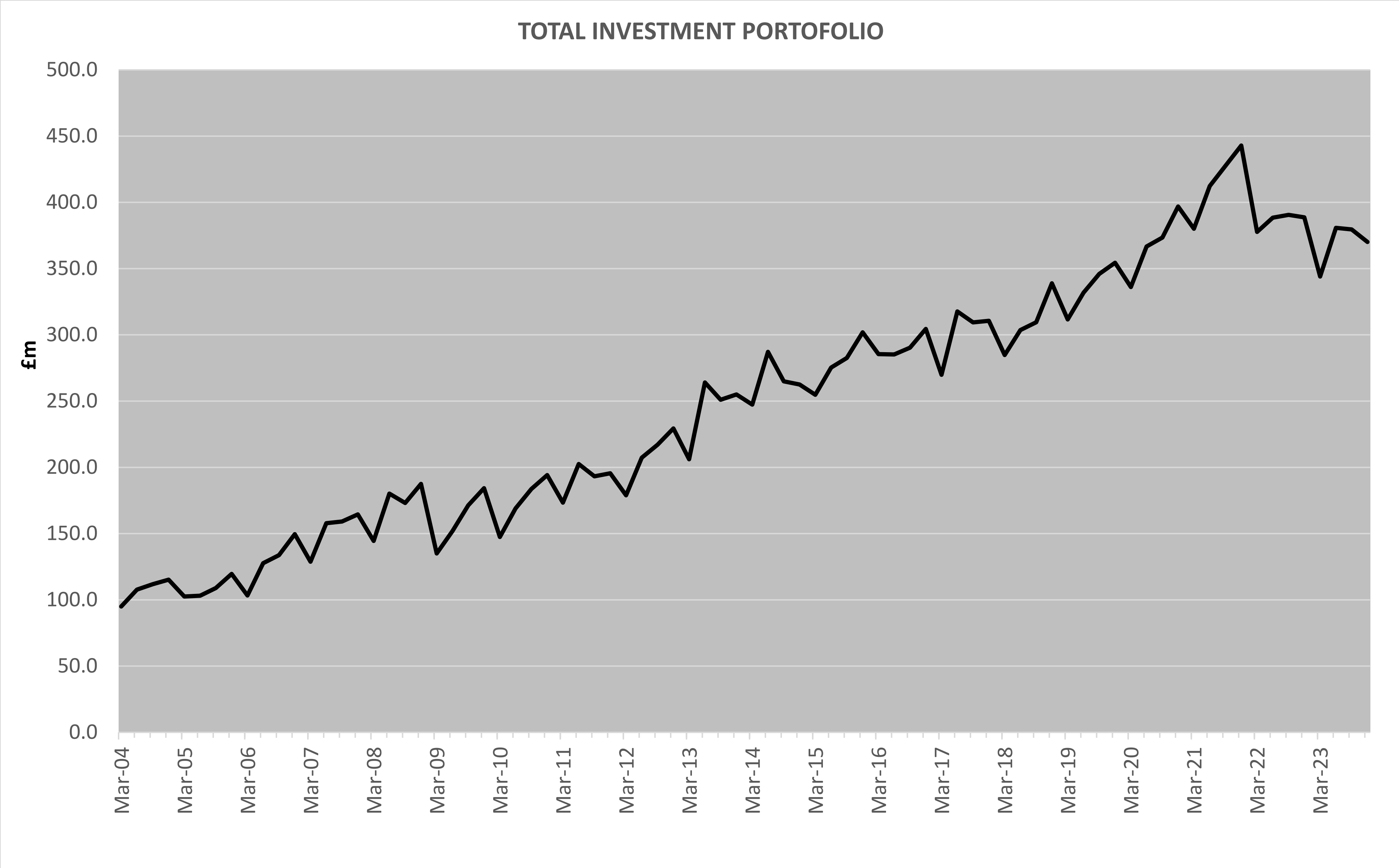
APPENDIX 1


TOTAL INVESTMENT PORTOFOLIO
£m
500.0
450.0
400.0
350.0
300.0
250.0
200.0
150.0
100.0
50.0
0.0
Mar-04
Mar-05
Mar-06
Mar-07
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Mar-16
Mar-17
Mar-18
Mar-19
Mar-20
Mar-21
Mar-22
Mar-23

INVESTMENTS HELD AS AT 31 DECEMBER 2023

APPENDIX 2

					Fitch		Moodys		S&P		Fitch		Moodys		S&P	
Counterparty	Start Date	Maturity Date	Rate of Interest	Amount	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
			%	£m												
FIXED DEPOSITS																
					Ratings at time of Investment						Ratings as at December 2023					
NATIONAL BANK OF CANADA	20/01/2023	19/01/2024	4.60000	10.0	A+	F1	Aa3	P-1	A	A-1	A+	F1	Aa3	P-1	A	A-1
NATIONAL BANK OF KUWAIT (INTERNATIONAL) - LONDON	27/01/2023	26/01/2024	4.70000	5.0	A+	F1			A	A-1	A+	F1			A	A-1
GOLDMAN SACHS INTERNATIONAL BANKS	27/04/2023	29/01/2024	5.06000	5.0	A+	F1	A1	P-1	A+	A-1	A+	F1	A1	P-1	A+	A-1
NATIONAL BANK OF CANADA	05/05/2023	05/02/2024	4.95000	5.0	A+	F1	Aa3	P-1	A	A-1	A+	F1	Aa3	P-1	A	A-1
BIRMINGHAM CITY COUNCIL	30/08/2023	29/02/2024	5.65000	10.0	N/A						N/A					
NATIONAL WESTMINSTER BANK	07/06/2023	07/03/2024	5.32000	5.0	A+	F1	A1	P-1	A+	A-1	A+	F1	A1	P-1	A+	A-1
SANTANDER	19/06/2023	19/03/2024	5.55000	10.0	A+	F1	A1	P-1	A	A-1	A+	F1	A1	P-1	A	A-1
CLOSE BROTHERS	20/04/2023	19/04/2024	5.00000	10.0	A-	F2	Aa3	P-1			A-	F2	Aa3	P-1		
GOLDMAN SACHS INTERNATIONAL BANKS	21/04/2023	19/04/2024	4.93000	10.0	A+	F1	A1	P-1	A+	A-1	A+	F1	A1	P-1	A+	A-1
NATIONAL BANK OF KUWAIT (INTERNATIONAL) - LONDON	24/05/2023	22/05/2024	5.31000	5.0	A+	F1			A	A-1	A+	F1			A	A-1
NATIONAL BANK OF KUWAIT (INTERNATIONAL) - LONDON	14/07/2023	12/07/2024	6.65000	10.0	A+	F1			A	A-1	A+	F1			A	A-1
NATIONAL WESTMINSTER BANK	19/07/2023	18/07/2024	6.19000	10.0	A+	F1	A1	P-1	A+	A-1	A+	F1	A1	P-1	A+	A-1
LANDESBANK HESSEN-THUERINGEN GIROZENTRALE (HE	21/07/2023	19/07/2024	6.20000	15.0	A+	F1+	Aa3	P-1			A+	F1+	Aa3	P-1		
AL RAYAN BANK	26/07/2023	24/07/2024	6.05000	10.0			A1	P-1					A1	P-1		
FIRST ABU DHABI BANK PJSC	27/07/2023	26/07/2024	6.28000	15.0	AA-	F1+	Aa3	P-1	AA-	A-1+	AA-	F1+	Aa3	P-1	AA-	A-1+
QATAR NATIONAL BANK SAQ	28/07/2023	26/07/2024	6.37000	5.0	A	F1	Aa3	P-1	A+	A-1	A	F1	Aa3	P-1	A+	A-1
PRINCIPALITY BUILDING SOCIETY- CARDIFF	28/07/2023	26/07/2024	5.95000	10.0	BBB+	F2	Baa1	P-2			BBB+	F2	Baa1	P-2		
CLOSE BROTHERS	16/08/2023	15/08/2024	6.20000	10.0	A-	F2	Aa3	P-1			A-	F2	Aa3	P-1		
NATIONAL WESTMINSTER BANK	24/08/2023	22/08/2024	6.07000	10.0	A+	F1	A1	P-1	A+	A-1	A+	F1	A1	P-1	A+	A-1
SANTANDER	24/08/2023	27/08/2024	6.10000	10.0	A+	F1	A1	P-1	A	A-1	A+	F1	A1	P-1	A	A-1
CAMBRIDGESHIRE COUNTY COUNCIL	04/12/2023	04/09/2024	5.65000	10.0	N/A						N/A					
CLOSE BROTHERS	27/10/2023	25/10/2024	5.75000	10.0	A-	F2	Aa3	P-1			A-	F2	Aa3	P-1		
AL RAYAN BANK	30/10/2023	30/10/2024	5.90000	10.0			A1	P-1					A1	P-1		
QATAR NATIONAL BANK SAQ	01/12/2023	29/11/2024	5.90000	10.0	A	F1	Aa3	P-1	A+	A-1	A	F1	Aa3	P-1	A+	A-1
TOTAL FIXED INVESTMENTS				**220.0**												
OTHER FUNDS																
FIDELITY MONEY MARKET FUND				0.0												
ABERDEEN -STANDARD LIFE (IGNIS) LIQUIDITY FUND				0.0												
INSIGHT STERLING LIQUIDITY FUND				7.0												
LGIM STERLING LIQUIDITY FUND				15.0												
FEDERATED (Hermes) STERLING LIQUIDITY FUND				15.0												
CCLA LOCAL AUTHORITY PROPERTY FUND	30/01/2014			40.0												
SCHRODERS	12/07/2017			20.0												
FIDELITY MULTI-ASSET INCOME FUND	01/03/2021			40.0												
SPRING CAPITAL LOAN	09/06/2017			3.1												
SOVEREIGN BONDS	01/08/2023	01/08/2025	6.61000	10.0												
TOTAL INVESTMENTS				**370.1**												

APPENDIX 3

INVESTMENTS HELD AS AT 31 DECEMBER 2023

	Start Date	Maturity Date	Rate of Interest %	Amount £m	Total £m	Limit £m	Remaining £m
UK BANKS							
NATWEST BANK PLC	07/06/2023	07/03/2024	5.32000	5			
NATWEST BANK PLC	19/07/2023	18/07/2024	6.19000	10			
NATWEST BANK PLC	24/08/2023	22/08/2024	6.07000	10	25	80	55
SANTANDER PLC UK	19/06/2023	19/03/2024	5.55000	10			
SANTANDER PLC UK	24/08/2023	27/08/2024	6.10000	10	20	20	0
CLOSE BROTHERS LTD	20/04/2023	19/04/2024	5.00000	10			
CLOSE BROTHERS LTD	16/08/2023	15/08/2024	6.20000	10			
CLOSE BROTHERS LTD	27/10/2023	25/10/2024	5.75000	10	30	30	0
GOLDMAN SACHS INTERNATIONAL BANK	21/04/2023	19/04/2024	4.93000	10			
GOLDMAN SACHS INTERNATIONAL BANK	27/04/2023	29/01/2024	5.06000	5	15	20	5
AL RAYAN BANK PLC - LONDON	26/07/2023	24/07/2024	6.05000	10			
AL RAYAN BANK PLC - LONDON	30/10/2023	30/10/2024	5.90000	10	20	20	0
NATIONAL BANK OF KUWAIT (INTERNATIONAL) - LONDON	27/01/2023	26/01/2024	4.70000	5			
NATIONAL BANK OF KUWAIT (INTERNATIONAL) - LONDON	24/05/2023	22/05/2024	5.31000	5			
NATIONAL BANK OF KUWAIT (INTERNATIONAL) - LONDON	14/07/2023	12/07/2024	6.65000	10	20	20	0
UK BUILDING SOCIETIES							
PRINCIPALITY BUILDING SOCIETY	28/07/2023	26/07/2024	5.95000	10	10	10	0
OVERSEAS BANKS							
QATAR NATIONAL BANK	28/07/2023	26/07/2024	6.37000	5			
QATAR NATIONAL BANK	01/12/2023	29/11/2024	5.90000	10	15	15	0
FIRST ABU DHABI	21/07/2023	19/07/2024	6.20000	15	15	15	0
LANDESBANK HESSEN-THUERINGEN GIROZENTRALE (HELABA	21/07/2023	19/07/2024	6.20000	15	15	15	0
NATIONAL BANK OF CANADA	20/01/2023	19/01/2024	4.60000	10			
NATIONAL BANK OF CANADA	05/05/2023	05/02/2024	4.95000	5	15	15	0
LOCAL AUTHORITIES							
BIRMINGHAM CITY COUNCIL	30/08/2023	29/02/2024	5.65000	10	10	15	5
CAMBRIDESHIRE COUNTY COUNCIL	04/12/2023	04/09/2024	5.65000	10	10	15	5
OTHER INVESTMENTS							
INSIGHT STERLING LIQUIDITY FUND				7.0	7	15	8
LGIM STERLING LIQUIDITY FUND				15	15	15	0
FEDERATED (PRIME RATE) STERLING LIQUIDITY FUND				15	15	15	0
CCLA LOCAL AUTHORITY PROPERTY FUND	30/01/2014			40	40		
FIDELITY - MULTI ASSET INCOME FUND	12/07/2017			40	40		
SCHRODERS	01/03/2021			20	20		
SPRING CAPITAL LOAN	09/06/2017		6.00000	3.1	3.1		
SOVEREIGN BONDS	01/08/2023	01/08/2025	6.61000	10	10		
TOTAL INVESTMENTS				**370.1**	**370.1**		

APPENDIX 4

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy: 2024/25

Contents

1. Introduction

1.1 Background

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.

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 Authority, essentially the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet risk or cost objectives.

Having obtained the requisite permissions to re-open its Housing Revenue Account (HRA) during 2020/21 the Council will provide immediate finance through internal borrowing, with external borrowing to be utilised at a later date. Repayments and interest will be made through the internal movement of funds to the general fund.

CIPFA defines treasury management as:

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

Whilst any commercial initiatives or loans to third parties will impact on the treasury function these activities are generally classed as non-treasury activities and are separate from the day-to day treasury management activities.

1.2 Statutory and Reporting requirements

The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Council is currently required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by Members before being recommended to the Council. This role is undertaken by the Executive, Resources and Contracts Policy Development & Scrutiny Committee.

Prudential and Treasury Indicators and Treasury Strategy (this report) - This covers:

1. the capital plans (including prudential indicators);
2. a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);

3. the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
4. an investment strategy (the parameters on how investments are to be managed).

A Part-Year Treasury Management Report (approved by Council in December 2023) – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

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.

Quarterly reports – In addition to the three major reports detailed above, from 2023/24 quarterly reporting (end of June/end of December) is also required. However, these additional reports do not have to be reported to Full Council but do require to be subject to scrutiny.

Capital Strategy
The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

1. a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
2. an overview of how the associated risk is managed
3. the implications for future financial sustainability

The aim of this report is to ensure that all elected members on the full council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

The Capital Strategy will include capital expenditure, investments and liabilities and treasury management in sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability and affordability will be secured.

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

Capital issues

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

Treasury management issues

1. the current treasury position;
2. treasury indicators which limit the treasury risk and activities of the Council;
3. prospects for interest rates;
4. the borrowing strategy;
5. policy on borrowing in advance of need;
6. debt rescheduling;
7. the investment strategy;
8. creditworthiness policy; and
9. the policy on use of external service providers.

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

1.4 Training

The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

Furthermore, pages 47 and 48 of the Code state that they expect "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.

The scale and nature of this will depend on the size and complexity of the organisation's treasury management needs. Organisations should consider how to assess whether treasury management staff and board/ 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.

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

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

In further support of the revised training requirements, CIPFA's Better Governance Forum and Treasury Management Network have produced a 'self-assessment by members responsible for the scrutiny of treasury management', which is available from the CIPFA website to download.

The training needs of treasury management officers are periodically reviewed. A formal record of the training received by officers central to the Treasury function will be maintained by the Head of Corporate Finance & Accounting. Similarly, a formal record of the treasury management/capital finance training received by members will also be maintained by the Head of Corporate Finance & Accounting.

1.5 Treasury management consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisors.

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

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

1.6 Elective Professional Client Status

From 3rd January 2018 the Financial Conduct Authority is obligated to treat all Local Authorities as "retail clients" under European Union legislation, the Markets in Financial Instruments Directive II (MiFID II). The client status of the Local Authority relates to its knowledge and experience with regards to the use of regulated investment products and the decision-making processes it has in place for making such investments. The directive is focused on products such as Certificates of Deposit, Gilts, Corporate Bonds and investment funds, including Money Market Funds.

The Council will opt up to "elective professional" status in order to continue to have access to these funds as an investment option as they are not available to retail clients. The Council had opted up to elective professional status with all relevant counterparties, including its advisers and brokers, prior to the deadline. This will be kept under regular review and counterparties will be added or removed as necessary for the Council's investment needs.

2. The Capital Prudential Indicators 2024/25–2026/27

The Council'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.

2.1 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts as per the quarterly capital monitoring and review reports to Executive. The data shown below will be reported to the Executive in February 2024:

Capital expenditure £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Non-HRA	21.0	60.0	141.1	84.8	24.5
HRA[1]	-	-	-	-	-
Total	21.0	60.0	141.1	84.8	24.5

[1] Note: The HRA Business Plan has yet to be drafted and approved and it is therefore not currently possible to estimate HRA Capital Expenditure.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Total expenditure	21.0	60.0	141.1	84.8	24.5
Financed by:					
Capital receipts	0.0	19.3	79.1	48.6	0.0
Capital grants/contributions	12.4	24.6	38.8	15.3	1.5
Internal borrowing	3.5	1.7	10.8	8.4	0.0
Revenue contributions	5.1	10.8	5.3	0.3	0.0
Net financing need	**0.0**	**3.6**	**7.1**	**12.2**	**23.0**

2.2 The Council's borrowing need (Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply 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 Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

If the CFR is positive, the Council may borrow from the Public Works Loans Board (PWLB) or the market (other external borrowing) or from internal balances on a temporary basis (internal borrowing). The Council's CFR represents liabilities arising from finance leases entered into in recent years in respect of various items of plant and equipment (primarily equipment in schools and vehicles and plant built into highways and waste contracts). The Council currently has no external borrowing, but it has agreed in principle borrowing of £50m from the PWLB for the purpose of refinancing existing housing programmes. This loan is reflected in the table below. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

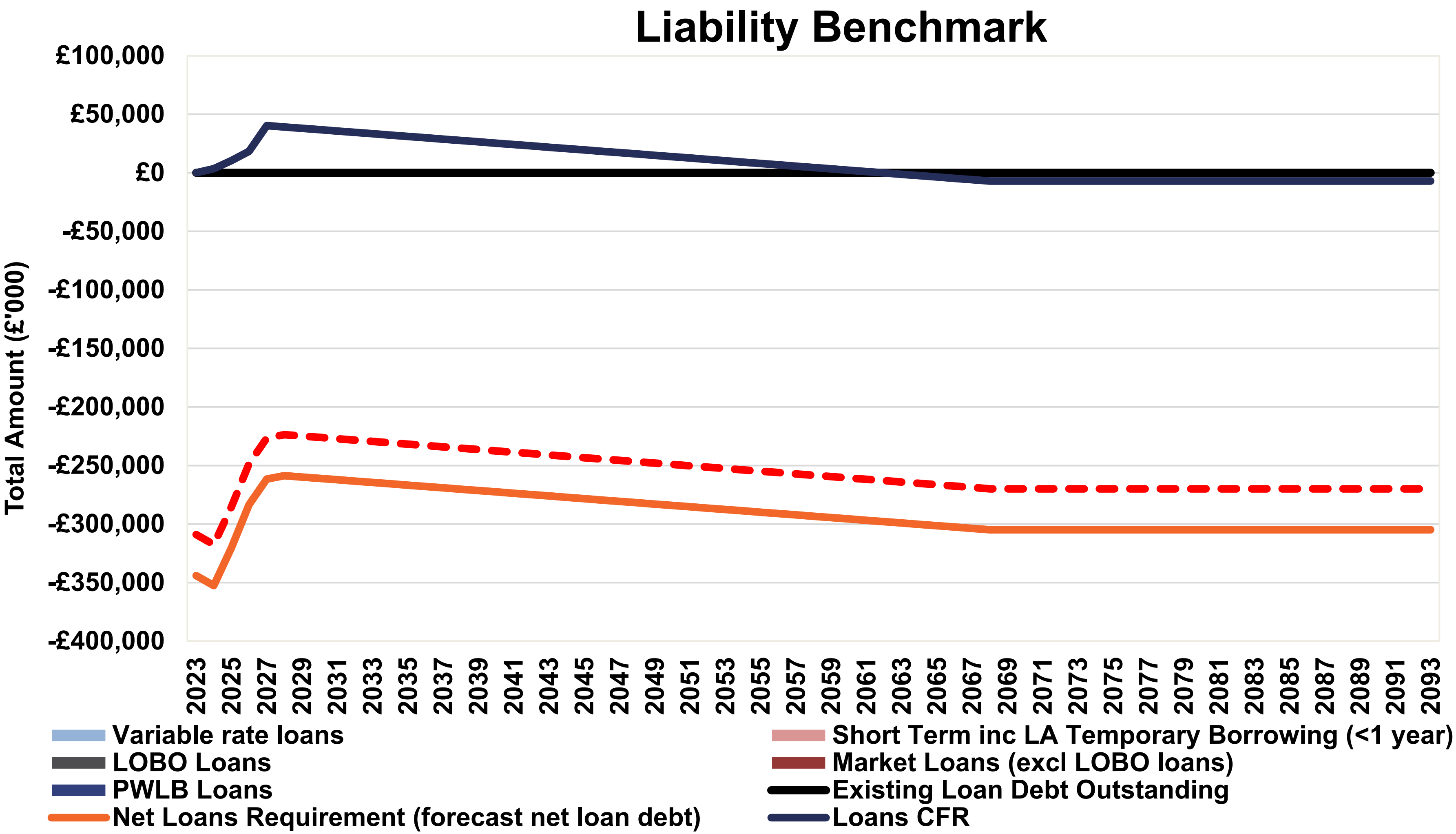
The Council is asked to approve the CFR projections below:

£m	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Capital Financing Requirement					
CFR – non housing	8.4	7.7	7.0	6.3	5.6
CFR – housing	21.5	24.7	31.3	43.1	65.6
Total CFR	29.9	32.4	38.3	49.4	71.2
Movement in CFR	-	+2.5	+5.9	+11.1	+21.8

Movement in CFR represented by					
Net financing need for the year (above)	-	3.6	7.1	12.2	23.0
Less MRP/VRP and other financing movements	-	-1.1	-1.2	-1.1	-1.2
Movement in CFR	-	+2.5	+5.9	+11.1	+21.8

2.3 Liability Benchmark

A third and new prudential indicator for 2023/24 is the Liability Benchmark. The Authority is required to estimate and measure the benchmark for the forthcoming financial year and the following two financial years, as a minimum.



There are four components to the Liability Benchmark:

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

For Bromley, the graph indicates a zero net borrowing requirement at present, based on the Council's current financial position. It does not fully take into account the following metrics, which the Council has modelled separately in determining its borrowing needs:

- A detailed breakdown of the latest Capital Financing Requirement including details of how this is to be financed in future
- Details of the expenditure and financing requirements of the Capital Programme
- Information on the use of balances and reserves over the Medium-Term Financial Plan and Capital Programme
- Full details of all projected treasury management activity.

2.4 Minimum revenue provision (MRP) policy statement

The Council 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 - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

MHCLG (now DLUHC) regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision.

The Council is recommended to approve the following MRP Statement:

The MRP will be based on the estimated lives of the assets, in accordance with the regulations, and will follow standard depreciation accounting procedures. Estimated life periods will be determined under delegated powers. To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where the recommendations of the guidance would not be appropriate.

In practice, the Council's capital financing MRP is currently assessed as the depreciation chargeable on the outstanding balance on the finance leases the

Council has entered into. A Voluntary Revenue Provision (VRP) may also be made in respect of additional repayments. Going forwards, the capital financing MRP will also be required to cover the proposed PWLB loan to support housing programmes. It is proposed to calculate this element of the MRP on the methodology set out in the CIPFA Prudential code known as "option 3 - equal instalment asset life method."

Note: There is no requirement on the HRA to make a minimum revenue provision but there is a requirement for a charge for depreciation to be made (although there are transitional arrangements in place).

2.5 Core Funds and Expected Investment Balances

The application of resources (capital receipts, reserves, etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc).

2.6 Affordability prudential indicators

The previous sections 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 Council's overall finances. The Council is asked to approve the following indicators:

2.6.1 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.

%	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Non-HRA	0.0	0.0	0.0	0.0	0.4
HRA	0.0	0.0	0.0	0.0	0.0
Total	0.0	0.0	0.0	0.0	0.4

3. Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity 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. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2023 is summarised below, together with forward projections. The table shows the actual external borrowing (the treasury management operations) against the capital borrowing (the Capital Financing Requirement) highlighting any over or under borrowing.

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
External borrowing					
Borrowing at 1 April	0.0	0	3.6	10.7	23.0
Expected change in borrowing	0	3.6	7.1	12.3	22.9
Other long-term liabilities (OLTL)	29.9	28.8	27.6	26.5	25.3
Expected change in OLTL	-	-1.1	-1.2	-1.1	-1.2
Actual borrowing at 31 March	**0.0**	**3.6**	**10.7**	**23.0**	**45.9**
CFR – the borrowing need	29.9	32.4	38.3	49.4	71.2
Under / (over) borrowing	**29.9**	**28.8**	**27.6**	**26.5**	**25.3**
Investments	**344.0**	**298.9**	**243.1**	**208.5**	**225.5**
Net investments	**344.0**	**295.3**	**232.4**	**185.5**	**179.6**
Change in net investments	-	-48.7	-62.9	-46.9	-5.9

Within the prudential indicators, there are a number of key indicators to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 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.

The Director of Finance reports that the Council complied with this prudential indicator in the current year and does not envisage non-compliance in the future. This view takes into account current commitments, existing plans, and the proposals in this year's budget report.

3.2 Treasury Indicators: limits to borrowing activity

3.2.1 The Operational Boundary

This is the total figure that external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Operational boundary £m	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Borrowing	10.0	50.0	50.0	50.0
Other long-term liabilities	30.0	30.0	30.0	30.0
Total Operational Boundary	40.0	80.0	80.0	80.0

3.2.2 The Authorised Limit for external borrowing

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

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

Authorised limit £m	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	£m	£m	£m	£m
Borrowing	30.0	50.0	50.0	50.0
Other long-term liabilities	30.0	30.0	30.0	30.0
Total Authorised Limit	60.0	80.0	80.0	80.0

3.3 Prospects for Interest Rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 8th January 2024. Their current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 for those authorities with an HRA (standard rate minus 60 bps).

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE (PROVIDED BY LINK)

- Our central forecast for interest rates was previously updated on 7th November and reflected a view that the MPC would be keen to underpin its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are unequivocally supportive of such a move, and that there is a strong likelihood of the overall economy enduring tepid growth (at best) or a mild recession (at worst) over the coming months.

- Naturally, timing on this matter 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.

- In the upcoming months, our 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.

PWLB RATES

- The short and medium part of the gilt curve has rallied since the start of November as markets price in a quicker reduction in Bank Rate through 2024 and 2025 than held sway back then. This reflects market confidence in inflation falling back in a similar manner to that already seen in the US and the Euro-zone. At the time of writing there is c70 basis points difference between the 5 and 50 year parts of the curve.

The balance of risks to the UK economy: -

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

Downside risks to current forecasts for UK gilt yields and 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.

- Projected **gilt issuance, inclusive of natural maturities and Quantitative Tightening (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 remains at 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 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 factor in Bank Rate reductions for 2024 and later.

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

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.55%	4.70%
2025/26	3.10%	320%
2026/27	3.00%	3.00%
2027/28	3.25%	3.25%
Years 6 to 10	3.25%	3.25%
Years 10+	3.25%	3.25%

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

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

3.4 Borrowing Strategy

Whilst the Council currently has no external borrowing, it does plan to borrow to refinance existing housing schemes – this is estimated to require PWLB borrowing of £50m over a maximum of 40 years. Additionally, the Council has a Capital Financing Requirement (CFR) of £29.9m (as at 31st March 2023), which is the outstanding liability on finance leases taken out in respect of plant, equipment and vehicles.

The uncertainty over future interest rates increases the risks associated with treasury activity. As a result, the Council will take a cautious approach to its treasury strategy and will monitor interest rates in financial markets.

3.4.1 Treasury indicators for debt

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

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

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

£m	**2023/24**	**2024/25**	**2025/26**
Interest rate exposures			
	Upper	Upper	Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	20%	20%	20%
Maturity structure of fixed interest rate borrowing 2023/24			
		Lower	**Upper**
Under 12 months (temporary borrowing only)		100%	100%
12 months to 2 years		N/A	N/A
2 years to 5 years		N/A	N/A
5 years to 10 years		N/A	N/A
10 years and above		N/A	N/A

3.5 Policy on Borrowing in Advance of Need

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

4. Annual Investment Strategy

4.1 Investment Policy

The Department of Levelling Up, Housing and Communities (DLUHC - this was 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 treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are reported separately.

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

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

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term 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 advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

Investment instruments identified for use in the financial year are listed in Annex 2 under the 'specified' and 'non-specified' investments categories. Counterparty limits will be as set through the Council's treasury management practices – schedules.

The intention of the strategy is to provide security of investment and minimisation of risk.

4.2 Creditworthiness policy

Investment instruments identified for use in the financial year are listed in Annex 2 under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set through the Council's Treasury Management Practices – Schedules.

Investment Counterparty Selection Criteria - The primary principles governing the Council's investment criteria are the security and liquidity of its investments, although the yield or return on the investment is also a key consideration. After these main principles, the Council will ensure that:

1. 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
2. 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.

The Director of Finance will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary. These criteria are separate to those that determine which types of investment instrument are either Specified or Non-Specified as they provide an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

The rating criteria require at least one of the ratings provided by the three ratings agencies (Fitch, Moody's and Standard & Poors) to meet the Council's minimum credit ratings criteria.

Credit rating information is supplied by Link, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer-term change) are provided to officers almost immediately after they occur and this information is considered before dealing. For instance, a negative rating watch applying to counterparty at the minimum Council criteria may be suspended from use, with all others being reviewed in light of market conditions.

In addition, the Council receives weekly credit lists as part of the creditworthiness service provided by Link. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

1. credit watches and credit outlooks from credit rating agencies;
2. CDS (Credit Default Swap) spreads to give early warning of likely changes in credit ratings (these provide an indication of the likelihood of bank default);
3. sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties and a recommendation on the maximum duration for investments. The Council would not be able to replicate this level of detail using in-house resources, but uses this information, together with its own view on the acceptable level of counterparty risk, to inform its creditworthiness policy. The Council will also apply a minimum sovereign rating of AA- to investment counterparties.

The criteria for providing a pool of high-quality investment counterparties (both Specified and Non-specified investments) are:

1. **Banks 1** - good credit quality **–** the Council will only use banks which:
   a) are UK banks;

   b) are non-UK and domiciled in a country with a minimum long-term sovereign rating of AA- or equivalent;

   c) have, <u>as a minimum</u>, at least one of the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

   Short term – Fitch F3; Moody's P-3; S&P A-3
   Long term – Fitch BBB+; Moody's Baa3; S&P BBB+

2. **Banks 2** – Part nationalised UK bank – Royal Bank of Scotland. This bank can be included provided it continues to be part nationalised.

3. **Bank subsidiary and treasury operation** - The Council will use these where the parent bank has provided an appropriate guarantee or has the necessary ratings in Banks 1 above.

4. **Building societies -** The Council will use all societies that meet the ratings in Banks 1 above.

5. **Money Market Funds** – The Council will use AAA rated Money Market Funds, including VNAV funds.

6. **UK Government** (including gilts and the DMADF)

7. **Other Local Authorities, Parish Councils, etc.**

8. **Housing Associations**

9. **Collective (pooled) investment schemes**

10. **Supranational institutions**

11. **Corporate Bonds**

12. **Sovereign Bonds**

13. **Certificates of Deposit, Commercial Paper and Floating Rate Notes**

The Council's detailed eligibility criteria for investments with counterparties are included in Annex 2.

All credit ratings will be continuously monitored. The Council is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

1. if a downgrade results in the counterparty no longer meeting the Council's minimum criteria, its further use for new investments will be withdrawn immediately.
2. in addition to the use of Credit Ratings, the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the external advisers. In addition, this Council will also use market data and market information, information on government support for banks and the credit ratings of that government support. The Council forms a view and determines its investment policy and actions after taking all these factors into account.

4.3 Country limits

The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). The list of countries that qualify using these credit criteria as at the date of this report is shown in Annex 2. This list will be amended by officers should ratings change in accordance with this policy.

4.4 ESG Considerations

The updated Treasury Management Code states that “The organisation's credit and counterparty policies should set out its policy and practices relating to environmental, social and governance (ESG) investment considerations. This 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. 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.”

Link has suggested that the most important issue is ensuring that there is a clear understanding of what “environmental, social and governance (ESG)” investment considerations means. It is about understanding the ESG “risks” that an entity is exposed to and evaluating how well it manages these risks, (all entities will be subject to these to one extent or other). It is <u>not</u> the same as Socially Responsible Investing, (typically where you apply negative screens), and equally, it is <u>not</u> the same as Sustainable Investing, (investing in products / companies based on expected sustainable and beneficial societal impact, alongside a financial return). There is also a significant potential for misunderstanding which could have material unintended consequence i.e., limiting of potential counterparty options, thus decreasing diversification. The above could then lead to authorities widening credit criteria to take on more names, or those with a stronger “ESG” performance, which could then increase credit risk, which would place the cornerstone of prudent investing at risk.

Link has suggested that authorities can take ESG considerations into account through credit ratings. All the main agencies are now extoling how they incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings. As such, it is arguable that their incorporation is already being done, to an extent, by the use of mainstream rating agencies. It is this approach that Bromley will currently adopt, until such time as a definitive, consistent approach can be formulated and validated by our external advisers.

4.5 Investment Strategy

In-house funds: The Council’s core portfolio is around £370m although cashflow variations during the year will lead to the portfolio balance fluctuating. 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).

Investment returns expectations.
The current interest rate forecast (refer paragraph 3.3) projects that the Bank Rate will remain at 5.25% in Q2 2024.

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

Average earnings in each year	Now	Previously
2023/24 (residual)	5.30%	5.30%
2024/25	4.55%	4.70%
2025/26	3.10%	3.20%
2026/27	3.00%	3.00%
2028/29	3.25%	3.25%
Years 6 to 10	3.25%	3.25%
Years 10+	3.25%	3.25%

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end. The Council is asked to approve the treasury indicator and limit: -

As at year end	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m
Principal sums invested > 365 days	170.0	170.0	170.0	170.0

For its cash flow generated balances, the Council will seek to utilise its short notice accounts, money market funds and short-dated deposits (overnight to three months) in order to benefit from the compounding of interest.

4.6 End of year investment report

After the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4.7 Scheme of Delegation

(i) Full board/council

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

(ii) Boards/committees/council/responsible body

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- 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.

(iii) Body/person(s) with responsibility for scrutiny

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

4.8 Role of the Section 151 Officer

The S151 officer is responsible for:

- 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
- preparation of a capital strategy to include capital expenditure, capital financing, and treasury management, with a long-term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long-term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:
  - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios
  - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments
  - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that

appropriate professional due diligence is carried out to support decision making

- Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken
- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

ANNEX 1: Economic Background (Provided by Link)

- The third quarter of 2023/24 saw:
  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS “experimental” rate of unemployment has remained low at 4.2%;
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
  - Core CPI inflation decreasing from April and May’s 31 years’ high of 7.1% to 5.1% in November, the lowest rate since January 2022;
  - The Bank of England holding Bank Rate at 5.25% in November and December;
  - A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with the Halifax house price index recently pointing to a 1.7% year on year increase whilst Nationwide’s December data pointed to a -1.8% year on year decrease. However, the full weakness in real consumer spending and real business investment has yet

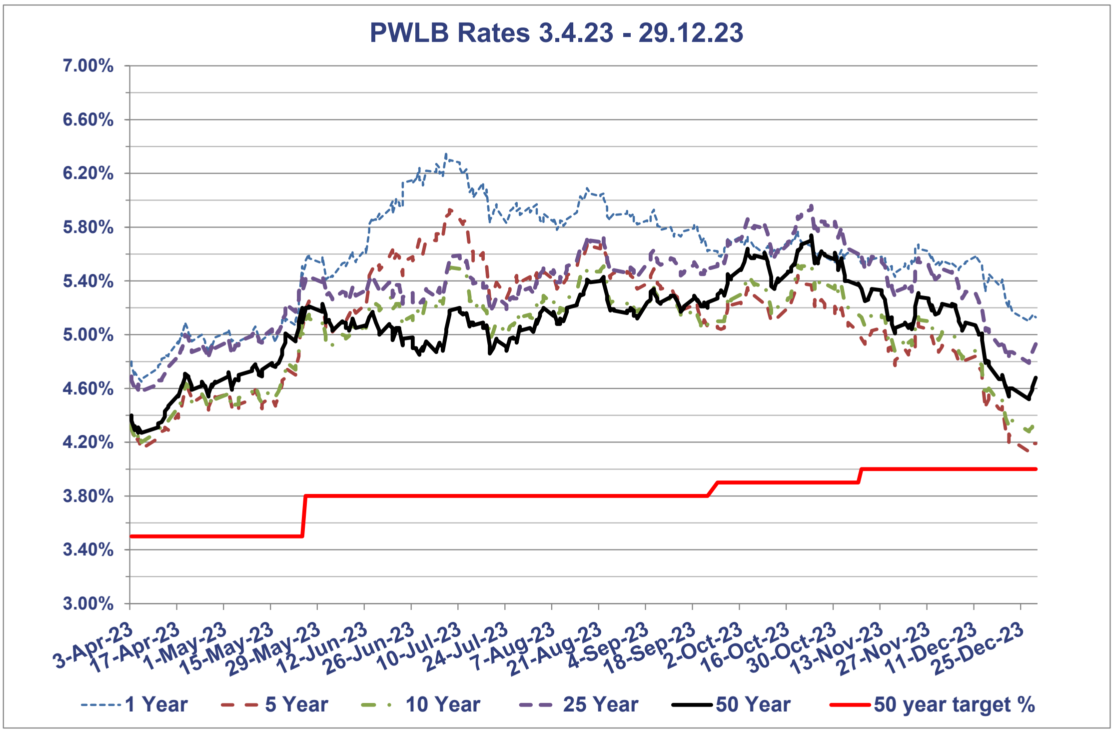
to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.

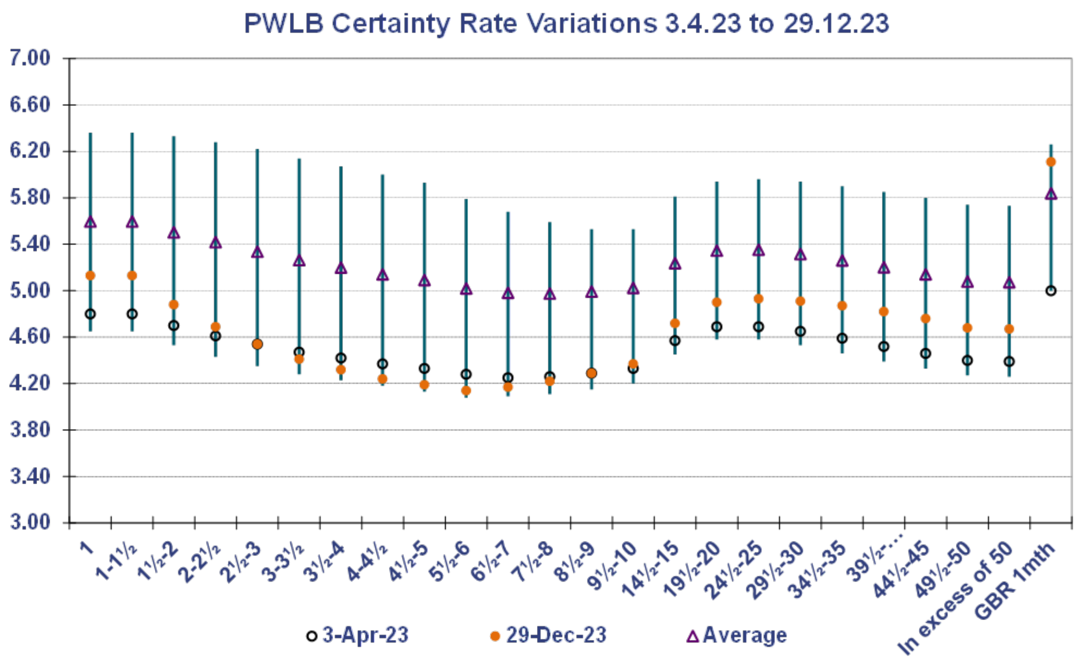
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.
- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time".

In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.

- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.





	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

MPC meetings 2nd November and 14th December 2023

- On 2nd November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.
- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

ANNEX 2: Specified and Non-Specified Investments – Eligibility Criteria

Eligibility Criteria for investment counterparties

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with maturities up to a maximum of 1 year, meeting the minimum 'high' quality criteria where applicable.

NON-SPECIFIED INVESTMENTS: These are any investments which do not meet the Specified Investment criteria (i.e. non-sterling and placed for periods greater than 1 year).

A variety of investment instruments will be used. Subject to the credit quality of the institution and depending on the type of investment made, investments will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

SPECIFIED INVESTMENTS
These investments are sterling investments of not more than one-year maturity or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are relatively low risk investments where the possibility of loss of principal or investment income is small. These would include investments with:

1. The UK Government (such as the Debt Management Account deposit facility, a UK Treasury Bill or a Gilt with a maximum of 1 year to maturity).
2. A local authority, parish council or community council (maximum duration of 1 year).
3. Corporate, Sovereign or supranational bonds of no more than 1 year's duration.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency.
5. A bank or building society that has been awarded a high credit rating by a credit rating agency (only investments placed for a maximum of 1 year).
6. Certificates of deposit, commercial paper or floating rate notes (maximum duration of 1 year).

Minimum credit ratings (as rated by Fitch, Moody's and Standard & Poors) and monetary and time period limits for all of the above categories are set out below. The rating criteria require at least one of the ratings provided by the three ratings agencies (Fitch, Moody's and Standard & Poors) to meet the Council's minimum credit ratings criteria. The Council will take into account other factors in determining whether an investment should be placed with a particular counterparty, but all investment decisions will be based initially on these credit ratings criteria. The Council will also apply a minimum sovereign rating of AA- (or equivalent) to investment counterparties.

NON-SPECIFIED INVESTMENTS
Non-specified investments are any other type of investment (i.e., not defined as Specified above) and can be for any period over 1 year. The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

	Non-Specified Investment Category	Limit (£ or %)
	Bank Deposits with a maturity of more than one year and up to a maximum of 3 years. These can be placed in accordance with the limits of the Council's counterparty list criteria (i.e. subject to satisfaction of Fitch, Moody's and Standard & Poors credit ratings criteria shown below).	£80m and 3 years limits.
	Building Society Deposits with a maturity of more than one year. These can be placed in accordance with the limits of the Council's counterparty list criteria (i.e. subject to satisfaction of Fitch, Moody's and Standard & Poors credit ratings criteria shown below).	None permitted at present.
	Deposits with other local authorities with a maturity of greater than 1 year and up to a maximum of 3 years. Maximum total investment of £15m with each local authority.	£15m limit with each local authority; maximum duration 3 years.
	Gilt edged securities with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. The use of UK Government gilts is restricted to fixed date, fixed rate stock with a maximum maturity of five years. The total investment in gilts is limited to £25m and will normally be held to maturity, but the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity. The Director of Finance must personally approve gilt investments. The Council currently has no exposure to gilt investments.	£25m in total; maximum duration 5 years.
	Non-rated subsidiary of a credit-rated institution that satisfies the Council's counterparty list criteria. Investments with non-rated subsidiaries are permitted, but the credit-rated parent company and its subsidiaries will be set an overall group limit for the total of funds to be invested at any time.	Subject to group limit dependent on parent company's ratings.
	Corporate Bonds with a duration of greater than 1 year and up to a maximum of 5 years, subject to satisfaction of credit ratings criteria as set out below.	£25m in total; maximum duration 5 years.
	Sovereign Bonds with a duration of greater than 1 year and up to a maximum of 3 years, subject to a minimum credit rating of AA-	£25m in total; maximum duration 3 years. Sterling only.
	Collective (pooled) investment schemes with a duration of greater than 1 year. The total investment in collective (pooled) investment schemes is limited to £100m and can include property funds, diversified growth funds and other eligible funds.	£100m in total.
	Certificates of Deposit, Commercial Paper and Floating Rate Notes with a duration of greater than 1 year, subject to satisfaction of credit ratings criteria as set out below.	Subject to group banking limits dependent on bank / building society credit ratings.
	Housing Associations with a duration of between 1 and 2 years, subject to satisfaction of credit ratings criteria as set out below.	£80m in total; maximum duration 2 years.

CRITERIA FOR FUNDS MANAGED INTERNALLY AND EXTERNALLY

1. **Banks General** - good credit quality **–** the Council may only use banks which:
a) are UK banks;
b) are non-UK and domiciled in a country with a minimum long-term sovereign rating of AA- or equivalent;
c) have, as a minimum, at least one of the following Fitch, Moody's and Standard and Poors credit ratings (where rated):

Short term – Fitch F3; Moody's P-3; S&P A-3
Long term – Fitch BBB+; Moody's Baa1; S&P BBB+

2. **Banks 1A – UK and Overseas Banks (highest ratings)** - the Council may place investments up to a total of £30m for a maximum period of 1 year with UK banks (and up to a total of £15m for a maximum period of 1 year with Overseas banks) that have, as a minimum, at least at least one of the following Fitch, Moody's and Standard & Poors ratings (where rated).

	Short-Term	Long-Term
Fitch	F1+	AA-
Moody's	P-1	Aa3
S & P	A-1+	AA-

3. **Banks 1B – UK and Overseas Banks (very high ratings)** - the Council may place investments up to a total of £20m for a maximum period of 1 year with UK banks (and up to a total of £10m for a maximum period of 6 months with Overseas banks) that have, as a minimum, at least one of the following Fitch, Moody's and Standard & Poors ratings (where rated).

	Short-Term	Long-Term
Fitch	F1	A
Moody's	P-1	A2
S & P	A-1	A

4. **Banks 1C – UK and Overseas Banks (high ratings)** – the Council may place investments up to a total of £10m for a maximum period of 1 year with UK banks (and up to a total of £5m for a maximum period of 3 months with Overseas banks) that have, as a minimum, at least one of the following Fitch, Moody's and Standard & Poors ratings (where rated):

	Short-Term	Long-Term
Fitch	F3	BBB+
Moody's	P-3	Baa1
S & P	A-3	BBB+

5. **Banks 2 - Part nationalised UK banks (Royal Bank of Scotland)** - the Council may place investments up to a total of £80m for up to 3 years with the part-nationalised UK Royal Bank of Scotland provided it remains part-nationalised.

6. **Bank subsidiary and treasury operation** - The Council may use these where the parent bank has provided an appropriate guarantee and has the necessary ratings in Banks 1 above. The total investment limit and period will be determined by the parent company credit ratings.

7. **Building societies** - The Council may use all societies that meet the ratings in Banks 1 above.

8. **Money Market Funds** – The Council may invest in AAA rated Money Market Funds, including Constant Net Asset Value (CNAV) Funds, Low Volatility Net Asset Value (LVNAV) funds and Variable Net Asset value (VNAV) funds. The total invested in each of the CNAV and LVNAV Funds must not exceed £15m at any time and £10m for VNAV funds. This includes the Payden Sterling Reserve Fund for which a limit of £15m is also applied. No more than £25m in total may be invested in VNAV funds at any time."

9. **UK Government (including gilts and the DMADF)** – The Council may invest in the government's DMO facility for a maximum of 1 year, but with no limit on total investment. The use of UK Government gilts is restricted to a total of £25m and to fixed date, fixed rate stock with a maximum maturity of 5 years. The Director of Finance must personally approve gilt investments.

10. **Local Authorities, Parish Councils etc** – The Council may invest with any number of local authorities, subject to a maximum exposure of £15m for up to 3 years with each local authority.

11. **Business Reserve Accounts** - Business reserve accounts may be used from time to time, but value and time limits will apply to counterparties as detailed above.

12. **Corporate Bonds** – Investment in corporate bonds with a minimum credit rating of BBB+ is permitted, subject to a maximum duration of 5 years and a maximum total exposure of £25m.

13. **Sovereign Bonds** – Investment in sovereign bonds (sterling denominated only) with a minimum credit rating of AA- is permitted, subject to a maximum duration of 3 years and a maximum total exposure of £25m.

14. **Collective (pooled) investment schemes** – these may comprise property funds, diversified growth funds and other eligible funds and are permitted up to a maximum (total) of £100m.

15. **Certificates of Deposit, Commercial Paper and Floating Rate Notes** – These are permitted, subject to satisfaction of minimum credit ratings in Banks General above.

16. **Housing Associations** – The Council may invest with Housing Associations with a minimum credit rating of BBB+, for a maximum duration of 2 years, and with a maximum deposit of £10m with anyone Housing Association and £80m in total.

17. **Sovereign Ratings** – The Council may only use counterparties in countries with sovereign ratings (all 3 agencies) of AA- or higher.

APPROVED COUNTRIES FOR INVESTMENTS

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link creditworthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France
- Qatar
- **U.K.**

ANNEX 3: Prudential Indicators – Summary for Approval by Council

Prudential and Treasury Indicators are relevant for the purposes of setting an integrated treasury management strategy and require the approval of the Council. They are included separately in Appendix 1 together with relevant narrative and are summarised here for submission to the Council meeting for approval.

The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. The revised Code (published in 2009 and updated in 2011, 2017 and 2021) was initially adopted by full Council on 15th February 2010 and has subsequently been re-adopted each year in January/February.

PRUDENTIAL INDICATORS	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	actual	**estimate**	**estimate**	**estimate**	**estimate**
GF Capital Expenditure	21.0	60.0	141.1	85.8	24.5
HRA Capital Expenditure	0	0	0	0	0
Total Capital Expenditure	£21.0m	£60.0m	£141.1m	£85.8m	£24.5m
Ratio of financing costs to net revenue stream	0.0%	0.0%	0.0%	0.0%	0.4%
Net borrowing requirement (net investments for Bromley)					
brought forward 1 April	£377.8m	£344.0m	£295.3m	£232.4m	£185.5m
carried forward 31 March	£344.0m	£295.3m	£232.4m	£185.5m	£179.6m
in year borrowing requirement (movement in net investments for Bromley)	-£23.8m	-£48.7m	-£62.9m	-£46.9m	-£5.9m
Capital Financing Requirement as at 31 March	£29.9m	£32.4m	£38.3m	£49.4m	£71.2m
Annual change in Cap. Financing Requirement	-	+£2.5m	+£5.9m	+£11.1m	+£21.8m

TREASURY MANAGEMENT INDICATORS	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
	actual	**estimate**	**estimate**	**estimate**	**estimate**
Authorised Limit for external debt -					
borrowing	£30.0m	£50.0m	£50.0m	£50.0m	£50.0m
other long-term liabilities	£30.0m	£30.0m	£30.0m	£30.0m	£30.0m
TOTAL	£60.0m	£80.0m	£80.0m	£80.0m	£80.0m
Operational Boundary for external debt -					
borrowing	£10.0m	£50.0m	£50.0m	£50.0m	£50.0m
other long-term liabilities	£30.0m	£30.0m	£30.0m	£30.0m	£30.0m
TOTAL	£40.0m	£80.0m	£80.0m	£80.0m	£80.0m
Upper limit for fixed interest rate exposure	100%	100%	100%	100%	100%
Upper limit for variable rate exposure	20%	20%	20%	20%	20%
Upper limit for total principal sums invested for more than 365 days beyond year-end dates	£170.0m	£170.0m	£170.0m	£170.0m	£170.0m