STAFFORDSHIRE moorlands DISTRICT COUNCIL
ACHIEVING • EXCELLENCE

APPENDIX A:

Treasury Management Strategy Statement 2025/26

Annual Investment Strategy

Minimum Revenue Provision Policy Statement

1. Introduction

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

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

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

1.4. Whilst any service delivery or commercial return investments will impact on the treasury function, these activities are generally classed as non-treasury activities (arising usually from capital expenditure) and are separate from the day-to-day treasury management activities, as such are discussed in the Capital Strategy.

1.5. Treasury Management is defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks." The Council's Treasury Management Policy Statement is included at Annex 1.

2. Reporting Requirements

Capital Strategy

2.1. The CIPFA Prudential and Treasury Management Codes require all local authorities to prepare a Capital Strategy report, which will provide a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, an overview of how the associated risk is managed, and the implications for future financial sustainability.

2.2. The aim of the Capital Strategy is to ensure that all elected members fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. This is a separate document presented alongside the Medium Term Financial Plan.

Treasury Management Reporting

2.3. The Council is required to receive and approve, as a minimum, three main reports each year:

The **Treasury Strategy** is a forward looking report, which includes the Treasury Management Strategy, explaining how the investments and borrowings are to be organised, including treasury indicators, the Council's capital plans, including prudential indicators, the Minimum Revenue Provision (MRP) policy, stating how residual capital expenditure is charged to revenue over time, and an Annual Investment Strategy, stating the parameters on how investments are to be managed. The Treasury Management Strategy Statement contained in this Appendix addresses this requirement.

The **Mid-Year Treasury Management Report** updates members on treasury activities during the financial year and provides for revisions to the Treasury Strategy and indicators as necessary.

The **Annual Treasury Report**, which provides the outturn for the previous financial year, summarises the treasury activity for that year and includes a full listing of actual prudential indictors.

2.4. The Audit & Accounts Committee has delegated responsibility for scrutinising the treasury function prior to reports being formally approved at Council.

2.5. Quarterly update reports including updated treasury/ prudential indicators will supplement the reporting above. These do not have to be reported to Full Council but do require adequate scrutiny – the Audit & Accounts Committee will undertake this role.

2.6. The respective roles & responsibilities of the Council, its Audit & Accounts Committee and the Section 151 Officer are noted in Annex 2.

3. Treasury Management Strategy Statement 2025/26

3.1. The 2025/26 Treasury Management Strategy Statement comprises the following principal elements:

Capital programme: Capital plans and the prudential indicators, and the Minimum revenue provision (MRP) policy

Treasury management: Current treasury position, treasury indicators, Prospects for interest rates, borrowing strategy, policy on borrowing in advance of need, and debt rescheduling.

The annual investment strategy: Investment policy, creditworthiness policy, investment income.

3.2. The Treasury Management Strategy Statement meets the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Guidance.

4. Training

4.1. 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.

4.2. Furthermore, the Code states that CIPFA expects all organisations to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

4.3. 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 council 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.

4.4. Authorities should carry out the following measures 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 council members; require officers and members to undertake self-assessment; have regular communication with officers and council members, encouraging them to highlight training needs on an ongoing basis.

4.5. 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, or from the treasury management officers.

4.6. A skills assessments is completed by Members of the Audit Committee periodically. The outcomes of these assessments will be incorporated into a training plan – including any treasury management training needs and training events organised as required.

4.7. The training needs of treasury management officers are periodically reviewed.

4.8. Records of the training received by officers central to the Treasury function will be maintained by Organisational Development. Records of the treasury management/capital finance training received by members will be maintained by Members Services.

5. Treasury Management Consultants

5.1. The Council has appointed MUFG Corporate Markets ('MUFG'), formerly Link Treasury Services Limited, as its external treasury management advisers providing the Council with access to specialist skills and resources. The Council recognises that the responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

5.2. It also recognises that there is a value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of appointment of treasury advisers and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

6. The Capital Programme & Prudential Indicators

Capital Expenditure

6.1. The capital expenditure prudential indicator comprises a summary of the Council's capital programme, which is a key driver of treasury management activity.

6.2. The table below summarises the Council's capital expenditure plans and how these plans are to be financed. Any shortfall of resources results in a funding borrowing need:

	2024/25	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	Estimate	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	**13,957**	**20,303**	**10,586**	**6,147**	**8,113**
Financed by:					
External Contributions	10,064	15,029	2,200	2,200	2,200
S106	25	0	0	0	0
Capital Receipts	130	0	0	0	600
Capital Reserves					
Earmarked Reserves	0	0	0	0	0
General Fund Balances	18	18	13	36	20
Net Financing Requirement	**3,720**	**5,256**	**8,373**	**3,911**	**5,293**

The Council's Borrowing Need (the Capital Financing Requirement)

6.3. The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. This is essentially a measure of the Council's underlying borrowing need.

6.4. The CFR increases each time the Council procures capital expenditure that it does not immediately pay for (i.e. the CFR increases when its expenditure is financed through borrowing).

6.5. Local authorities are required each year to set aside some of their revenues as provision for debt repayment. This is known as the Minimum Revenue Provision (MRP). The CFR is reduced each year by this MRP; each year's borrowing need is divided by the life of the assets for which borrowing was undertaken, resulting in an annual charge to revenue, thus reducing the Council's CFR.

6.6. The CFR includes any other long-term liabilities (e.g. leases held on the balance sheet). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council had £0 of these schemes within the CFR at 31 March 2024.

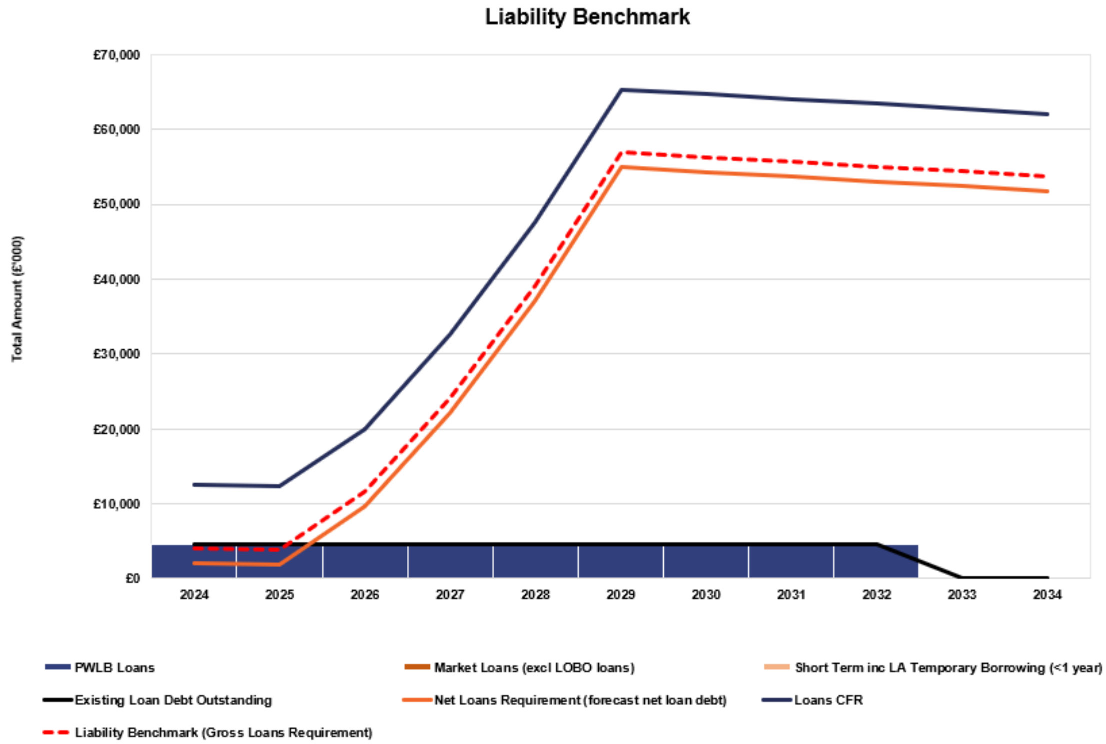
6.7. A new accounting standard, IFRS16, is being implemented in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and therefore the Council's accounts from 2024/25. This standard relates to 'Right-of-Use' assets and effectively replaces the former accounting standard for Leasing. The value of the Right-of-Use assets will similarly increase the CFR. The estimated impact of this change is expected to be immaterial, therefore is not included at this stage. Should any changes to the CFR and other Prudential Indicators be significant, this will be revised during the year.

6.8. The Council's Capital Financing Requirement is shown in the table below:

	2024/25	2025/26	2026/27	2027/28	2028/29
	Estimate	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement	**14,011**	**18,968**	**26,937**	**30,276**	**34,920**
Movement in CFR	3,496	4,957	7,969	3,339	4,644
Represented by:					
Net financing need for the year	3,720	5,256	8,373	3,911	5,293
Less Minimum Revenue Provision	(224)	(299)	(404)	(572)	(649)
Movement in CFR	**3,496**	**4,957**	**7,969**	**3,339**	**4,644**

Liability Benchmark

6.9. The Liability Benchmark is required for the current and following two financial years, as a minimum, ideally covering the full debt maturity profile of the Council. There are four components of the benchmark: existing loan debt outstanding and forecast loans CFR (forecast based on approved prudential borrowing only for the MTFP up to 2028/29 and planned MRP for the whole life), net loans requirement (gross loan debt less treasury management investments at the last financial year end, then projected into the future and based on approved prudential borrowing), planned MRP and other major cash flows forecast, and liability benchmark or gross loans requirement (equal to net loans requirement plus short-term liquidity allowance, i.e. adequate, but not excessive, allowance for a level of excess cash to be invested short-term to provide access to liquidity if needed).



6.10. This chart shows that the Council maintains a forecast underborrowed position compared to the CFR over the life of the existing loan debt. The increase in requirement mirrors the increase in the net financing need of the captial programme for the MTFP period, and the corresponding reductions show the repayment of debt in the following years prior to any approval of future captial programmes.

Minimum Revenue Provision (MRP) Policy Statement

6.11. Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP). The 2003 Regulations have been further amended with full effect from April 2025 to expressly provide that in determining a prudent provision local authorities cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute.

6.12. The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance 2024 provides four options for calculating MRP. An authority can use a mix of these options if it considers it appropriate to do so.

6.13. The MRP policy statement requires Full Council approval in advance of each financial year.

6.14. The Authority is recommended to approve the following MRP Statement:

For unsupported borrowing from 1 April 2008, the Council will apply the 'Asset Life Method' under which MRP is based on the estimated life of the asset for which the borrowing is undertaken. This provides a reduction in the borrowing need over the asset's life.

There is no change in this methodology from the previous year.

6.15. The Council's MRP calculation incorporates annual capital expenditure on all assets (including investment properties and finance leases/ right of use assets) which results in an increase to CFR.

6.16. Regulation 27(3) allows a local authority to charge MRP in the financial year following the one in which capital expenditure financed by debt was incurred. Capital expenditure incurred during 2024/25 will not become subject to an MRP charge until 2025/26, or in the year after the asset first becomes available for use.

6.17. For capital expenditure on loans to third parties where no principal repayment is made in a given year, MRP will be charged at a rate in line with the life of assets funded by the loan. Where there are annual repayment instalments, the capital receipts arising will be used to reduce the CFR instead of MRP.

6.18. The Council does not have any commercial loans.

6.19. The MRP Guidance allows any charges made in excess of the statutory minimum revenue provision, i.e. voluntary revenue provision (VRP) or overpayments to be reclaimed in later years if deemed necessary or prudent. In order for these sums to be reclaimed for use in the budget, this policy must disclose the cumulative overpayment made each year. Up until 31 March 2024, the total VRP overpayments were £0.

Leases

6.20. The adoption of International Financial Reporting Standard 16 has introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is low value. When such lease contracts and the related assets and liabilities are brought onto the balance sheet, a local authority will increase its long-term liabilities and as a result this will increase the debt liability.

6.21. Regarding MRP in respect of assets acquired either under leases where a right-of-use asset is on the balance sheet the prudent charge to revenue can be measured as being equal to the element of the rent/ charge that goes to write down the balance sheet liability. Where a lease (or part of a lease) is brought onto the balance sheet, having previously been accounted for off-balance sheet, the MRP requirement is regarded as having been met by the inclusion in the charge for the year in which the restatement occurs, of an amount equal to the write-down for that year plus retrospective writing down of the balance sheet liability that arises from the restatement.

Use of the Council's Resources and Investment Position

6.22. The Council builds up capital and revenue reserves as necessary for future application. The application of these resources to either finance capital expenditure or to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (for example, asset sales, revenue surpluses). Reserves are invested, pending application, to earn a return which supplements the revenue budget.

6.23. An estimate of the amount available at year end for core investment including revenue and capital reserves and balances is shown in the table below:

Year End Resources	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total core funds	14,813	11,770	11,568	11,735	11,946	12,260
Working capital	(4,758)	2,0000	2,000	2,000	2,000	2,000
(Under)/over borrowing*	(2,911)	(9,407)	(6,364)	(9,333)	(10,172)	(11,816)
Expected investments	**7,144**	**4,363**	**7,204**	**4,402**	**3,774**	**2,444**

**subject to considerations around whether to externally/ internally borrow*

Affordability Prudential Indicators

6.24. The previous sections outline the Council's capital expenditure plans and funding requirements. This section assesses the affordability of capital investment plans and the impact on the Council's overall finances.

Ratio of financing costs to revenue stream

6.25. This indicator identifies the trend in the cost of capital (borrowing costs) as a percentage of the Council's revenue stream (Council Tax and Business Rates receipts & Government funding).

	2024/25	2025/26	2026/27	2027/28	2028/29
	Estimate	Estimate	Estimate	Estimate	Estimate

Ratio of financing costs to revenue	4.6%	5.8%	7.1%	9.2%	10.1%

Ratio of income from service investments

6.26. This indicator shows the income from the capital loan - service investment (housing) as a percentage of the Council's revenue stream (Council Tax and Business Rates receipts & Government funding), identifying the level of financial exposure and risk if the Council were to lose this income.

	2024/25	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	Estimate	Estimate	Estimate	Estimate	Estimate
Ratio of net income from service investments	2.4%	2.3%	2.3%	2.2%	2.2%

Interest payable & interest receivable

6.27. Given the capital projections above, interest payable & interest receivable budgets for the next four years are forecast as follows:

	2024/25	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Borrowing Costs	588,020	783,120	969,700	1,259,790	1,426,920
Investment income*	(1,219,140)	(1,049,030)	(729,810)	(677,970)	(610,570)
Net (income)/ cost	**(631,120)**	**(265,910)**	**239,890**	**581,820**	**816,350**

** includes interest from capital service loan (housing)*

7. Treasury Management

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

Current Debt Position

7.2. The Council's debt position forecast at 31 March 2024 and its forward projections are summarised below. The table shows the actual external debt against the underlying borrowing need (the Capital Financing Requirement) highlighting any under or over borrowing.

	2024/25	2025/26	2026/27	2027/28	2028/29
	Estimate	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
External Borrowing	4,604	12,604	17,604	20,104	23,104
Other long-term liabilities *	0	0	0	0	0
Gross Debt at 31 March	**4,604**	**12,604**	**17,604**	**20,104**	**23,104**
Change in Debt position	(3,000)	8,000	5,000	2,500	3,000
Capital Financing Requirement	14,011	18,968	26,937	30,276	34,920
(Under)/ over borrowing **	**(9,407)**	**(6,364)**	**(9,333)**	**(10,172)**	**(11,816)**

** Other long-term liabilities will include Right-of-Use assets under accounting standard IFRS16 to be adopted from 2024/25. The impact is expected to be immaterial therefore is not included at this stage. Should any changes be significant, the CFR limit and forecast will be revised during the year.*

*** Subject to considerations around whether the externally/ internally borrow*

7.3. The Council is required to ensure that its Gross Debt does not, except in the short term, exceed the total of the Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for the current year 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.

7.4. The Council is complying with this indicator in the current year and does not envisage difficulty in complying over the life of the Medium Term Financial Plan. This view takes into account current and future proposals with regard to the capital programme.

Treasury Indicators - Limits to Borrowing Activity

7.5. The Council sets limits to ensure that the revenue consequences of the capital programme on external borrowing remain affordable.

Operational Boundary

7.6. This is the limit beyond which external debt is not normally expected to exceed. This represents the Capital Financing Requirement plus an additional allowance to cover short-term liquidity requirements.

Operational boundary	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	Set	Setting	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000
Capital Financing Requirement	17,517	18,968	26,937	30,276	34,920
Allowance for borrowing to cover short-term cash flow *	6,907	7,867	8,158	8,460	8,773
Total Gross Debt	**24,424**	**26,835**	**35,095**	**38,736**	**43,693**

** Amount required in short-term to cover precepts (the highest cash outflow)*

Authorised Limit for External Debt

7.7. This indicator represents a control on the maximum level of borrowing – a legal limit beyond which external debt is prohibited. This limit needs to be set or revised by the full Council. It 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.

Authorised limit	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
	Set	Estimate	Estimate	Estimate	Estimate
	£'000	£	£	£	£
Operational Boundary	24,424	26,835	35,095	38,736	43,693
'Headroom'	2,000	2,000	2,000	2,000	2,000
Total Gross Debt	**26,424**	**28,835**	**37,095**	**40,736**	**45,693**

Prospects for Interest Rates

7.8. This table, provided by MUFG, presents forecasts for short term Bank of England base rate and PWLB borrowing rates:

%	**Dec-24**	**Mar-25**	**Jun-25**	**Sep-25**	**Dec-25**	**Mar-26**	**Jun-26**	**Sep-26**	**Dec-26**	**Mar-27**	**Jun-27**	**Sep-27**	**Dec-27**
Bank Rate	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
5yr PWLB rate	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10r PWLB rate	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10

7.9. The latest medium term forecast from MUFG, the Council's Treasury management advisers (formerly Link), released on 11 November 2024 shows that the expectation is for the Bank of England base rate to continue a slow decrease until December 2026 when it reaches 3.50% where it is anticipated to remain for the remainder of the forecast period. Therefore a decrease in investment income over the four year MTFP is forecast, although this is subject to the size of portfolio available and how market sentiments react to other economic and geo-politcal inflences which will impact on investment opportunities.

7.10. Forecast PWLB rates are also forecast to follow this trajectory, which would make external borrowing more affordable. Therefore deferral of any external borrowing requirements to the latter half of the MTFP will be considered, weighed against the opportunity cost of internal borrowing in the short term.

Borrowing Strategy

7.11. The Council has an estimated total net financing requirement of £20.9million over the four years ending March 2029. The Treasury Strategy assumes that this will be funded via a combination of new and refinanced external borrowing and some internal borrowing. The profile of ‘change in debt position’ is shown in the table at 7.2.

7.12. The Strategy assumes there will be ‘new’ borrowing of £18.5million over the MTFP period, including £8million in 2025/26, this is to fund the overall CFR from cumulative unfinanced capital expenditure to the end of the forecast MTFP.

7.13. The strategy for external borrowing will be to keep fixed term periods short until interest rates, which are currently relatively high, start to decrease and borrowing can be locked in at lower interest rates for longer periods to provide certainty of future costs. Internal borrowing will be used where there is a net benefit from the reduction in the external borrowing cost, compared to the reduced investment income potential.

7.14. The Council maintains an ‘under-borrowed’ position for the life of the Medium Term Financial Plan. The capital financing requirement, new borrowing, refinancing requirements, and converting debt from temporary internal funding to external loans will be closely monitored considering interest rate forecasts.

Policy on Borrowing in Advance of Need

7.15. The Council will not borrow more than or in advance of its need purely to profit from the investment of the extra sums borrowed.

7.16. The Council however may consider borrowing in advance to protect it from higher borrowing costs within approved Capital Financing Requirement estimates to finance new capital expenditure or refinance existing loans. This will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year reporting mechanism.

Debt Rescheduling

7.17. Debt rescheduling is the reorganisation of existing debt in such a way as to amend the debt repayments, reduce the principal sum borrowed, alter the degree of volatility of debt or vary the interest payable, thus managing the risk. The treasury team, supported by the Council’s treasury advisers at MUFG, will monitor prospects for debt rescheduling to achieve overall financial benefit to the Council.

Maturity Structure of Borrowing

7.18. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The Council is asked to approve the following treasury indicators and limits:

2025/26	Fixed rate		Variable rate	
Maturity structure of borrowing *	Lower	Upper	Lower	Upper
Under 12 months	0%	100%	0%	100%
12 months to 2 years	0%	100%	0%	50%
2 to 5 years	0%	100%	0%	0%
5 to 10 years	0%	100%	0%	0%
10 to 20 years	0%	70%	0%	0%
above 20 years	0%	70%	0%	0%

**external debt only (excludes Leases)*

Control of Interest Rate Exposure

7.19. The Council reviews and manages the interest rate exposure of both borrowing and investments through the borrowing and investment strategies included in this document. Officers will monitor the balance between variable and fixed interest rates to ensure the Council is not exposed to adverse fluctuations in fixed or variable interest rate movements.

8. Annual Investment Strategy

Investment Policy

8.1. MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments (as managed by the treasury management team). Non-financial investments (service delivery and commercial return investments) are covered in the Capital Strategy document.

8.2. The Council's investment policy has regard to the MHCLG Guidance on Local Government Investments ("the Guidance"), the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the CIPFA TM Code") and the CIPFA Treasury Management Guidance Notes 2021.

8.3. The Council's principal investment priorities are the security of capital and the liquidity of its investments. In addition to this, the Council will aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

8.4. In the current economic climate, whilst investment rates remain elevated, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs, but to also consider fixed term investments for up to 12 months with high credit rated financial institutions.

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

- Minimum acceptable credit criteria are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short and long-term ratings.
- Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration, the Council will engage with its advisers to maintain a monitor on market pricing such as 'credit default swaps' and overlay that information on top of the credit ratings.

8.6. The investment instruments identified for use in the financial year are listed in Annex 4 under the headings, 'Specified' and 'Non-Specified' Investments. 'Specified' investments are those with a high level of credit quaity and subject to a maturity limit of one year. 'Non-specified' investments are more complex instruments, those with less high credit quality, may be for periods of more than one year and should be subject to greater consideration by members and officers before use.

8.7. Counterparty limits will be set as part of the Treasury Strategy and maintained as part of the Council's treasury management practices.

8.8. The Council will pursue value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out and reported on during the year and at the end of the financial year in its Annual Treasury Report.

8.9. The above criteria on risk management are unchanged from last year.

Creditworthiness Policy

8.10. This Council applies the creditworthiness service provided by MUFG. This service employs a sophisticated modelling approach utilising credit ratings from three main credit rating agencies – Fitch, Moody's and Standard and

Poor's. The credit ratings of counterparties are supplemented with overlays: credit watches and credit outlooks from credit rating agencies, Credit Default Swap (CDS) spreads to give early warning of likely changes in credit ratings, and sovereign ratings to select counterparties from only the most creditworthy countries.

8.11. Credit watches and outlooks are issued by the ratings agencies. 'Credit watches' are considered short-term actions, whereas 'outlooks' are considered over a longer term time horizon. MUFG includes the release of a negative or positive watch/outlook in its creditworthiness analysis.

8.12. A 'Credit Default Swap' is a contract between two counterparties in which the buyer of the contract makes quarterly payments to the seller of the contract in exchange for a payoff if there is a credit event of the reference entity. The contract essentially gives protection or 'insurance'. Therefore, CDS spreads provide perceived market sentiment regarding the credit quality of an institution and are also used in the creditworthiness analysis to determine the durational band of investment with a financial institution.

8.13. MUFG's creditworthiness model combines credit ratings, credit watches and outlooks in a weighted scoring system, with an overlay of CDS spreads, to produce a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are then used to determine the duration for investments.

8.14. Only counterparties that fall within a 'durational band' will be included on the Council's lending list. In conjunction with the recommended durational limits, the Council has assigned corresponding investment limits to each banding. The limits have been set separately for UK banks and International banks.

UK Banks	Principal Limit	Maximum Length	Portfolio (% of highest balance **)
Yellow *	£8.25m	Up to 5 years	25%
Purple	£8.25m	Up to 2 years	25%
Orange	£6.60m	Up to 1 year	20%
Red	£5.94m	Up to 6 months	18%
Green	£4.95m	Up to 100 days	15%
No Colour	-	Not to be used	-
International Banks			
Purple	£6.60m	Up to 2 years	20%
Orange	£5.94m	Up to 1 year	18%
Red	£4.95m	Up to 6 months	15%
Green	£3.96m	Up to 3 months	12%
No Colour	-	Not to be used	-

** UK Government debt instruments*
***assumes highest balance is £33,000,000*

8.15. The Council is alerted to changes in ratings and market movements through its use of the MUFG creditworthiness service. If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, it will no longer be used for new investments. All ratings will be monitored prior to any new investments being placed.

Group Limits

8.16. To reduce its risk further the Council has set a group limit for fixed term deposits in institutions with the same parent. The group limit will increase to the portfolio percentage of the colour band the institution is rated in at the time by a further 50% where at least the additional amount is held in an instant access account:

Category	Portfolio (% of highest balance*)	Individual Principal Limit	Portfolio % increased by 50%	Group Principal Limit
Purple	25%	£8.25m	38%	£12.54m
Orange	20%	£6.60m	30%	£9.90m
Red	18%	£5.94m	27%	£8.91m
Green	15%	£4.95m	23%	£7.95m

** assumes highest balance is £33,000,000*

Money Market Funds

8.17. The Council has access to several Money Market Funds (MMF) - all of which are 'AAA' rated. A 'Money Market Fund' contains a number of investment instruments with varying maturity periods in a number of different countries. Money Market Funds provide an alternative option for the Council when placing short-term funds and provide for diversification of the investment portfolio.

MMF Limits	Principal Limit	Maximum Length	Portfolio (% of highest balance*)
Individual MMF	£8.25m	Up to 1 year	25%
Total MMF investments**	£12.54m	Up to 1 year	38%

** assumes highest balance is £33,000,000*
*** maximum held in MMF's at any one time*

Intra local authority investing

8.18. In addition to financial investments in instant access accounts; notice accounts; money market funds; fixed term deposits and Certificates of Deposit, which are all with rated institutions (banks, building societies, money market funds), another option is to invest the Council's funds in the intra-local authority market outside of the Strategic Alliance. This type of investment is included in this Investment Strategy for investments for up to 12 months at the counterparty limit equivalent to 'Yellow' (relating to

Government Debt Instruments). The cap of investing for a maximum of 12 months is in line with the Council's current usual practices for financial investments. The counterparty limit £8.25million would be treated as a total limit for all local authority investments and the maximum to be invested in any individual authority would be £2million.

	Principal Limit	Maximum Length	Portfolio (% of highest balance*)
Individual local authority	£2.00m	Up to 1 year	-
All local authorities**	£8.25m	Up to 1 year	25%

** assumes highest balance in £33,000,000*
*** maximum held in all other Local Authorities at any one time*

8.19. MUFG, the Council's advisers, don't have a suggested duration for local authorities on their counterparty list, but as quasi UK Government and with specific regulation protection for lenders they are comfortable with deposits of up to 5 years. Furthermore, there is a general presumption of public bodies being going concerns with an acceptance that should an organisation fail financially, services provided would not be allowed to fail and would be picked up by government or a successor body.

8.20. In selecting a local authority investment, the Council would decline any counterparty under a s114 notice at the time of arranging the investment. Under the Local Government Finance Act 1988, Section 114 (3) dictates that: 'The chief finance officer of a relevant authority shall make a report under this section if it appears that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure'.

8.21. In order to make an investment, the treasury team would contact one of the Council's brokers and make them aware of the amount of investment, duration and yield the Council would like to obtain; they then match this up with other local authority counterparts who need to borrow funds. There is no charge for this brokerage service when lending funds.

Extraordinary Limits

8.22. During 2020/21 and the following years the Council saw unprecedented levels of cash flows due to the large grant funding payments from central government which the Council was required to pay out to businesses under the various grant schemes to respond to the Covid 19 crisis. This put pressure on the counterparty limits set in 2020/21. In setting the Investment Strategy for the years that followed, rather than set limits at very high levels compared to the normal trend of cash flow levels in order to accommodate such events in the future, which would result in artificially high counterparty limits and potentially increase counterparty risk, counterparty limits are set at normal trend levels, with the facility to increase these by a reasonable percentage temporarily according to any situation arising during the year. Such events and their effects on cash flows would be reported at Audit Committees.

Country Limits

8.23. A sovereign credit rating is the credit rating of a sovereign entity i.e. a country. The highest sovereign rating awarded is ‘AAA’. The evolving regulatory environment, in tandem with the rating agencies’ new methodologies, means that sovereign ratings are now of lesser importance in the assessment process and the new regulatory environment is attempting to break the link between sovereign support and domestic financial institutions.

8.24. While the Council understands the changes that have taken place, it will continue to use sovereign ratings of individual counties in addition to credit ratings when making investment decisions. When investing with institutions outside the UK, only banks and building societies located in countries with a minimum sovereign rating of ‘AAA’ at the time of investment will be used. This is in relation to the fact that the underlying domestic and, where appropriate, international economic and wider political and social background will still have an influence on the ratings of a financial institution.

8.25. At 25 November 2024, there were 8 ‘AAA’ rated countries approved for investments under the ‘International Banks’ counterparty limits: Australia, Denmark, Germany, Netherlands, Norway, Singapore, Sweden, and Switzerland.

Environmental, Social & Governance (ESG) considerations

8.26. There is interest in local authority investing around Environmental, Social and Governance (ESG) issues as it could be linked to the Climate Change agenda. Treasury management Practice 1 (TMP1) in the CIFPA Treasury Management Code 2021 incorporates ESG considerations.

8.27. With regards to the financial investments considered in this Investment Strategy, ‘Governance’ is of high importance as poor governance can have a more immediate impact on the financial circumstances of an entity and the potential for a default event that would impact the amount the Council would receive back from investments. CIPFA and statutory investment guidance make absolutely clear that all financial investments must adopt the ‘SLY’ principals, whereby Security of investments is always the priority, followed by Liquidity, then Yield. Therefore, investment opportunities with positive Environmental and Social merits would not be selected if the SLY criteria were not satisfied.

8.28. The ESG market accessible to the Council for financial investments is relatively small with few viable opportunities at present. A financial investment portfolio exclusively made up of ESG linked investments would present a significant increase of Counterparty risk, concentrating the Council's funds in too few places. Therefore this cannot be pursued as a criteria at least until such time as there are more ESG linked products available to the Council. However, opportunities to invest in ESG products, where they are on a par with non-ESG linked investments in terms of the SLY criteria, will be selected as a priority.

8.29. Opportunities for ESG linked investing is a standard item of business in the treasury team's regular review meetings with advisers MUFG and the team keeps up to date with relationship managers for various counterparties and brokers as to opportunities available. Developments in this particular area of financial investing will be reported to the Audit Committee in the regular updates.

8.30. In reference to TMP1, the CIPFA Treasury Management Code comments, *"[ESG] is a developing area, and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level."*[1]*,*

8.31. To go some way to addressing this, the main rating agencies, used in the MUFG Creditworthiness model utilised by the Council, do incorporate ESG risks alongside the more traditional financial risk metrics when assessing counterparty ratings, therefore there is an element of ESG consideration is already being applied.

8.32. The CIPFA Code further comments: *"ESG issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult. Organisations are therefore recommended to consider their credit and counterparty policies in light of ESG information and develop their own ESG investment policies and treasury management practices consistent with their organisation's own relevant policies, such as environmental and climate change policies."*[2]

8.33. Therefore, wider than the financial investments included in this Investment Strategy are non-financial investments, which include activities and projects of the Council considered in the Capital Strategy which could have positive ESG links. As with all Council priorities and decisions, these

[1] Page 18 of the Treasury Management Code
[2] Page 50 of the Treasury Management Code

would need to be considered in the wider context including reference to the Corporate Plan, full business cases and due diligence. This Investment Strategy is only concerned with cash based financial investments.

Investment income

8.34. The Council's in-house managed funds are derived from a core balance available for capital and revenue funding and day-to-day cash flows. At 31 March 2024 the core balances available for investment were £14.8million. Core balances are available for investment in line with the profile of capital expenditure and requirements of the revenue budget. Investments are therefore made with reference to the core balance and cash flow requirements and the outlook for interest rates.

Investment Return Expectations

8.35. Based on expectations of movements in the Bank of England base rate, average investment earnings are forecast by MUFG as:

Year	Average earnings
2025/26	4.10%
2026/27	3.70%
2027/28	3.50%
2028/29	3.50%

8.36. Taking into account the accounts and investments the Council has access to whilst ensuring the profile of liquidity suits the Council's needs, investment income from treasury management investments is forecast over the medium term at:

Year	Investment Income
	£
2025/26	(742,030)
2026/27	(422,810)
2027/28	(370,970)
2028/29	(303,570)

Long-term Investments (greater than 365 days)

8.37. When placing long-term treasury management investments with counterparties the Council's liquidity requirements, availability of funds and counterparty eligibility need to be taken into consideration. A full review and selection process would take place with input from the Council's advisers, MUFG, in advance of entering into any commitment to fully ensure that it is appropriate for the Council. The table below sets the limit for these investments:

Limit	2025/26	2026/27	2027/28	2028/29
Principal sums invested >365 days	3,500,000	3,500,000	3,500,000	3,500,000

ANNEX 1

Treasury Management Policy Statement

In accordance with the CIPFA Code of Practice on Treasury Management, Staffordshire Moorlands District Council defines the policies and objectives of its treasury management activities as follows:

1. The Council defines its treasury management activities as: *"The management of the authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

2. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

3. The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

ANNEX 2

Treasury Management Scheme of Delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.

(ii) Audit & Accounts Committee

- approval of/ amendments to the Council's adopted clauses, treasury management policy statement and treasury management practices;
- reviewing the treasury management policy and procedures and making recommendations to the responsible body;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

The treasury management role of the section 151 (responsible) officer

- recommending clauses, treasury management policy/ practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

ANNEX 3

Management Practices for Non-Treasury Investments

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

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

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

ANNEX 4

Specified and Non-Specified Investments

Specified Investments will be sterling denominated, with maturities up to maximum of 1 year*, meeting the minimum 'high' quality criteria where applicable.

Investment Instrument*	**Minimum 'High' Credit Criteria**	**Investment Limit****
Debt Management Agency Deposit Facility (DMADF)	n/a	As per lending limits Yellow UK
Term deposits – local authorities	n/a	As per lending limits Yellow UK for all authorities; max £2m per LA
Term deposit within Strategic Alliance (High Peak Borough Council and the Council Controlled Companies)	n/a	As per lending limits Yellow UK, benchmarked to Bank of England base rate
Term deposits – housing associations	n/a	n/a
Third Party Loans	Decision made on individual basis per Capital Strategy	n/a
UK Government Gilts and Treasury Bills	UK Sovereign Rating	As per lending limits Yellow UK
Certificates of deposits (CDs) or corporate bonds with banks and building societies	Based on MUFG Creditworthiness analysis. Lowest Band GREEN. Sovereignty Rating AAA or UK	As per individual/ group lending limits
Term deposits – banks and building societies	Based on MUFG Creditworthiness analysis. Lowest Band GREEN. Sovereignty Rating AAA or UK	As per individual/ group lending limits
UK instant access and notice accounts	Based on MUFG Creditworthiness analysis. Lowest Band GREEN	As per individual/ group lending limits

** If forward deposits are to be made, the forward period plus the deal period should not exceed one year in aggregate*
*** must conform to both institution and group limits set*

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):			
Specified investments	Minimum credit criteria	Investment limit/ max.% of total investments	Max. maturity period
Money Market Funds (CNAV & LVNAV)	AAA rated or UK	As per individual/ group lending limits	Liquid

Non-specified Investments are assumed to take on greater risk and should therefore be subject to greater scrutiny. They include investments that are for a period of more than one year and instruments that the Council has very limited experience and expertise in dealing with. A maximum of £10,000,000 (40% of the projected highest balance) will be held in aggregate in non-specified investments.

Investment Instrument*	**Minimum 'High' Credit Criteria**	**Investment Limit****	**Maturity period**
Term deposits UK government (maturities in excess of 1 year)	UK Sovereign Rating	>365 day limit	5 years
Third Party Loans (maturities in excess of 1 year)	Decision made on individual basis per Capital Strategy	n/a	n/a
Term & Callable deposits – banks and building societies (maturities in excess of 1 year)	Based on MUFG Creditworthiness analysis. Lowest Band PURPLE Sovereign Rating AAA	>365 day limit	2 years
Commercial Paper	Based on MUFG Creditworthiness analysis. Lowest Band GREEN. Sovereign Rating AAA	£3,300,000 (10% of highest balance)	1 year
UK Government Gilts – all maturities	UK Sovereign Rating	£3,300,000 (10% of highest balance)	2 years
Bonds issued by multilateral development banks all maturities	Long term AAA	£3,300,000 (10% of highest balance)	6 months
Bonds issued by a financial institution guaranteed by the UK government all maturities	UK Sovereign Rating	£3,300,000 (10% of highest balance)	2 years
Sovereign bond issues (other than the UK govt) all maturities	Long Term AAA	£3,300,000 (10% of highest balance)	2 years
Treasury Bills – all maturities	UK Sovereign Rating	£4,950,000 (15% of highest balance)	2 years
Property funds/ Multi-asset funds	Full due diligence to select appropriate fund	>365 day limit	n/a

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs):			
Non-specified investments	Minimum credit criteria	Investment limit/ max.% of total investments	Max. maturity period
Government liquidity funds, all maturities	AAA rated	£4,950,000 (15% of highest balance)	2 years
Enhanced cash funds, all maturities	AAA rated	£4,950,000 (15% of highest balance)	2 years
Gilt funds, all maturities	AAA rated	£4,950,000 (15% of highest balance)	2 years