Report title: Treasury Management Strategy and Investment Strategy 2025/26

Meeting:	**Corporate Governance and Audit Committee**
Date:	**31 January 2025**
Cabinet Member (if applicable)	**Councillor Graham Turner**
Key Decision **Eligible for Call In**	**Yes** **No**

Purpose of Report

Under the CIPFA Code of Practice on Treasury Management (2021) and accompanying Prudential Code 2021 the Council must present a Treasury Management Strategy at the start of each financial year. Alongside the Treasury Management Strategy, the Annual Investment Strategy must also be approved by Council.

Recommendations

That Corporate Governance & Audit Committee recommend the following for consideration by Cabinet and then approval by full Council**:**

- the treasury management strategy incorporating: the borrowing strategy outlined in paragraphs 2.16 to 2.29;
- the investment strategy (treasury management investments) outlined in paragraphs 2.30 to 2.38 and Appendices A and B;
- the policy for provision of repayment of debt (Minimum Revenue Provision) outlined in paragraphs 2.39 to 2.40 and at Appendix C
- the treasury management prudential indicators in Appendix D; and
- the investment strategy (non-treasury investments) at Appendix F.

Reasons for Recommendations

- Section 151 of the Local Government Act 1972 requires the Council to make arrangements for the proper administration of its financial affairs.
- The Council must have regard to the CIPFA Treasury Management Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) 2021 and the Statutory guidance on Local government Investments (2018) when performing its duties under Part 1 of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended).

Resource Implications: The revenue implications of the strategies outlined have been reflected in the Council's annual budget report to be presented to Council in March 2025.	
Date signed off by Strategic Director & name	**N/A**
Is it also signed off by the Service Director for Finance?	**Kevin Mulvaney – 20/01/2025**
Is it also signed off by the Service Director for Legal Governance and Commissioning?	**Sam Lawton –20/01/2025**

Electoral wards affected: All

Ward Councillors consulted: N/A

Public or private: Public

Have you considered GDPR: Yes – there is no personal data within the budget details and calculations set out in this report and accompanying Appendices

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1 Executive Summary

1.1 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code. Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy. This is attached at Appendix F.

1.2 Cabinet is responsible for the implementation and monitoring of the treasury management policies. The Corporate Governance and Audit Committee undertake a scrutiny role with regard to treasury management. The last training for members of this Committee was provided in January 2024 by the Council's treasury management advisors/consultants, Arlingclose. Further training is confirmed for January 2025.

1.3 This report will:

(i) outline the outlook for interest rates and credit risk, and in light of this, recommend an investment strategy (Treasury Management Investments) for the Council to follow in 2025/26;

(ii) outline the current and estimated future levels of Council borrowing and recommend a borrowing strategy for 2025/26;

(iii) review the methodologies adopted for providing for the repayment of debt and recommend a policy for calculating the Minimum Revenue Provision (MRP);

(iv) review other treasury management matters including the policy on the use of financial derivatives, prudential indicators, the use of consultants, and the policy on charging interest to the Housing Revenue Account;

(v) recommend an annual Investment Strategy (Non-Treasury Investments) for the Council in 2025/26.

2 Information required to take a decision

The following paragraphs 2.1 to 2.7 have been provided by our Treasury Management external advisors, Arlingclose:

Economic Background

2.1 The impact on the UK from the government's Autumn Budget, slower interest rate cuts, modestly weaker economic growth over the medium term, together with the impact from President-elect Trump's second term in office and uncertainties around US domestic and foreign policy, will be major influences on the Authority's treasury management strategy for 2025/26.

2.2 The Bank of England's (BoE) Monetary Policy Committee (MPC) held Bank Rate at its December 2024 meeting, six Committee members voted to maintain Bank Rate at 4.75%, while three members preferred to reduce it to 4.5%. Members will recall that interest rates peaked at 5.25% during 2024/25.

2.3 The November quarterly Monetary Policy Report (MPR) expected Gross Domestic Product (GDP) growth to pick up to around 1.75% (four-quarter GDP) in the early period of the BoE's forecast horizon before falling back. The impact from the Budget pushes GDP higher in 2025 than was expected in the previous MPR, before becoming weaker. Current GDP growth was shown to be zero (0.0%) between July and September 2024 and 0.4% between April and June 2024, a further downward revision from the 0.5% rate previously reported by the Office for National Statistics (ONS).

2.4 ONS figures reported the annual Consumer Price Index (CPI) inflation rate at 2.6% in November 2024, up from 2.3% in the previous month. Core CPI also rose, but by more than expected, to 3.6% against a forecast of 3.5% and 3.3% in the previous month. The outlook for CPI inflation in the November MPR showed it rising above the MPC's 2% target from 2024 into 2025 and reaching around 2.75% by the middle of calendar year 2025. This represents a modest near-term increase due to the ongoing impacts from higher interest rates, the Autumn Budget, and a projected margin of economic slack. Over the medium-term, once these pressures ease, inflation is expected to stabilise around the 2% target.

2.5 The labour market appears to be easing slowly however, but the data still requires treating with some caution. The latest figures reported the unemployment rate rose to 4.3% in the three months to October 2024 and economic inactivity declined. Pay growth for the same period was reported at 5.2% for both regular earnings (excluding bonuses) and total earnings. Looking ahead, the BoE MPR showed the unemployment rate is expected to increase modestly, rising to around 4.5%, the assumed medium-term equilibrium unemployment rate, by the end of the forecast horizon.

Interest Rate Forecast

2.6 The Authority's treasury management adviser Arlingclose expects the Bank of England's Monetary Policy Committee will continue reducing Bank Rate throughout 2025, taking it to around 3.75% by the end of the 2025/26 financial year. The effect from the Autumn Budget on economic growth and inflation has reduced previous expectations in terms of the pace of rate cuts as well as pushing up the rate at the end of the loosening cycle.

2.7 Arlingclose expects long-term gilt yields to remain broadly at current levels on average (amid continued volatility), but to end the forecast period modestly lower compared to now. Yields will continue to remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will be short-term volatility due to economic and (geo)political uncertainty and events.

Borrowing and Investments – Local context

2.8 On 31st December 2024 the Council held £746.8 million of borrowing and £36.5 million of treasury investments.

2.9 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying sums available for investments. The Council's current strategy is to maintain borrowing and investments below their underlying levels, known as internal borrowing.

2.10 Table 1 below sets out the forecast CFR position for the Council as at 31 March 2025 and estimated CFR and borrowing requirements over the next 3 years. CIPFA's Prudential Code recommends that the Council's total debt should be lower than its highest forecast CFR. Table 1 shows that the Council expects to comply with this recommendation.

Table 1: Balance Sheet Summary and Forecast

	31.03.24 Actual £m	31.03.25 Forecast £m	31.03.26 Estimate £m	31.03.27 Estimate £m	31.03.28 Estimate £m
Capital Financing Requirement	**901.1**	**965.9**	**1,091.3**	**1,253.1**	**1,303.1**
Less: PFI liabilities*	74.2	92.7	86.0	79.1	71.2
Less: Other deferred liabilities*	3.4	3.4	3.4	3.4	3.4
Loans CFR	**823.5**	**869.8**	**1001.9**	**1170.6**	**1228.5**
Less: External borrowing**	707.3	726.4	657.6	611.0	567.0
Internal (over) borrowing	**116.2**	**143.4**	**344.3**	**559.6**	**661.5**
Less: Balance sheet resources	155.1	106.1	103.2	104.2	104.2
New borrowing (Treasury investments)	**-38.9**	**37.3**	**241.1**	**455.4**	**557.4**

** Leases and PFI debt liabilities that form part of the Council's total debt. These figures now include additional debt due to the introduction of IFRS16 leasing standard from 01.04.24.*
*** Shows only loans to which the Council is committed and excludes optional refinancing.*

2.11 There is a marked increase in the CFR due to increases in the capital programme, in particular the Cultural Heart and town centre regeneration programme as part of the Huddersfield Blueprint. The Council will be required to borrow up to £358.7 million to fund the increase in the Loans CFR over the 3 year period from 31 March 2025 to 31 March 2028.

2.12 As Council balance sheet resources are forecast to reduce in line with planned commitments, the use of funding the CFR with internal borrowing will decrease resulting in further external borrowing. The Council is estimated to borrow a total of £557.4 million to fund the CFR along with reduction in reserves, as shown in the table above.

Liability Benchmark

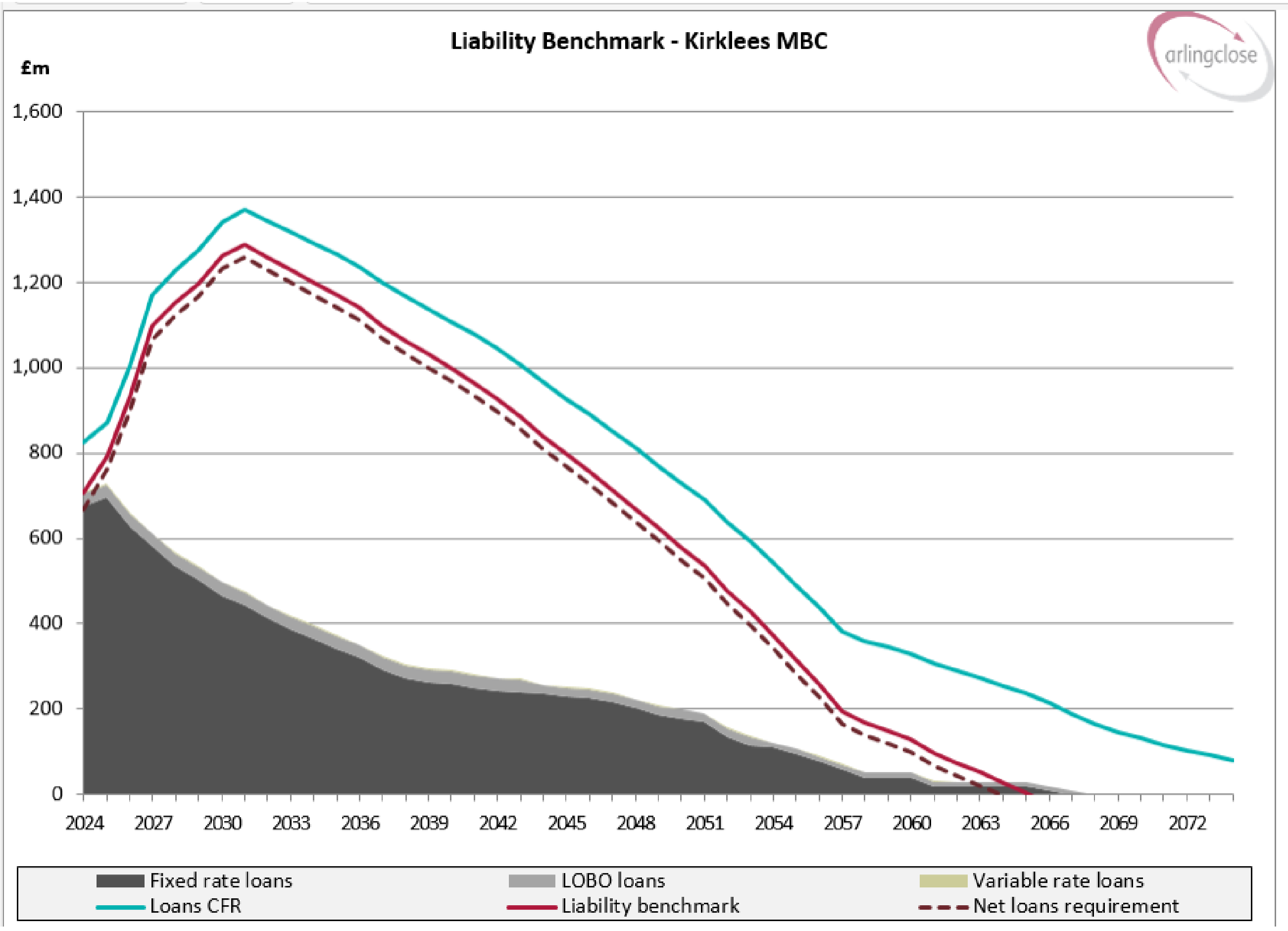
2.13 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £30.0 million at each year-end to maintain sufficient liquidity but minimise credit risk.

2.14 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow. The liability benchmark estimates the Council will hold £1,154.4 million of borrowing at 31 March 2028.

Table 2: Prudential Indicator: Liability Benchmark

	31.03.24 Actual £m	31.03.25 Estimate £m	31.03.26 Forecast £m	31.03.27 Forecast £m	31.03.28 Forecast £m
Loans CFR	**823.5**	**869.8**	**1001.9**	**1170.6**	**1228.5**
Less: Balance sheet resources	155.1	106.1	103.2	104.2	104.2
Net loans requirement	**668.4**	**763.7**	**898.7**	**1066.4**	**1124.4**
Plus: Liquidity allowance	38.9	30.0	30.0	30.0	30.0
Liability benchmark	**707.3**	**793.7**	**928.7**	**1096.4**	**1154.4**

2.15 The total liability benchmark is shown in the chart below together with the maturity profile of the Council's existing borrowing. The red line is the liability benchmark which reaches a peak in 2031 highlighting the gap between current borrowing identified in grey, which is reducing over time with repayments, and the additional borrowing required to fund the capital plan.



Borrowing Strategy

2.16 The Council is forecast to hold around £793.7 million of external borrowing at 31 March 2025, an increase of £86.4 million on the previous year, as part of its strategy for funding the capital programmes. Other long-term liabilities forecast of £96.1 million is an increase of £18.5 million on the previous year due to the addition of £23.4 million for the introduction of IFRS16 Leasing standard from 01 April 2024. The balance sheet forecast in table 1 shows the Council expects to borrow up to a further £241.1 million by 2025/26. The Council may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of £1024.7 million for 2025/26.

2.17 The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period when funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective. The Council is in regular contact with its Treasury advisors who provide appropriate support and advice in delivering this objective.

2.18 The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

2.19 The Council's strategic approach over the last few years has been to take a combination of long, medium and short-term borrowing to ensure a more balanced risk approach. During the first three quarters of the 24/25 financial year, the Council took £50.0 million of medium-term EIP Borrowing from the PWLB, and £30m of short to medium-term borrowing from other Authorities.

2.20 Short-term interest rates are currently higher than in the recent past but are expected to fall slowly in the coming year, and it is therefore likely to be more cost effective over the medium-term to either use internal resources, or to borrow short-term loans instead, which can then be re-financed when rates are lower. The risks of this approach will be managed by keeping the Council's interest rate exposure within the limit set in the treasury management prudential indicators.

2.21 However, the Council has a large long-term borrowing requirement which will ultimately require longer term borrowing and therefore the Council will continue to take a combination of short, medium and long-term loans during 2025/26, diversifying the borrowing and maturity structure of the loans.

2.22 In addition the Council may borrow short-term loans to cover unplanned cash flow shortages.

2.23 The Council currently holds LOBO (Lender's Option, Borrower's Option) loans, where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. With interest rates remaining high, there is a good chance that lenders will exercise their options. If they do, the Council will take the option to repay loans to reduce refinancing risk in later years. Total borrowing via LOBO loans is currently £30.0 million which is 4.0% of debt.

2.24 The Council has previously raised most of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pension funds and local authorities, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield. The Council intends to avoid this activity in order to retain its access to PWLB loans. The Code allows the Council to borrow for purposes essential to its core aims, such as for housing and regeneration projects, or for treasury management purposes.

2.25 The approved sources of borrowing are:

- HM Treasury's PWLB lending facility
- Any bank or building society authorised to operate in the UK
- Any other UK public sector body
- Capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues
- UK public and private sector pension funds
- National Wealth Fund Ltd (formerly UK Infrastructure Bank Ltd)

2.26 The Municipal Bonds Agency established in 2014 by the Local Government Association is an alternative source of borrowing. It issues bonds on the capital markets and lends the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities may be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be subject of a separate report to full Council.

2.27 The Council may arrange forward starting loans, with alternative lenders as these are not available through the PWLB, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

2.28 The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The rise in interest rates means that more favourable debt rescheduling opportunities should arise.

2.29 Borrowing policy and performance are monitored throughout the year and are reported to Members via a Half Yearly Report and also an Outturn Report in line with approved guidance.

Treasury Investment Strategy

2.30 The Council holds around £30.0 million of invested funds (including the CCLA property fund), an amount considered to meet the day-to-day cashflow requirements of the Council, and representing income received in advance of expenditure plus balances and reserves held. The Council may hold more than this amount as borrowing is taken at various points throughout the year in order to spread risk resulting in potential higher investment balances. In the past 12 months, the Council's treasury investment balance has ranged between £27.9 million and £107.7 million, and similar levels are expected to be maintained in the forthcoming year.

2.31 The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking a higher rate of return or yield, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. The Council's objective when investing money is to strike an appropriate balance between risk and return. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

2.32 As demonstrated by the liability benchmark in table 2 above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cashflows using short-term low risk instruments. The existing portfolio of £10.0 million in the strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

2.33 Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

2.34 The Council's investment criteria are detailed in Appendix A, maintaining a low risk strategy giving priority to security and liquidity, and as such invest an average of around £20.0 million externally in short-term liquid investments through the money markets. Cash balances may be higher dependent upon at what stage in the year borrowing is taken.

2.35 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The Council uses credit ratings from the three main rating agencies - Fitch, Moody's and Standard & Poor's to assess the risk of investment defaults (Appendix B). The lowest credit rating of an organisation will be used to help determine credit quality. Long term ratings are expressed on a scale from AAA (the highest quality) through to D (indicating default). Ratings of BBB- and above are described as investment grade, while ratings of BB+ and below are described as speculative grade.

2.36 Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made,

- Any existing investments that can be recalled or sold at no cost will be, and
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a rating is on review for possible downgrade ("negative watch") so that it is likely to fall below the required criteria, then only investments that can be withdrawn (on the next working day) will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

2.37 Full regard will be given to other available information on the credit quality of banks and building societies, including credit default swap prices, financial statements and rating agency reports. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the approved criteria.

2.38 Annual cash flow forecasts are prepared which are continuously updated to determine the maximum period for which funds may prudently be committed.

Statement of Policy on the Minimum Revenue Provision (MRP)

2.39 MRP is the statutory requirement for local authorities to set aside some of their revenue resources as provision for reducing the underlying need to borrow (Capital Financing Requirement – CFR), the borrowing taken out in order to finance capital expenditure.

2.40 Current DHLUC guidance (MHCLG) recommends that Council's prepare a statement of policy on making MRP in respect of the forthcoming year, with approval by full Council before the start of the financial year. If these proposals subsequently need to be varied, a revised statement should be put to full Council. Appendix C details the Council's policy for the provision of MRP.

Policy on the Use of Financial Derivatives

2.41 Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives.

2.42 The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of financial risks that the Council is exposed.

2.43 Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

2.44 In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Treasury Management Prudential Indicators

2.45 The Council is asked to approve certain treasury management prudential indicators, the purpose of which is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decision impacting negatively on the Council's overall financial position. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs. The indicators are set out in Appendix D.

Other Matters

2.46 The CIPFA Code also requires the Council to note the following matters each year as part of the treasury management strategy:

(i) *Investment Consultants*

The Council's adviser is Arlingclose Limited. The services received include:

- Advice and guidance on relevant policies, strategies and reports;
- Advice on investment and debt management;
- Notification of credit ratings and other information on credit quality;
- Reports on treasury performance;
- Forecasts of interest rates and economic activity; and
- Training courses.

The quality of the service is monitored on a continuous basis by the Council's treasury management team.

(ii) *Investment Training*

As part of the MiFID II requirements, the needs of the Council's treasury management staff for training in investment management are assessed on a continuous basis. Additionally training requirements are assessed when the responsibilities of individual members of staff change. Staff attend training courses and seminars as appropriate.

(iii) *Investment of money borrowed in advance of need*

The Council may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. However, as this would involve externally investing such sums until required and thus increasing exposures to both interest rate and principal risks, it is not believed appropriate to undertake such a policy at this time. As noted in 2.30, the Council does invest externally short term when cashflows are positive and to manage unexpected payments.

(iv) Policy on charging interest to the Housing Revenue Account (HRA)

Following the reform of housing finance, the Council is free to adopt its own policy on sharing interest costs and income between General Fund and the HRA. The CIPFA code recommends that authorities state their policy each year in the strategy report.

On 1 April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. New long-term loans borrowed will be assigned in their entirety to one pool or the other. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. Interest will be applied to this balance using the Council's average investment rate and adjusted for credit risk.

3 Implications for the Council

3.1 Working with People: N/A

3.2 Working with Partners: N/A

3.3 Placed based working: N/A

3.4 Climate Change and Air Quality: N/A

3.5 Improving Outcomes for Children: N/A

3.6 Financial Implications: N/A

3.7 Legal Implications

3.8 <u>Other (e.g Risk, Integrated Impact Assessment or Human Resources)</u>

The revenue implications of the strategies outlined have been reflected in the Council's annual budget report.

The Council must have regard to the CIPFA Code of Practice on Treasury Management; the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) 2021 the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended).

The Council has the power to borrow under section 1 of the Local Government Act 2003 and the Council has powers to invest under section 12 of the Local Government Act 2003.

4 Consultation

Arlingclose, the treasury management advisors to the Council, have provided the economic context commentary contained in this report.

5 Engagement

6 Options

6.1 Options considered

N/A

6.2 Reasons for recommended option

N/A

7 Next steps and timelines

The report and recommendations be submitted to Cabinet on 11 February 2025 and Council on 05 March 2025.

Treasury management performance will be monitored and reported to members during the year.

8 Contact officers

James Anderson	Head of Accountancy	01484 221000
Rachel Firth	Finance Manager	01484 221000

9 Background Papers and History of Decisions

CIPFA's Code of Practice on Treasury Management in the Public Services
CIPFA's Prudential Code for Capital Finance in Local Authorities
CIPFA's Treasury Management in the Public Services – guidance notes
Guidance on Local Government Investments (MHCLG 2018)
The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (Amended 2008); Localism Act 2011.

10 Appendices

Appendix A: Investment Policy for 2025/26
Appendix B: Credit ratings
Appendix C: Minimum Revenue Provision Policy
Appendix D: Treasury Management Prudential Indicators
Appendix E: Glossary of Treasury Terms
Appendix F: Investment Strategy 2025/26

11 Service Director responsible

Kevin Mulvaney 01484 221000

APPENDIX A

Investment Policy for 2025/26

Investment Limits:

- The Council is able to invest an unlimited amount with the UK Government for up to 6 months.
- The Council is able to invest up to £10.0 million and up to three months with UK banks and building societies with a “high to upper medium grade” credit rating.
- The Council is able to invest up to £10.0 million and up to two months with foreign banks with a “high to upper medium grade” credit rating.
- The Council is able to invest up to £10.0 million and up to three months with individual local authorities.
- The Council is able to invest up to £10.0 million in individual MMFs (instant access or up to 2 day notice). There will be an overall limit of £40.0 million for MMFs (non-government funds), plus up to £10.0 million invested in a fund backed by government securities.
- The Council is able to invest up to £10.0 million in Local Authority Pooled Investment Funds.

The maximum limits apply to any one counter-party and to a banking group rather than each individual bank within a group.

Note:

The limits set out above exclude any amounts held on the Council’s behalf by the Yorkshire Purchasing Organisation (YPO). The YPO (a consortium in which the Council has an interest) invest funds as part of their treasury management processes. For the avoidance of doubt, this element does not form part of the limits set above. For context, the Council’s proportion of YPO’s maximum investment with any given counterparty is approximately £155k.

Liquidity management:

The Council uses purpose-built cash flow forecasting models to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council’s medium-term financial plan and cash flow forecast.

	Short-term Credit Ratings / Long-term Credit Ratings			Investment Limits per Counterparty		Counterparties falling into category as at 30 Nov 2024	
	Fitch	**Moody's**	**S & P**	**£m**	**Period (2)**		
UK Banks / Building Societies (Deposit accounts, fixed term deposits and REPOs)	F1	P-1	A-1	10.0	<3mth	HSBC Lloyds Group Santander UK Barclays	Bank of Scotland Handelsbanken Nationwide BS
	AAA,AA+,AA, AA-,A+,A, A-	Aaa,Aa1,Aa2, Aa3,A1,A2,A3	AAA,AA+,AA, AA-,A+,A,A-				
Foreign Banks (Deposit accounts, fixed term deposits and REPOs)	F1	P-1	A-1	10.0	<2mth	Various	
	AAA,AA+,AA, AA-,A+,A,A-	Aaa,Aa1,Aa2, Aa3,A1,A2,A3	AAA,AA+,AA, AA-,A+,A,A-				
MMF (1)	AAAmmf	Aaa-mf	AAAm	10.0	Instant access/ up to 2 day notice	Aberdeen Deutsche Bank	Aviva Goldman Sachs
UK Government (Fixed term deposits)	-	-	-	Unlimited	<6mth		
UK local authorities (Fixed term deposits) (2)	-	-	-	10.0	<3mth		
Local Authority Pooled Investment Funds	-	-	-	10.0	>6mth		

(1) Overall limit for investments in MMFs of £50.0 million – the assets the funds invest in are securities and structures secured on government securities
(2) The investment period begins from the commitment to invest, rather than the date on which funds are paid over.

Credit ratings

Moody's		S&P		Fitch		
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime
Aa1		AA+		AA+		High grade
Aa2		AA		AA		
Aa3		AA-		AA-		
A1		A+	A-1	A+	F1	Upper medium grade
A2		A		A		
A3	P-2	A-	A-2	A-	F2	
Baa1		BBB+		BBB+		Lower medium grade
Baa2	P-3	BBB	A-3	BBB	F3	
Baa3		BBB-		BBB-		
Ba1	Not prime	BB+	B	BB+	B	Non-investment grade speculative
Ba2		BB		BB		
Ba3		BB-		BB-		
B1		B+		B+		Highly speculative
B2		B		B		
B3		B-		B-		
Caa1		CCC+	C	CCC	C	Substantial risks
Caa2		CCC				Extremely speculative
Caa3		CCC-				In default with little prospect for recovery
Ca		CC				
		C				
C		D	/	DDD	/	In default
/				DD		
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APPENDIX C

CURRENT MINIMUM REVENUE PROVISION POLICY

1. Background

1.1 Where the Authority funds capital expenditure with debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance) most recently issued in April 2024

1.2 The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is aligned with that over which the capital expenditure provides benefits. The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year and provides a number of options for calculating a prudent amount of MRP but does not preclude the use of other appropriate methods. The following statement incorporates options recommended in the Guidance.

2 MRP Policy

2.1 MRP is calculated by reference to the capital financing requirement (CFR) which is the total amount of past capital expenditure that has yet to be permanently financed, noting that debt must be repaid and therefore can only be a temporary form of funding. The CFR is calculated from the Authority's balance sheet in accordance with the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Expenditure in Local Authorities, 2021 edition. Detail of the Council's current capital financing requirement and future projections are provided in the treasury management strategy report 2025/26 to which this Policy is appended.

2.2 For capital expenditure incurred as below:

- General Fund Supported Borrowing – MRP will be determined by charging the expenditure with regard to the 50 year PWLB annuity rate in 2007/08, the year in which the annuity policy has been applied from and use a 34 year period from 1st April 2023, being the remainder of the 50 year life since 1st April 2007.
- General Fund Unsupported Borrowing (for expenditure up to 31 March 2023) - MRP will be determined by charging the outstanding historic expenditure based on a single annuity calculation, which combines each historic year on a weighted average life basis.
- General Fund Unsupported Borrowing (for expenditure from 1 April 2023) – MRP will be determined by charging the expenditure based on the expected average useful life of the relevant assets as the principal repayment on an annuity with an annual interest rate equal to the average relevant PWLB rate for the year of expenditure, starting in the year after the asset becomes operational.
- HRA Borrowing – Provision to be made for debt repayments equal to its share of any scheduled external debt repayments.

- PFI schemes - Provision to equal the part of the unitary payment that writes down the balance sheet liability, together with amounts relating to lifecycle costs incurred in the year.
- Former Operating Leases (brought onto the balance sheet due to IFRS Leases adoption) - MRP charges will be adjusted so that the overall charge for MRP over the life of the lease reflects the value of the right-of-use asset recognised on transition rather than the liability.

3 Capital Loans

3.1 For capital expenditure incurred on capital loans as below:

- On loans to third parties which were made primarily for financial return rather than direct service purposes, MRP will be charged in accordance with the policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational. This MRP charge will be reduced by the value any repayments of loan principal received during in the year, with the capital receipts so arising applied to finance the expenditure instead.
- On loans to third parties which were made primarily for service purposes, the Authority will make nil MRP except as detailed below for expected credit losses. Instead, the Authority will apply the capital receipts arising from the repayments of the loan principal to finance the expenditure in the year they are received.
- For capital loans made on or after 7th May 2024 where an expected credit loss is recognised during the year, the MRP charge in respect of the loan will be no lower than the loss recognised. Where expected credit losses are reversed, for example on the eventual repayment of the loan, this will be treated as an overpayment.
- For capital loans made before 7th May 2024 and for loans where expected credit losses are not applicable, where a shortfall in capital receipts is anticipated, MRP will be charged to cover that shortfall over the remaining life of the assets funded by the loan.

4 Capital Receipts

4.1 Proceeds from the sale of capital assets are classed as capital receipts and are typically used to finance new capital expenditure. Where the Authority decides instead to use capital receipts to repay debt and hence reduce the CFR, the calculation of MRP will be adjusted as follows:

- Capital receipts arising on the repayment of principal on capital loans to third parties will be used to lower the MRP charge in respect of the same loans in the year of receipt, if any.
- Capital receipts arising on the repayment of principal on finance lease receivables will be used to lower the MRP charge in respect of the acquisition of the asset subject to the lease in the year of receipt, if any.
- Capital receipts arising from other assets which form an identified part of the Authority’s MRP calculations will be used to reduce the MRP charge in respect of the same assets over their remaining useful lives, starting in the year after the receipt is applied.

APPENDIX D

TREASURY MANAGEMENT PRUDENTIAL INDICATORS

Gross Debt and the Capital Financing Requirement (CFR)
The Code requires that where gross debt is greater than the CFR, the reasons for this should be clearly stated in the annual strategy. This does not apply to this Council as its gross debt will not exceed the CFR over the forecast period (see the 'Gross Debt and the Capital Financing Requirement table within the Capital Strategy).

Liquidity Exposure
The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity risk indicator	**Target**
	£m
Total cash available within 3 months	20.0

Interest Rate Exposure
This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	**Target**
	£m
Upper limit on one-year revenue impact of a 1% rise in interest rates on borrowing costs	4.4

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

Maturity Structure of Borrowing
This indicator is designed to prevent the Council having large concentrations of fixed rate debt* needing to be replaced at times of uncertainty over interest rates. It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period as percentage of total projected borrowing that is fixed rate		
	Upper Limit (%)	**Lower Limit (%)**
Under 12 months	25	0
Between 1 and 2 years	25	0
Between 2 and 5 years	60	0
Between 5 and 10 years	80	0
More than 10 years	100	20

Long-Term Treasury Management Investments
The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management investments will be:

Price risk indicator	**2025/26**	**2026/27**	**2027/28**	**No Fixed Date**
	£m	**£m**	**£m**	**£m**
Limit on principal invested beyond year end	0	0	0	10.0

Long-term investments with no fixed maturity date is the Local Authority Property Fund.

APPENDIX E

Glossary of Treasury Terms

Authorised Limit	The affordable borrowing limit determined in compliance with the Local Government Act 2003 (English and Welsh authorities) and the Local Government in Scotland Act 2003. This Prudential Indicator is a statutory limit for total external debt. It is set by the Authority and needs to be consistent with the Authority's plans for capital expenditure financing and funding. The Authorised Limit provides headroom over and above the *Operational Boundary* to accommodate expected cash movements. Affordability and prudence are matters which must be taken into account when setting this limit.
Balances and Reserves	Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.
Bank Rate	The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.
Basis Point	1/100th of 1%, i.e. 0.01%
Bill	A certificate of short-term debt issued by a company, government or other institution, tradable on the financial market
Bond	A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.
Capital Expenditure	Expenditure on the acquisition, creation or enhancement of capital assets.
Capital Financing Requirement (CFR)	The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.
Capital gain or loss	An increase or decrease in the capital value of an investment, for example through movements in its market price.
Capital growth	Increase in the value of the asset (in the context of a collective investment scheme, it will be the increase in the unit price of the fund).
Capital receipts	Money obtained on the sale of a capital asset.
Certainty Rate	The government has reduced by 20 basis points (0.20%) the interest rates on loans via the Public Works Loan Board (PWLB) to principal local authorities who provide information as specified on their plans for long-term borrowing and associated capital spending.
CIPFA	Chartered Institute of Public Finance and Accountancy
Collective Investment Schemes	Funds in which several investors collectively hold units or shares. The assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'Pooled Funds'). Unit Trusts and Open-Ended Investment Companies are types of collective investment schemes/pooled funds.
Corporate Bonds	Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.
Corporate Bond Funds	Collective Investment Schemes investing predominantly in bonds issued by companies and supranational organisations.
CPI ***Also see RPI***	Consumer Price Index. (This measure is used as the Bank of England's inflation target.)
Cost of carry	When a loan is borrowed in advance of requirement, this is the difference between the interest rate and (other associated costs) on the loan and the income earned from investing the cash in the interim.
Counterparty List	List of approved financial institutions with which the Council can place investments.
Credit Default Swap (CDS)	A Credit Default Swap is similar to an insurance policy against a credit default. Both the buyer and seller of a CDS are exposed to credit risk. Naked CDS, i.e. one which is not linked to an underlying security, can lead to speculative trading.
Credit Rating	Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.

Debt Management Office (DMO)	The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the Debt Management Account Deposit Fund (DMADF). All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign triple-A credit rating.
Diversification / diversified exposure	The spreading of investments among different types of assets or between markets in order to reduce risk.
Derivatives	Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded 'over the counter'.
ECB	European Central Bank
Fair Value	Fair value is defined as a sale price agreed to by a willing buyer and seller, assuming both parties enter the transaction freely. Many investments have a fair value determined by a market where the security is traded.
Federal Reserve	The US central bank. (Often referred to as "the Fed")
Floating Rate Notes	A bond issued by a company where the interest rate paid on the bond changes at set intervals (generally every 3 months). The rate of interest is linked to LIBOR and may therefore increase or decrease at each rate setting.
GDP	Gross domestic product – also termed as "growth" in the economy. The value of the national aggregate production of goods and services in the economy.
General Fund	This includes most of the day-to-day spending and income. (All spending and income related to the management and maintenance of the housing stock is kept separately in the Housing Revenue Account).
Gilts (UK Govt)	Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.
Housing Revenue Account (HRA)	A ring-fenced account of all housing income and expenditure, required by statute.
IFRS	International Financial Reporting Standards.
Income Distribution	The payment made to investors from the income generated by a fund; such a payment can also be referred to as a 'dividend'.
Local Authority Property Fund (LAPF)	A pooled property collective investment scheme for Churches, Charities and Local Authorities. (see Collective Investment Scheme).
Liability Benchmark	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level (which may be zero).
LOBOs	LOBO stands for 'Lender's Option Borrower's Option'. The underlying loan facility is typically long term and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.
Maturity	The date when an investment or borrowing is repaid.
Maturity profile	A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.
MiFID II	MiFID II replaced the Markets in Financial Instruments Directive (MiFID I) from 3 January 2018. It is a legislative framework instituted by the European Union to regulate financial markets in the bloc and improve protections for investors.
Minimum Revenue Provision (MRP)	An annual provision that the Authority is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Money Market Funds (MMF)	Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.
Net Asset Value (NAV)	A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.
Operational Boundary	This is the limit set by the Authority as its most likely, i.e. prudent, estimate level of external debt, but not the worst case scenario. This limit links directly to the Authority's plans for capital expenditure, the estimates of the Capital Financing Requirement (CFR) and the estimate of cashflow requirements for the year.
Pooled funds	See Collective Investment Schemes (above).
Premiums and Discounts	In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. If on a £1 million loan, it is calculated* that a £100,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,100,000 plus accrued interest. If on a £1 million loan, it is calculated that a £100,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £900,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate. *The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.
Private Finance Initiative (PFI)	Private Finance Initiative (PFI) provides a way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts can typically last for 30 years, during which time the asset is leased by a public authority.
Investment Property	Property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.
Prudential Code	Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.
Prudential Indicators	Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators between authorities.
PWLB	Public Works Loans Board. It is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.
Revenue Expenditure	Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.
Risk	**Credit and counterparty risk** The risk of failure by a counterparty to meet its contractual obligations to the organisation under an investment, borrowing, capital, project or partnership financing, particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. **Liquidity risk** The risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the organisation's business/service objectives will be thereby compromised. **Refinancing risk**

	The risk that maturing borrowings, capital, project or partnership financings cannot be refinanced on terms that reflect the provisions made by the organisation for those refinancings, both capital and current (revenue), and/or that the terms are inconsistent with prevailing market conditions at the time. **Interest Rate risk** The risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. **Legal risk** The risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly. **Operational risk** The risk that an organisation fails to identify the circumstances in which it may be exposed to the risk of loss through fraud, error, corruption or other eventualities in its treasury management dealings, and fails to employ suitable systems and procedures and maintain effective contingency management arrangements to these ends. It includes the area of risk commonly referred to as operational risk. **Market Risk** The risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.
RPI	Retail Prices Index. A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the CPI index.
SORP	Statement of Recommended Practice for Accounting (Code of Practice on Local Authority Accounting in the United Kingdom).
Specified Investments	Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than 1 year. UK government, local authorities and bodies that have a high credit rating.
Supported Borrowing	Borrowing for which the costs are supported by the government or third party.
Temporary Borrowing	Borrowing to cover peaks and troughs of cash flow, not to fund spending.
Term Deposits	Deposits of cash with terms attached relating to maturity and rate of return (interest).
Treasury (T) -Bills	Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. Treasury Bills (T-Bills) are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have a AAA-rating.
Treasury Management Code	CIPFA's Code of Practice for Treasury Management in the Public Services. The current Code is the edition released in 2021.
Treasury Management Practices (TMP)	Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.
Unsupported Borrowing	Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.
Usable Reserves	Resources available to finance future revenue and capital expenditure.
Variable Net Asset Value (VNAV)	A term used in relation to the valuation of 1 share in a fund. This means that the net asset value (NAV) of these funds is calculated daily based on market prices.
Working Capital	Timing differences between income/expenditure and receipts/payments
Yield	The measure of the return on an investment instrument.

APPENDIX F

Investment Strategy 2025/26

Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash resulting from its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

The statutory guidance defines investments as "all of the financial assets of a local authority as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios." The Council interprets this to exclude (a) trade receivables which meet the accounting definition of financial assets but are not investments in the everyday sense of the word and (b) property held partially to generate a profit but primarily for the provision of local public services. This aligns the Council's definition of an investment with that in the 2021 edition of the CIPFA Prudential Code, a more recent piece of statutory guidance.

Treasury Management Investments

The Council typically receives its income in cash (eg. from taxes and grants) before it pays for its expenditure in cash (eg. through payroll and invoices). It also holds reserves for future expenditure. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to average £30.0 million with fluctuations between £20.0 million and £80.0 million during the 2025/26 financial year. Cash balances may be higher dependent upon at what stage in the year borrowing is taken.

Contribution: The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Further details: Full details of the Council's policies and its plan for 2025/26 for treasury management investments are covered in the treasury management strategy report 2025/26 to which this Investment Strategy is appended.

Service Investments: Loans

Contribution: The Council lends money to a variety of organisations, including local businesses, the local education college, and local residents to support local public services and stimulate local economic growth.

The Council provided a loan to Kirklees College to help facilitate a new campus in Huddersfield and the delivery of a successful further education provision for post 16 students and adults across the district.

The Council has also issued a loan to HD1 Living to renovate the building at 103 New Street to become modern student accommodation in the town centre as part of the Huddersfield regeneration plan.

Additionally, the Council has provided a loan to WD Kingsgate to remodel the Kingsgate Shopping Centre to provide a cinema, food and leisure facilities in addition to existing retail units as part of delivering the Blueprint vision.

Smaller loans have also been provided to local residents to be able to provide energy efficient heating within their own homes. The Council is part of the Leeds City Region Investment Fund where all local authorities contribute to the fund which provides individual loans to support infrastructure and construction projects which help deliver economic growth and job creation.

The Council will continue to roll forward from last year's Investment Strategy, the option to provide financial loans to support 3rd sector partners and anchor organisations, along with loans and/or match funding in support of community asset transfers. The Council would underwrite this provision from within the existing earmarked reserves.

Security: The main risk when making loans is that the borrower will be unable to repay the principal lent and/or the interest due. Investment Strategy guidance states that to limit this risk and ensure that total Council exposure to loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have to be set and approved annually by Council. The proposed upper limits for Council loans are set out at Table 1 below:

Table 1: Loans for service purposes in £ millions

Category of borrower	**31.03.2024 actual**			**2025/26**
	Balance owing	**Loss allowance**	**Net figure in accounts**	**Approved Limit**
Further education college	13.3	-0.7	12.6	**13.3**
Leeds City Region revolving investment fund	3.0	0.0	3.0	**3.0**
Local businesses and charities	22.5*	-8.4	14.1*	**24.5**
Local residents	2.1	-0.1	2.0	**2.1**
TOTAL	**41.0**	**-9.1**	**31.8**	**42.9**

* This is made up of numerous investments, the largest of which is £12.2 million towards 103 New Street and £5.5 million relates to Kingsgate.

Accounting standards require the Council to set aside a loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Council assesses the risk of loss before entering into and whilst holding loans. This will include the nature of the market/sector to which the loan relates, and loan security against business/sector assets. The single largest current loan relates to Kirklees College which is a public sector entity and considered to be a viable going concern. The strength of the Council's partnership with key anchor organisations in the district like the College, and ability to influence, support and monitor the College's ongoing financial position, are also key factors, including Council senior finance representation on the College's finance committee.

Development finance loans such as Property Investment Fund (PIF) will allow the Council to offer loans to development projects which offer significant economic benefits to the Council and the wider Kirklees district.

Any funding offers made will be on the basis that the loan repayments made by the recipient will cover the Council's financing costs and allow for an appropriate margin on cost of funds reflecting the level of risk involved and consistent with State Aid principles. All funding offers made will be subject to appropriate due diligence, including external specialist advice where appropriate, availability of credit ratings in respect of any potential loanee where appropriate, and loan security arrangements. Each individual loan offer will be the subject of a further Cabinet report.

It would not be the intention for the Council to directly compete with existing providers of investment funding. The Council would only look to invest, at its discretion, when there was a clear and demonstrable added value case to be made in terms of local economic benefits for development finance involvement. In many instances the Council investment would be short term to cover the construction phase of development which is the most critical period for schemes to locate finance that is timely and on reasonable terms.

Once out of the development phase there is sufficient liquidity at an appropriate risk margin in the existing investment markets for schemes to be refinanced at which point the Council investment would be repaid. Any investment from the PIF would be on terms that allowed the Council to fully cover its costs, including the costs of borrowing to fund any advance, and creation of an appropriate risk contingency.

Service Investments: Shares

Contribution: The Council invests in the shares of local businesses to support local public services and stimulate local economic growth. The main share investment (£0.9 million) is a 9.9% holding in Kirklees School Services Ltd which operates 20 schools on our behalf on a 32 year contract under PFI. The Council also has a 40% shareholding in Kirklees Stadium Development Ltd (£0.1 million) and a 14% holding in QED KMC Holdings Ltd (£0.2 million).

Security: One of the risks of investing in shares is that they fall in value meaning that the initial outlay may not be recovered. To limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Table 2: Shares held for service purposes in £ millions

Category of company	31.03.2024 actual			2025/26
	Amounts invested	Gains or losses (-)	Value in accounts	Approved Limit
Local businesses	0.2	0.9	1.1	***0.2**

***Approved limit includes amounts already invested.

Risk assessment: The Council entered into these shareholdings for the purposes of participating in the governance and control of organisations that it considered to be important for the purposes of securing economic benefits to the borough. The Council is also the sole client in respect of one of these investments. The Council assessed the risk of participation taking account of the financial and public benefits, including the opportunity to make a potential gain in the event of the business being successful, although this was not the core purpose for initial participation. The Council assesses the risk of loss before entering into and whilst holding shares by continued oversight and involvement in the strategic and operational aspects of the business, and participation in decision making, although the financial risk of the investment is perhaps lower than the operational and or reputational impacts of any failure by the companies in which the Council holds share based investments.

Liquidity: The Council has entered into these shareholdings for the purposes of delivery of its public service and community leadership obligations and the investments are considered to be long term. Viability of the investments in the long term is an important part of the strategy, but as the Councils share ownership and participation is strategic rather than financial the daily or periodic value is of less concern than the overall long-term health of the organisation in which the investment is held.

Non-specified Investments: Shares are the only investment type that the Council has identified that meets the definition of a non-specified investment in the government guidance. The limits above on share investments are therefore also the Council's upper limits on non-specified investments. The Council has not adopted any procedures for determining further categories of non-specified investment since none are likely to meet the definition.

<u>Commercial Investments: Property</u>

Contribution: The Council invests in local commercial property such as retail town centre shops and buildings with the intention of making a profit that will be spent on local public services.

These assets fall under the definition of Investment Properties in the CIPFA Accounting Code and are valued at fair value in the accounts in accordance with IFRS13. Fair value is when an asset is valued at its highest and best use.

Table 3: Property held for investment purposes in £ millions

Property type	Actual	31.03.2024 actual		31.03.2025 expected	
	Purchase cost	Gains or losses (-)	Value in accounts	Gains or losses (-)	Value in accounts
Commercial Property	*See below	-6.4	20.3	**0.0**	**20.3**

*The purchase cost cannot be ascertained as the majority of these assets have been owned by Kirklees for many years and purchased by Huddersfield Corporation during the 1920's from Ramsdens Estate. There is a signed legal document and a 'book of acquisition' which is a hard-backed ledger held in legal services.

Security: In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

A fair value assessment of the Council's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2024/25 year-end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

At this stage, the George Hotel is considered a regeneration project and not counted as an investment, however once redevelopment work has been completed this will be re-assessed.

Risk assessment: The Council's current commercial asset portfolio held for investment purposes is largely a historical portfolio. It is monitored and reviewed annually as part of the Council's wider asset strategy including potential future appreciation and potential receipt value.

It is not the Council's intention to invest in any new commercial portfolio investments at this time. If any new investments are identified a risk assessment would be performed.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice and can take a considerable period to sell in certain market conditions. To ensure that the invested funds can be accessed when they are needed, for example to repay capital borrowed, the Council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have the level of funds available to which are necessary for the achievement of its business/service objectives. Cash flow projections are prepared on a regular and timely basis.

Loan Commitments and Financial Guarantees

Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness. The Council does not have any loan commitments, however there are some guarantees that the Council holds including a guarantee on outstanding contributions to the Pension Fund in the event of a default by certain bodies and a guarantee to the Homes & Communities Agency (HCA) in the event of a default by Kirklees Community Association (KCA) on the redevelopment of the Fieldhead Estate. The Council also acts as a guarantor to a loan of £0.7 million that KSDL hold in the event of default.

Capacity, Skills and Culture

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Service Director - Finance is a qualified accountant with extensive local government experience, the Strategic Director - Place has experience of major Council regeneration schemes and partnerships with major business and third-party partners, as do key Service Directors. The Council pays for staff to study towards relevant professional qualifications including CIPFA, ACA and AAT.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Cabinet is responsible for the implementation and monitoring of any investment policy. The Corporate Governance and Audit Committee undertake a scrutiny role with regard to investment. Regular training for members of the Committee is provided by our treasury advisors to enable them to make decisions to ensure accountability and responsibility on investment decisions within the context of the Council's corporate values. Any new investment decisions are also approved at full Council.

Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure arising from its investment decisions.

Total risk exposure: The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third-party loans.

Table 4: Total investment exposure in £ millions

Total investment exposure	**31.03.2024 Actual**	**31.03.2025 Forecast**	**31.03.2026 Forecast**
Treasury management investments	39.0	30.0	**30.0**
Service investments: Loans	40.9	42.9	**42.9**
Service investments: Shares	1.1	1.1	**1.1**
Commercial investments: Property	20.3	20.3	**20.3**
TOTAL INVESTMENTS	**101.3**	**94.3**	**94.3**
Commitments to lend	0.0	0.0	**0.0**
Guarantees issued on loans	0.7	0.7	**0.7**
TOTAL EXPOSURE	**102.0**	**95.0**	**95.0**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Table 5: Investments funded by borrowing in £ millions

Investments funded by borrowing	**31.03.2024 Actual**	**31.03.2025 Forecast**	**31.03.2026 Forecast**
Service investments: Loans	40.9	42.9	**42.9**

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 6: Investment rate of return (net of all costs)

Investments net rate of return	**2023/24 Actual**	**2024/25 Forecast**	**2025/26 Forecast**
Treasury management investments	5.3%	5.1%	**4.4%**
Service investments: Loans	-1.0%	-0.3%	**0.0%**
Service investments: Shares	None	None	**None**
Commercial investments: Property	-25.9%	5.0%	**5.0%**