by the UK Government.

<u>Country and Sector Considerations</u>

87. Due care will be taken to consider the country, group and sector exposure of the Authority's investments. The Authority has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent). In addition:

a. no more than 25% will be placed with any non-UK country at any time
b. limits in place above will apply to a group of companies
c. sector limits will be monitored regularly for appropriateness.

88. **Use of additional information other than credit ratings**. Additional requirements under the Treasury Management Code necessitate the Authority to supplement credit rating information. 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. This additional market information (for example Credit Default Swaps (CDS), negative rating watches/outlooks) will be applied to compare the relative security of differing investment counterparties.

Time and Monetary limits applying to investments

89. Time and monetary limits apply to investments. The time and monetary limits for institutions on the Authority's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch (or equivalent)	Money Limit £m	Time Limit
Banks 1 Higher Quality	AAA	£5m	5 years
Banks 1 Medium Quality	AA-	£2m	3 years
Banks 1 Lower Quality	A-	£1m	1 year
Banks 2 – part nationalised	n/a	£1m	1 Year
Limit 3 Category – Bristol City Council's banker (not meeting banks 1 / 2)	-	£100k	liquid
Other Institutions limit*		£10m	1 Year
DMADF	AAA	unlimited	1 year
Local authorities		£10m	5 years
Money Market Funds (Including CNAV, LVNAV, VNAV)	AAA	£10m	liquid

*The Other Institutions Limit will be for Gilt and Supranational Investments.

These are all considered high quality names. No limit applies to investments with BCC.

90. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods.

91. The current shape of the yield curve suggests that this is the case at present, with the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024, so an agile investment strategy would be appropriate to optimise returns.

92. Most cash balances over the next 12 months are expected to be required to manage the fluctuations of the cash flows and fund the Capital Programme. As a result, the Authority is not expecting to identify cash sums that could be invested over a longer period. However, should such cash sums be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

a. If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable.
b. Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment return expectations

93. The current forecast shown in the Economic Interest Rate Forecast section includes a forecast for Bank Rate to have peaked in Q4 2023. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long-term forecast is for periods over 10 years in the future):

a. 2023/24 (remainder) 5.30%
b. 2024/25 4.70%
c. 2025/26 3.20%
d. 2026/27 3.00%
e. 2027/28 3.25%
f. Long term later years 3.25%

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

Treasury management limits on activity

94. There are three debt-related treasury activity limits. The purpose of these is to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. The indicators are:

a. Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments.
b. Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates.
c. Maturity structure of borrowing. These gross limits are set to reduce the council's exposure to large, fixed-rate sums falling due for refinancing, and are required for upper and lower limits.

The relevant treasury indicators and limits are presented in the table below:

	2023/24 Upper	2024/25 Upper	2025/26 & Beyond Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	40%	40%	40%
Maturity structure of fixed interest borrowing 2023/24			
		Lower	Upper
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%	50%
10 years and above		25%	100%

Investment treasury indicator and limit

95. **Total principal funds invested for greater than 364 days** - These limits are set with regard to the Authority's liquidity requirements and to reduce the need for early sale of an investment.

£m	2024/25	2025/26	2026/27 & Beyond
Principal sums invested > 364 days	£5m	£5m	£5m

Key Risks

96. Making investments in the Authority's own name means that the Authority bears the risk of any counterparty failure. This risk will be managed in accordance with the strategy and with advice from BCC and external treasury management advisors. The Fire Authority will act in accordance with the Authority's Treasury Management Strategy and Policy and CIPFA's Standard of Professional Practice on Treasury Management. There are several risks attached to a Treasury Management Strategy, with the key risks being identified as follows:

- **Interest Rate exposures** – this is concerned with the balance between fixed and variable rate loans and the associated risk in interest changes.
- **Maturity Structures** – concerning the profile of loan repayment periods and associated risks of refinancing.
- **Management of counterparty risk** - to minimise the risk of loss on investments.
- **Liquidity** - to ensure adequate availability of funds to meet short term needs as they arise.
- **Return on investments**– to set out investment return targets and performance.

97. Given the changing economic environment, the current forecasts included within this Strategy may need to be revised. Members will be kept updated as part of the Fire Authority reporting process.

Mitigation of Risks

98. The aforementioned risks will be mitigated as follows:

- Monitoring of performance against targets will be reported to Members. There are risks associated with Treasury Management external funding and the associated financial impacts. These are set out within the Treasury Management Strategy. The risks are reduced by ensuring that:

- Strategic planning is undertaken to demonstrate objective prioritisation.
- Treasury Management option appraisals are undertaken for all significant capital projects to demonstrate Value for Money.
- Bristol City Council provide updated technical Treasury Management services, through the Fire Authority's Financial Services SLA.

Economic Interest Rate Forecast

Table 1 – Interest Rate Forecast

Link Group Interest Rate View	07.11.2023 Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.70	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	4.90	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.70	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

The forecasts for average earnings are averages i.e. rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short term cash at any one point in time.

The central interest rate forecast reflects a view that the Monetary Policy Committee (MPC) are keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least the middle of 2024. Rate cuts are expected to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

The timing on this will remain one of judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

In the coming months, forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

On the positive side, consumers are still anticipated to be holding onto excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

PWLB rates are expected to fall by circa 1.5% across all maturity periods during the next 3 years with 5 to 50 years PWLB rates operating within a narrow band of circa 0.50%.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields & PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- **The Bank of England** has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- **Geopolitical risks**, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- Despite the recent tightening to 5.25%, the Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term US treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so.)
- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

Borrowing advice: Our long-term (beyond 10 years) forecast for Bank Rate has increased from 2.75% to 3% and reflects Capital Economics' research that suggests AI and general improvements in productivity will be supportive of a higher neutral interest rate. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2024.

Glossary of Key Terms – Treasury Management

AAA rating
The highest grade assigned to a debt obligation by a rating agency. It indicates an unusually strong capacity to pay interest and repay principal. Also called triple A, this rating is reserved for instruments that carry virtually no risk, e.g. government gilts.

Affordable **Capital Expenditure Limit**
The amount that the Fire Authority can afford to allocate to capital expenditure.

Authorised Limit for External Debt
This is a limit for total Fire Authority external debt as set by the Fire Authority based on debt levels and plans.

Capital Expenditure
Expenditure on or for the creation of fixed assets that meets the definition of Capital Expenditure under the accounting rules as set-out in the annual Statement of Recommended Practice (SORP) and for which the Fire Authority are able to borrow.

Capital Financing Requirement
This is a Prudential Indicator that can be derived from the information in the Council's Balance Sheet. It generally represents the underlying need to borrow for capital expenditure.

CIPFA
CIPFA is the Chartered Institute of Public Finance and Accountancy who produce guidance, codes of practice, and policy documents for Local Councils.

CNAV (Constant Net Asset Value) are short-term MMFS. Funds must invest 99.5% in government assets. Units in the fund are purchased or redeemed at a constant price rounded to the nearest percentage point.

Counterparty
Another organisation involved in a deal i.e. if the Fire Authority enters a deal with a bank then the bank would be referred to as the "Counterparty".

CPI
The Consumer Price Index – calculated by collecting and comparing prices of a set basked of goods and services as brought by typical consumer, at regular intervals over time.

DMADF
Stands for Debt Management Account Deposit Facility. The Debt Management Account Deposit Facility is a facility offered to pre-authorised UK Local Authority Treasury Managers wishing to deposit funds on a fixed term basis with central government, thus ensuring maximum safety, liquidity and flexibility for them, and, at the same time, offering a possible cost saving for the Government's own cash management operations.

Equity
A share in company with limited liability. It generally enables the holder to share in the profitability of the company through dividend payments and capital gain.

Fitch, Moody's and Standard & Poor's (S&P)
All three are credit ratings agencies, considered the 'big three' within the industry. They provide long-term and short-term investment ratings. These ratings are used as an evaluation of credit risk of a prospective debtor, predicting their ability to pay back the debt and an implicit forecast of the likelihood of the debtor defaulting.

Fitch's long-term ratings range from: AAA to D
Fitch's short-term ratings range from: F1+ to D
Moody's long-term ratings range from: Aaa to C
Moody's short-term ratings range from: P-1 to Not Prime
Standard & Poor's long-term ratings range from: AAA to D
Standard & Poor's short-term ratings range from: A-1+ to D

The minimum Sovereign AA- rating is taking the lowest credit rating of a country from the 3 main rating agencies (Fitch, Moody's and S&P). The sovereign rating of Banks domiciled outside of the UK, require a minimum sovereign rating of AA- to qualify to invest.

Fixed Rate Funding/Investments
Funding or investments where the interest rate that applies to payments or receipts of interest on the funding or investments is fixed and does not change.

Gilts
Gilts are bonds (i.e. debt certificates) that are issued (i.e. sold) by the UK Government. When they issue gilts the Government sets the interest rate that applies to the gilt, sets when they will repay the value of the gilt, and it agrees to make interest payments at regular intervals until the gilt is repaid or redeemed. Gilts are traded in the financial markets with the price varying depending on the interest rate applicable to the gilt, when the gilt will be repaid (i.e. when it will mature), on base rate expectations, and on market conditions.

Gilt Funds
Pooled fund investing in bonds guaranteed by the UK government.

Gilt Yields
A gilt yield is the effective rate of return that someone buying a gilt at the current market price will receive on that gilt. Since the market price of a gilt can vary at any time, the yield will also vary.

Government Money Market Fund
Money Market Funds that invest solely in government securities, or reverse repurchase agreements backed by government securities.

Incremental Impact of Capital Investment Decisions

These are Prudential Indicators that reflect the impact on Council Tax and Housing Rents of movements in projected and estimated capital expenditure within and between financial years.

LIBID
Stands for 'London Interbank Bid Rate'. It is the average rate that banks are willing to pay for euro-currency deposits in the London interbank market.

LVNAV (Low Volatility Net Asset Value) are short-term MMFS. Funds are primarily invested in money market instruments, deposits and other short-term assets. Units in the fund are purchased or redeemed at a constant price so long as the value of the underlying assets do not deviate by more than 0.2% (20bps) from par (i.e. 1.00).

MHCLG
Stands for The Ministry of Housing, Communities and Local Government (formerly the Department for Communities and Local Government).

Money Market Funds (MMF)
A well rated highly diversified pooled investment vehicle whose assets mainly comprise of short term instruments. It is very similar to a unit trust, however in a MMF. MMFs are split into four types; CNAV, LVNAV, Short-term VNAV & Standard VNAV.

Net Borrowing Requirement
This is the difference between the Fire Authority's net external borrowing and its capital financing requirement. Under the Prudential Code the Council's net external borrowing should not, except in the short term, exceed its capital financing requirement. The Net Borrowing Requirement should therefore normally be a negative figure.

Operational Boundary
This is a level of debt set by the Fire Authority at lower than the Authorised Limit and which the Fire Authority's debt levels should not normally exceed during normal operations.

Prudential Code
Fire Authorities are required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities that supports local authorities in taking decisions on capital investment.

The Key objectives of the Code are to ensure, that
• Local Authorities and Fire Authorities capital investment plans are affordable, prudent and sustainable;
• Treasury management decisions are taken in accordance with these plans;
• Local strategic planning, asset management planning and proper option appraisal are supporting these capital investment decisions.

These requirements include the production of Prudential Indicators.

Prudential Indicators
Prudential Indicators are set-out in the Prudential Code. These are a set of financial indicators and limits that are calculated in order to demonstrate that Councils and Fire

Authorities capital investment plans are affordable, prudent and sustainable. These prudential indicators are used to cover the categories of affordability, prudence, capital spending, external debt/borrowing and treasury management.

PWLB
The Public Works Loans Board is a government agency and part of the Debt Management Office. The PWLB provides loans to local authorities and other specified bodies.

PWLB Rates
The interest rates chargeable by the Public Works Loans Board for loans. The rates for fixed rate loans are determined by the day on which the loan is agreed. The rates to be charged by the PWLB for loans are set each day based on gilt yields at the close of business on the preceding business day. PWLB rates are typically the benchmark used by local authorities though may not always be more attractive than market debt.

Short-term VNAV (Variable Net Asset Value) MMFs are primarily invested in money market instruments, deposits and other MMFs. Funds are subject to looser liquidity rules than Public Debt CNAV and LVNAV funds. Units in the funds are purchased or redeemed at a variable price calculated to the equivalent of at least four significant figures (e.g. 10,000.00).

SONIA (Sterling Overnight Index Average) reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. It is now the preferred benchmark for sterling risk-free rates.

Specified & Non-Specified Investment
Specified investments are sterling investments of a maturity period of not more than 364 days, or those which could be for a longer period but where the Service has the right to be repaid within 364 days if it wishes. Non-specified investments are any other type of investment, beyond one year.

Standard VNAV MMFs are funds that are primarily invested in money market instruments, deposits and other short-term assets. Funds are subject to looser liquidity rules than Public Debt CNAV and LVNAV funds AND may invest in assets of much longer maturity. Units in the funds are purchased or redeemed at a variable price calculated to the equivalent of at least four significant figures (e.g. 10,000.00).

Supranational Bonds
Bonds issued by supranational bodies, e.g. European investment bank. These Bonds – also known as Multilateral Development Banks bonds – are generally AAA rated and behave similarly to GILTS, but pay a higher yield (spread) given their relative illiquidity when compared with GILTS.

Treasury Management in the Public Services: Code of Practice
This is a code of practice for Council Treasury Management activities, which is produced by CIPFA.

Treasury Management Practices

This is a Council document that sets out Council policies and procedures for treasury management as required by the CIPFA “Treasury Management in the Public Services: Code of Practice”.

UK Municipal Bonds Agency
A Local Government Funding Agency that exists primarily to reduce councils' capital long term financing costs in the United Kingdom. It allows local authorities to diversify funding sources and borrow at a lower cost than is available from Central Government via the Public Works Loan Board.

Yield
The yield is the effective rate of return on an investment.