Appendix 1 - Treasury Management Strategy Statement 2025/26

1.0 Introduction

1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council manages a large borrowing portfolio to fund its capital programme and has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

1.2 Treasury risk management at the Authority 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 Authority to approve a treasury management strategy before the start of each financial year. This TMS fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2.0 Credit Outlook

2.1 Following the 30 October Budget, the outcome of the US Presidential election on November, and the 25bps Bank Rate cut undertaken by the Monetary Policy Committee (MPC) on 7 November, Link have significantly revised their central forecasts for the first time since May. In summary, Link's Bank Rate forecast is now 50bps – 75bps higher than was previously the case, whilst PWLB forecasts have been materially lifted to not only reflect increased concerns around the future path of inflation, but also the increased level of Government borrowing over the term of the current Parliament.

2.2 The anticipated major investment in the public sector, according to the Bank, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

2.3 There are inherent risks to all the above. The worst-case scenario would see systemic blockages of planning permissions and the inability to identify and resource the additional workforce required to deliver large-scale IT, housing and infrastructure projects. This would lead to upside risks to inflation, an increased prospect of further Government borrowing & tax rises, and a tepid GDP performance.

2.4 Link's central view is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. Link forecast the next reduction in Bank Rate to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank's Quarterly Monetary Policy Reports (February, May, August and November).

3.0 Interest Rate Forecast

3.1 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 in December 2024 (following the 18 December 2024 MPC meeting). These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps. Link is forecasting a downward trend for the bank rate from March 2025 and a downward forecast for PWLB borrowing over the coming two years, with a bank rate of 4.50% forecast for March 2025, falling to 3.75% by March 2026.

3.2 Table 1 shows PWLB rates with the 0.2% certainty rate discount applied. From 1 November 2012, the Government introduced the Certainty Rate which reduced the PWLB standard interest rate by 0.20% so long as local authorities provide information on their plans for long-term borrowing and associated capital spending.

UK Interest Rate Forecast
Table 1

Month	Bank Rate		5yr PWLB Rate		25yr PWLB Rate	
	Link	Capital Economics	Link	Capital Economics	Link	Capital Economics
NOW	4.75%	4.75%	5.04%	5.04%	5.89%	5.89%
Mar-25	4.50%	4.50%	4.90%	5.10%	5.50%	5.70%
Jun-25	4.25%	4.25%	4.80%	4.90%	5.40%	5.50%
Sep-25	4.00%	4.00%	4.60%	4.80%	5.30%	5.30%
Dec-25	4.00%	3.75%	4.50%	4.60%	5.20%	5.00%
Mar-26	3.75%	3.50%	4.50%	4.60%	5.10%	4.90%
Jun-26	3.75%	3.50%	4.40%	4.50%	5.00%	4.90%
Sep-26	3.75%	3.50%	4.30%	4.50%	4.90%	4.80%
Dec-26	3.50%	3.50%	4.20%	4.40%	4.80%	4.70%
Mar-27	3.50%	-	4.10%	-	4.70%	-

4.0 Local Context

4.1 Most of the council's day to day treasury cash balances (currently £127m) are held in Money Market Funds (MMFs), which offer immediate access. The remaining £363.3m of our investments are invested in deposits with various high-grade counterparties (£250m), UK Treasury bills (£49m), UK Gilts (£50m) and Local Authority lending (£15m) maturing within the next 12 months. Out of the £490.3m total cash invested, roughly 39% or £193.2m is managed on behalf of the NLWA. As at end December 2024 the average rate of borrowing was 4.93% (2023-24 4.99%) and the average return on our investments is 4.84% (2023-24 5.53%). As at 31 December 2024 the weighted average life of the overall debt portfolio is 24 years.

4.2 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). While usable reserves and working capital are the underlying resources available for investment. The Council's strategy has been to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. This means the Council has minimised its interest costs by utilising internal resources over the short term instead of undertaking more expensive external borrowing. Table 2 demonstrates that core funds are projected to provide sufficient cover to enable the continuation of the current internal borrowing approach for the medium term.

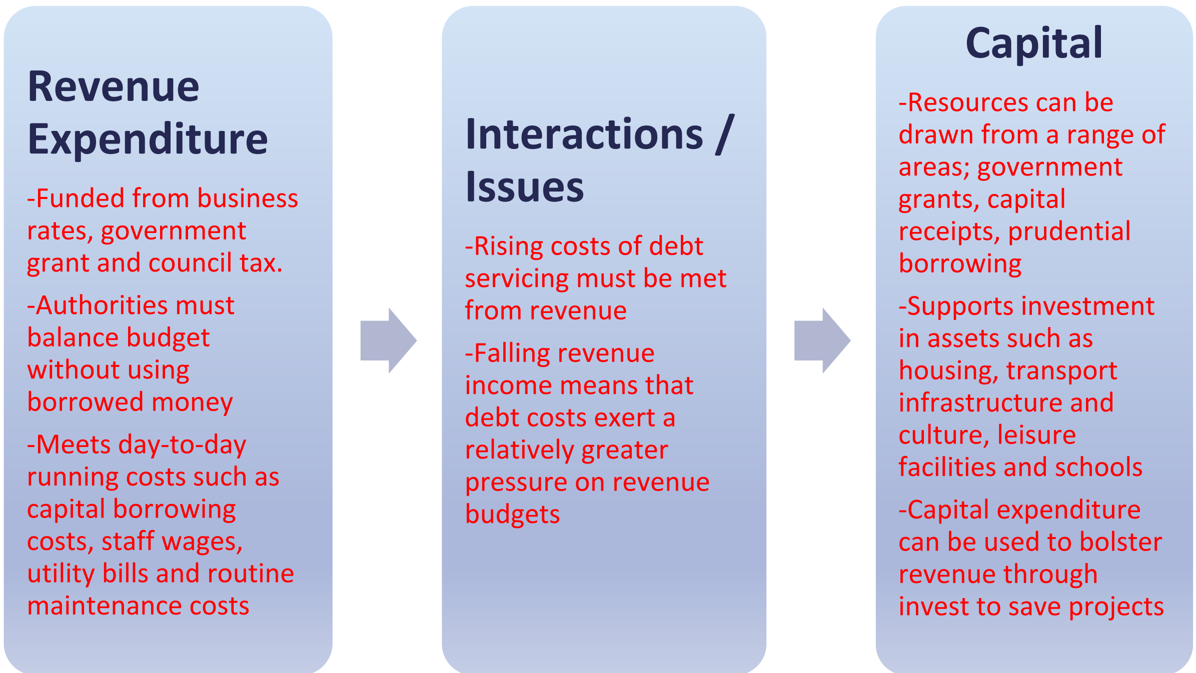
5.0 Borrowing Strategy

5.1 **Objective:** The capital plans outlined in Sections 7 & 8 underpins the borrowing strategy for the forthcoming year and the Treasury Management Strategy aims to ensure that borrowing requirements flowing from these capital plans are managed so that sufficient cash is available to ensure the capital programme functions alongside normal revenue operations. This means that borrowing will be undertaken where necessary. A further aim of the strategy is to ensure that when borrowing money, the council strikes an appropriate balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required and ensuring that our borrowing plans are affordable, prudent and sustainable.

5.2 **Context:** The Council meets the costs of its statutory and discretionary services through a combination of revenue and capital expenditure. Revenue spending covers day-to-day costs such as payroll costs, heating and light. Capital expenditure relates to investments in assets such as buildings and roads. In 2024-25 the Council spent roughly £175m year to date on capital investments (2023-24 £230m).

5.3 A key difference between capital and revenue is that authorities can use long term borrowing to support capital spending but **not** revenue spending. This gives Councils the freedom to invest in their asset bases and to pursue 'invest to save' schemes which can deliver revenue savings. However, Councils must ensure that borrowing is affordable and must meet debt servicing costs from revenue. As noted in the main report these processes are largely self-regulated within the framework of the prudential code for capital finance. The linkages between capital and revenue expenditure are shown in figure 1 below.

Figure 1 - Capital and Revenue Expenditure Interaction



5.4 The Council has a Capital Financing Requirement (CFR) of £659m and current actual borrowing of £294m (the CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources and is essentially a measure of the Authority's indebtedness or underlying borrowing need).

5.5 The current debt portfolio of £294.3m is predominantly made up of PWLB fixed rate borrowing and market debt with a small Community Municipal Investment (CMI) Climate Bond. Market debt is comprised of six 'Lenders Option Borrowers Option' (LOBO) loans. These loans give the lender an option to vary the loan's interest rate every six months and when this event happens the Council has the option to either accept the revised rate or repay the loan in full. No lender has exercised their option to date and our treasury advisors continue to judge the probability of this happening as low. In chart 1 (in the main report) the loans are shown at their ultimate maturity dates in the profile.

5.6 Officers will progress the restructuring of these loans, should the opportunity arise and if it is to the Council's advantage. At present, the breakage costs incurred in restructuring any of the loans are prohibitively expensive.

5.7 The weighted average life of the overall debt portfolio is 24 years as at 31 December 2024. Market debt has a longer life than PWLB loans. When new debt is considered, it is important that this profile is kept broadly flat and even to mitigate against refinancing risk (i.e. the risk that the Council needs to refinance debt in any year when rates are high).

5.8 Based on the current levels of external borrowing and the medium-term CFR forecast presented in Sections 7 & 8 (Table 15), the Council will be under-borrowed by £365m at the end of 2024/25, and this figure is expected to increase to £407m by 2025/26.

5.9 In recent years the council has chosen to maintain an "under-borrowed" position and internally borrow to fund capital expenditure. Internal borrowing is a treasury management practice whereby the council delays the need to borrow externally by temporarily using cash it holds for other purposes, such as earmarked reserves. This has allowed the council to avoid paying interest costs until the original expenditure planned for the 'borrowed' cash falls due. This approach saved the council an estimated £1.8m in avoided interest costs.

5.10 **Strategy:** Despite the increasing underlying need to borrow, it is recommended that the existing internal borrowing approach is continued for 2025/26. The Council's financial position as well as the outlook for interest rates (see main report, paragraph 2.8 – 2.14) which shows both PWLB rates and rates on the investment portfolio decreasing. Lower PWLB rates mean that the Council can "lock in" cheaper borrowing as rates fall. Similarly, predicted lower investment portfolio rates mean the cost of the HRA internally borrowing from the GF is expected to reduce over time. The council is able to maintain this position in the medium term as the forecast cash balance remains positive despite planned capital expenditure and the movement on reserves and balances.

5.11 The medium-term outlook for interest rates supports this strategy with PWLB rates forecast to fall from c5.60% to 5.20% by the end of 2025 and, in the investment portfolio, Base Rates set to fall from 4.75% to 4.0% over the same period. If the Council did take on new borrowing it would immediately increase investment balances, which would increase credit risk (more invested with external banks). Internal borrowing therefore reduces exposure to default risk (a borrower not repaying investments) as cash balances held with external counterparties are smaller, which reduces the Council's exposure to the risk of a counterparty defaulting. The council would also incur unnecessary borrowing costs of c£2.7m per year.

5.12 Unless there is a cash need to borrow, the Council will continue to offset borrowing need against investments until long term borrowing becomes more affordable. Should cash balances become scarce, or if the economic outlook changed the Council could look to borrow temporarily from local authorities or use short-dated PWLB loans.

5.13 At present, the Council's core funds are projected to provide sufficient cover to enable the continuation of the current internal borrowing approach for the medium term. During the next few years reserves are currently projected to reduce; other internal resources, including working capital, provisions and capital grants unapplied, are expected to remain stable.

Table 2	23/24 Actual	24/25 Estimate	25/26 Estimate	26/27 Estimate	27/28 Estimate
	£m	£m	£m	£m	£m
Core Funds					
Earmarked Reserves	204.0	200.0	195.0	190.0	185.0
General Balances	16.8	18.3	19.8	21.3	22.8
HRA Balances	13.3	15.3	17.3	19.3	21.3
School Balances	20.9	20.9	20.9	20.9	20.9
Capital Receipts Reserve	92.0	25.0	30.0	32.0	38.0
Capital Grants Unapplied	28.4	10.0	15.0	20.0	25.0
Total Reserves	**375.4**	**289.5**	**298.0**	**303.5**	**313.0**
Provisions	29.4	29.4	29.4	29.4	29.4
Working Capital Surplus	150.0	150.0	150.0	150.0	150.0
Toral Core Funds	**554.8**	**468.9**	**477.4**	**482.9**	**492.4**
Internal Borrowing	341.8	414.3	435.0	481.7	490.0
Implied Investments	**213.0**	**54.6**	**42.4**	**1.2**	**2.4**

5.14 The main inherent risk to this approach relates to interest rates. Eventually the Council will need to arrange new external borrowing to replace the temporary use of internal resources and there is a risk that it will need to source new debt at a time when interest rates are high.

5.15 Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then the Council would maintain an under-borrowed position and or borrowing will be postponed.

- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding would be considered whilst interest rates are lower than they are projected to be in the next few years.

5.16 Officers are mindful of these risks and monitor borrowing rates on a daily basis.

5.17 The Council will monitor rates on borrowing from the PWLB and will continue to review with our treasury management consultants. The Executive Director Corporate Services will make any final decision whether or not to borrow from the PLWB given market conditions and the latest views of officers and our treasury consultants.

5.18 Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility
- Institutions approved for investments (see Investment Strategy)
- Bank or building societies authorised to operate in the UK
- UK Public Sector Bodies
- UK Public and Private Sector Pension Funds
- Capital Market Bond Investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

5.19 The Municipal Bond Agency (MBA) is now established and issuing bonds. The Council has a £50k shareholding in the MBA and approved the Framework Agreement required for participation in the 2016/17 Treasury Management Strategy. The Council will monitor rates on borrowing from the MBA. As with PWLB borrowing, the Executive Director Corporate Services will make any final decision whether or not to borrow from the MBA given market conditions and the latest views of officers and our treasury consultants.

Policy on borrowing in advance of need

5.20 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 borrowing (capital financing requirement) estimates over the three-year planning period 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.

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

Debt Rescheduling

5.22 Currently it would cost £7.05m to reschedule the £169m PWLB debt (in addition to repaying the principal debt amount) and so this is not economically advantageous.

5.23 The reasons for any rescheduling to take place will typically include:

- the generation of cash savings and/or discounted cash flow savings;
- helping to fulfil the borrowing strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

5.24 The position will be monitored during the year and consideration will be given to identify whether there is any residual potential left for making savings by running down investment balances to repay debt prematurely.

6.0 Investment Strategy

6.1 **Objective:** The Council's investment strategy has regard to the Guidance on Local Government Investments issued by the Ministry of Housing, Communities and Local Government (MHCLG) and the CIPFA Code of Practice on Treasury Management. The main objectives for the investment strategy in order of priority are;

- Security (protecting the capital sum from loss)
- Liquidity (money is readily available for expenditure when needed) and;
- Yield (the returns the council receives from investing)

6.2 **Context:** The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 9 months, the Council's treasury investment balance has ranged between £95m and £152.3m. These balances are projected to provide sufficient cover to enable the continuation of the current internal borrowing approach for the medium term.

6.3 The Council benchmarks its returns against other local authorities and at the latest benchmarking round in September 2024, Camden Council was performing in line with other London Council's. The Weighted Average Rate of Return was 5.05% for a weighted average maturity of 81 days. This compared to the benchmarking group average of 5.03% and a weighted average maturity of 45 days.

6.4 **Strategy:** In pursuing the primary goal of preserving capital from loss, the investment strategy operates a minimum level of credit quality to produce a list of highly creditworthy counterparties. Long-term and short-term credit ratings from the three main rating agencies will be used for this purpose.

6.5 Credit ratings will not be the only means by which the creditworthiness of potential and ongoing investments will be established. Officers will continue to monitor market information including the pricing of shares and "credit default swaps" as well as financial news reported in the quality press. An ongoing dialogue with relevant professionals in the financial sector, including money market brokers, is also maintained for this purpose. The council will also engage its treasury management advisors, Link Asset Services, on a regular basis to discuss its investment strategy.

6.6 The creditworthiness policy establishes how suitable counterparties of an adequate credit standing will be selected and how their creditworthiness will be monitored. The types of investments the Council will make use of are listed in Table 4. By engaging in an array of investment instruments the Council is able to maximise its access to high-quality counterparties.

6.7 The list of specified investment instruments and non-specified investments is unchanged from last year. The Executive Director Corporate Services will maintain a list of eligible counterparties (a "counterparty list") in compliance with the following criteria. Any proposal to alter the credit rating criteria or maximum sums invested per counterparty will need to be agreed by Full Council.

Creditworthiness Policy

6.8 The Council will only use banks which meet the criteria outlined in table 3 and will only make investments with banks in line with the cash limits and durations specified in Table 3 below. As shown in the interest rate forecast, rates are expected to continue to fall. Given this outlook, the maximum duration has been held at 2 years and will only be applied to banks that meet Link's credit rating methodology.

Table 3

Fitch		Moody's		S&P		Cash Limit £m	Maximum Duration
Long Term	Short Term	Long Term	Short Term	Long Term	Short Term		
AA -	F1 +	Aa2	P - 1	AA -	A - 1 +	80	2 Years
AA +	F1 +	Aa3	P - 1	AA +	A - 1 +	100	2 Years
AA	F1 +	Aa1	P - 1	AA	A - 1 +	140	2 Years
AAA	F1 +	Aaa	P - 1	AAA	A - 1 +	160	2 Years

6.9 All three rating agencies will be used and in the case of divergent opinion amongst the agencies, the lowest commonly held rating will be used to assess creditworthiness.

6.10 Additional requirements under the Code of Practice require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties. This additional market information (for example Credit Default Swaps, negative rating Watches/Outlooks) will be applied to compare the relative security of differing investment counterparties.

6.11 The Council is responsible for agreeing the credit rating criteria. The Executive Director Corporate Services has delegated authority to maintain banks on the counterparty list at an operational level. This may mean throughout the year that banks are removed from the list as ratings are downgraded, or their cash limits are amended. It is possible that banks are added to the list if their ratings improve (and the Executive Director Corporate Services will update the counterparty list following due diligence).

6.12 All credit ratings are monitored weekly. The Council is alerted to changes to ratings of all three agencies through its treasury consultants immediately after they occur, and so is able to act swiftly to a change the lending list. If a downgrade results in the counterparty/investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately. In addition to the use of credit ratings the Council is advised of information in movements in Credit Default Swap information against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of a bank or removal from the Council's lending list.

6.13 The Council's creditworthiness policy has regard to Link Asset Services' creditworthiness methodology. Link use a mathematical scoring system to determine appropriate investment durations for counterparties of differing credit quality. The Council operates with maximum investment durations which are stricter than this. The Executive Director Corporate Services has discretion to lengthen the maximum 24 month investment duration however this reports recommends that the maximum duration is held at 2 years in line with Table 3 above.

6.14 Link have removed the part nationalised status from both NatWest and the Royal Bank of Scotland as part of the Link Credit Methodology, given government ownership has reduced to 11.4% in November 2024 after the bank announced it had bought back a further £1bn of government shares. Officers will continue to follow developments and assess the implications for our counterparty list. Currently, the Council has a maximum investment duration of 12 months, with a total investment limit of £135m at any given time with NatWest.

6.15 The Council's main bank arrangements for transactional purposes are held with the NatWest. The Council aims to leave minimal balances overnight with its bankers.

6.16 In accordance with MHCLG guidance, the investments to be used in pursuit of the investment strategy can be categorised into two types based on the following distinctions:

- **Specified investments** will be denominated in sterling and with a maturity of no more than a year, meeting the minimum high credit quality criteria as applicable.

- **Non-specified investments** are any investments which do not meet the specified investment criteria.

Table 4

Specified Investments	Minimum credit criteria	Cash Limit
Debt Management Agency Deposit Facility	n/a	Unlimited
Term deposits – local authorities	n/a	£40m
UK Government bonds (Gilts)	UK sovereign rating	Unlimited
Treasury Bills (government bonds up to one year)	UK sovereign rating	Unlimited
Bonds issued by multilateral development banks	AAA	£200m
Certificates of deposit issued by banks and building societies	As per credit rating criteria - table 3	As per credit rating criteria - table 3
Term deposits – banks and building societies		
Call accounts - banks		

6.17 The Council will continue to lend to other **UK local authorities** through term deposits. Lending to local authorities will be restricted to £40m per authority for a maximum of one year, although loans of up to five years may be made with the approval of the Executive Director Corporate Services.

6.18 From time to time the Council will invest in the UK Government itself through the use of **gilts, treasury bills and the DMADF** (an overnight deposit facility). Treasury bills are loans issued by the Government to fund short term liquidity. They are similar to gilts in nature, but have a term of less than 1 year, whereas gilts are issued for more than one year.

6.19 The following funds **(Non-Specific Investments and Collective Investment Schemes)** are also permissible under the investment strategy although they will only be used if the investment has been considered and approved by the Executive Director Corporate Services. At this stage only money market funds have been agreed for use. Any decision to invest using other funds will be reviewable by the Audit and Corporate Governance Committee and will be reported to Council as part of the Annual Report and Mid-Year Review.

6.20 **Non-Specific Investments** are separately classified because of their complex nature and the level of expertise needed to enter into and monitor such transactions. Although permittable under the strategy, the use of any of the instruments included on the Non-Specified Investment list would need to be agreed in advance by the Executive Director Corporate Services.

Table 5

Non-Specified Investments	Minimum credit criteria	Cash Limit	Maximum Maturity Limit
UK Government Gilts (primary and secondary)	As per country rating criteria	Unlimited	10 Years
Bank structured deposits	As per credit rating criteria	As per credit rating criteria	As per credit rating criteria
Commercial paper and corporate bonds (including Covered bonds)			
Floating rate notes			
Certificates of deposit			
Multilateral development bank bonds	AA-, F1+ (and equivalent from other agencies)	£200m for any one counterpart	As per credit rating criteria - table 3
Term deposits - local authorities (1 -5 Years)	n/a	As per credit rating criteria - table 3	5 Years
Property funds	UK property only	£20m per fund	None

6.21 The Gilts investment includes authority to invest in both primary gilts (bought directly from the Government) as well as gilts which can be bought on the secondary market. The underlying credit quality would be exactly the same – merely that the purchase would be via a market broker rather than direct from the debt Management Office who acts to sell Gilts for the Government.

6.22 In principle, **property funds** are usable as a potential means of investing longer term cash balances. While investment in property can be made on a direct basis, the use of property funds provides a wider array of exposure to the asset class in terms of usage/type and, location, as well as efficiencies in terms of fees and maintenance and access to specialist investment managers. The authority views property as a long-term investment and there are a wide range of property funds suitable for local authority investing. However, at this stage it is not envisaged that the Council would use property funds. Appropriate due diligence will be undertaken before investment of this type is undertaken. The use of these instruments can be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. The Council will always seek guidance on the status of any fund it may consider using.

Collective Investment Schemes structured as open ended investment companies (OEICS)

Table 6

Fund Type	Minimum credit criteria	Cash Limit
Money market funds (Sterling)	Fitch AAA MM – Stable LVNAV funds	£150m per fund
Money market funds (Euro)		€82.5m per fund
Government liquidity funds	AAA	Not set
Enhanced cash funds	AAA	Not set
Bond funds	AAA	Not set
Gilt funds	AAA	Not set

6.23 The Council has made use of **Money Market Funds (MMF)** since 2012 and will continue to use these in the year ahead. The Council uses three funds with a AAA rating and each fund has an individual cash limit of £150m.

6.24 Money market funds offer access to a much larger and diverse range of the counterparties than the Council could access independently. The size of the Council’s investment can be increased or reduced on a daily basis and therefore the funds provide a very effective means of managing day-to-day liquidity. All the Funds are very large in comparison to the sums Camden has deposited with them and are monitored on a daily basis by officers.

Table 7

Non-Specified Euro Investments	Minimum credit criteria	Cash Limit	Maximum Maturity Limit
UK Government Gilts (primary and secondary)	As per country rating criteria	Unlimited	10 Years
Bank structured deposits	As per credit rating criteria	As per credit rating criteria	As per credit rating criteria
Commercial paper and corporate bonds (including Covered bonds)			
Floating rate notes			
Certificates of deposit			
Multilateral development bank bonds	AA-, F1+ (and equivalent from other agencies)	£200m for any one counterpart	As per credit rating criteria - table 3

6.25 The only investments the Council holds in Euros relate to the NLWA's Energy Recycling Facility. These are held in Euro Money Market Funds. Given the falling interest rate environment the strategy looks to permit the same standard instruments available for sterling investments in Euros. Table 7 above makes these instruments explicit and will allow the Treasury function to manage these balances effectively.

6.26 Environmental, Social and Governance (ESG) issues are becoming a significant consideration. This is currently better developed in the equity and bond markets rather than for short-term cash deposits. There are a diverse range of market approaches to ESG classification and analysis and so a consistent approach to ESG is currently difficult for public sector organisations. This is currently a developing area and counterparty policies will be considered in light of emerging guidance. Further details on our approaches are included in section 10.

7.0 Prudential Indicators

Capital Prudential Indicators 2025/26 to 2027/28

Prudential Indicator 1 - Capital Plans

7.1 This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously plus those forming part of this budget cycle. It also shows how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Table 8	23/24	24/25	25/26	26/27	27/28
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Capital expenditure					
General Fund	56.1	52.5	54.4	47.3	20.3
HRA	176.3	274.1	159.7	141.0	105.5
Total	**232.4**	**326.6**	**214.1**	**188.3**	**125.9**
Financing of Capital expenditure					
Capital receipts	37.2	95.5	116.3	81.9	61.0
Capital grants	116.3	112.8	20.4	16.6	3.2
Major Repairs Reserve	38.3	40.0	40.0	40.5	41.1
MRP	8.0	8.4	9.2	10.2	11.2
Reserves	0.0	15.9	5.6	0.8	0.0
Revenue	8.2	2.5	2.1	2.1	2.1
Net borrowing need for the year	**24.4**	**51.5**	**20.6**	**36.3**	**7.4**

Table 9	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Capital expenditure					
General Fund	56.1	52.5	54.4	47.3	20.3
HRA	176.3	274.1	159.7	141.0	105.5
Total	**232.4**	**326.6**	**214.1**	**188.3**	**125.9**
Financing of Capital expenditure					
General Fund					
Capital receipts	0.0	27.4	27.9	15.6	-
Capital grants	37.7	0.6	8.1	10.0	-
MRP	7.7	8.4	9.2	10.2	11.2
Reserves	0.0	5.7	1.0	5.0	5.0
Revenue	8.2	1.1	0.7	1.7	4.1
Total	**53.6**	**43.2**	**46.9**	**42.5**	**20.3**
HRA					
Capital receipts	37.2	134.6	76.1	32.9	15.9
Capital grants	78.6	56.5	28.8	34.0	38.6
Major Repairs Reserve	38.3	40.2	41.2	42.2	43.2
MRP	0.3	0.5	0.5	0.5	0.5
Total	**154.4**	**231.8**	**146.6**	**109.6**	**98.2**
Net borrowing need for the year					
General Fund	2.5	9.3	7.5	4.8	-
HRA	21.9	42.3	13.1	31.4	7.3
Total	**24.4**	**51.5**	**20.6**	**36.3**	**7.3**

Prudential Indicator 2 - Capital Financing Requirement

7.2 The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Authority's indebtedness and so its underlying borrowing need.

7.3 Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

Table 10	23/24	24/25	25/26	26/27	27/28
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Consolidated					
Opening CFR	**631.7**	**656.1**	**707.6**	**728.3**	**764.5**
Net borrowing need for the year	24.4	51.5	20.6	36.3	7.4
Closing CFR	**656.1**	**707.6**	**728.3**	**764.5**	**771.9**

Table 11	23/24	24/25	25/26	26/27	27/28
	Actual	Estimate	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
General Fund					
Opening CFR	**144.3**	**145.7**	**155.0**	**162.5**	**167.3**
Net borrowing need for the year	1.4	9.2	7.5	4.8	2.1
Closing CFR	**145.7**	**155.0**	**162.5**	**167.3**	**169.4**
HRA					
Opening CFR	**487.4**	**510.4**	**552.6**	**565.8**	**597.2**
Net borrowing need for the year	23.0	42.3	13.1	31.5	5.3
Closing CFR	**510.4**	**552.6**	**565.8**	**597.2**	**602.5**

Treasury Management Indicators 2025/26 to 2027/28

Prudential Indicator 3 - The Operational Boundary

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

Table 12	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Actual	Estimate	Estimate	Estimate
	£m	£m	£m	£m	£m
Operational Boundary					
Debt	611.8	667.6	690.3	729.5	738.9
Other long-term liabilities	44.3	40.0	38.0	35.0	33.0
Total	**656.1**	**707.6**	**728.3**	**764.5**	**771.9**

Prudential Indicator 4 – The Authorised Limit for External Debt

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

Table 13	2023/24 Actual	2024/25 Actual	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£m	£m	£m	£m	£m
Authorised Limit					
Debt	711.8	767.6	790.3	829.5	838.9
Other long-term liabilities	44.3	40.0	38.0	35.0	33.0
Total	**756.1**	**807.6**	**828.3**	**864.5**	**871.9**

Prudential Indicator 5 – Maturity Structure of Borrowing

7.6 The Council is exposed to the risk of having to refinance debt at a time in the future when interest rates may be volatile or uncertain. This indicator helps to manage this risk and avoid large concentrations of fixed rate debt maturing at the same time.

Table 14	Lower Limit	Upper Limit	Current Position
Maturity Structure of Borrowing - 2025/26			
Under 12 Months	**0%**	**20%**	**0%**
12 months and within 24 months	**0%**	**20%**	**4%**
24 months and within 5 years	**0%**	**25%**	**0%**
5 years and within 10 years	**0%**	**50%**	**0%**
10 years and within 20 years	**0%**	**50%**	**31%**
20 years and within 30 years	**0%**	**50%**	**42%**
30 years and within 40 years	**0%**	**50%**	**22%**
40 years and within 50 years	**0%**	**50%**	**0%**

Prudential Indicator 6 – Capital Financing Requirement & Gross Debt

7.7 In order to ensure that over the medium-term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. Gross debt includes other long-term liabilities

Table 15	2023/24 Actual £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Capital Financing Requirement & Gross Debt					
GF	145.7	155.0	162.5	167.3	169.4
HRA	510.4	552.6	565.8	597.2	602.5
Total CFR	**656.1**	**707.6**	**728.3**	**764.5**	**771.9**
GF	41.2	39.1	39.1	37.1	36.2
HRA	273.1	254.2	254.2	245.7	245.7
Total Gross Debt	**314.3**	**293.3**	**293.3**	**282.8**	**281.9**
GF	104.5	115.9	123.4	130.2	133.2
HRA	237.3	298.4	311.6	351.5	356.8
Total Under-borrowing	**341.8**	**414.3**	**435.0**	**481.7**	**490.0**

Prudential Indicator 7 – Upper Limit for Principal Sums Invested for over 364 Days

7.8 A key risk inherent in investment activity is that the Council may be forced to liquidate an investment before it reaches final maturity, and thus at a time when its value may be dependent on market conditions that are unlikely to be known in advance. In order to mitigate this risk, an upper limit will be set on the total principal sums invested for periods longer than 364 days.

7.9 The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Table 16	2025/26 £m	2026/27 £m	2027/28 £m
Upper limit for principal sums invested for over 364 days	75.0	75.0	75.0

Affordability Indicators 2025/26 to 2027/28

Prudential Indicator 8 – Ratio of financing costs to net revenue stream

7.10 This indicator estimates the authority’s capital financing costs as a percentage of overall revenue. The ratio distinguishes between the financing costs and revenues that pertain to the HRA and those that relate to the General Fund. The ratio now includes financing costs associated with the Council’s PFI contracts for completeness. This shows decreasing financing costs, the internal borrowing costs have fallen due to lower interest rates.

Table 17	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Ratio of financing costs to net revenue stream					
GF	0.1%	0.2%	0.8%	0.7%	1.3%
HRA	10.9%	14.2%	14.1%	13.6%	13.5%

8.0 Liability Benchmark

8.1 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.

8.2 The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold in order to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

8.3 While CIPFA acknowledge that the minimum time horizon should be over three years in-line with other Prudential Indicators, they strongly recommend that this is provided for at least 10 years and ideally cover the length of the full external borrowing maturity profile.

There are four components:

- **Existing loan debt outstanding**: this is the maturity profile of the Council's existing external borrowing portfolio, based on final maturity dates.

- **Loans CFR**: this is the Council's Capital Financing Requirement excluding PFI and Finance lease liabilities and is calculated in accordance with the CIPFA Prudential Code. It is projected into the future based on prudential borrowing that has been approved, it also includes planned MRP.

- **Net loans requirement**: This shows the Council's gross loan debt less treasury management investments at the last financial year end. This is projected into the future and based on prudential borrowing approved, planned MRP and any other major cash flows forecast.

- **Liability Benchmark (also known as the Gross Loans Requirement)**: this equals the Net Loans Requirement plus a short term liquidity allowance. CIPFA have defined the liquidity allowance as an adequate allowance for a level of excess cash to be invested short-term to provide sufficient liquidity for treasury management operations. The Council has incorporated a liquidity allowance of £50m within the liability benchmark workings.

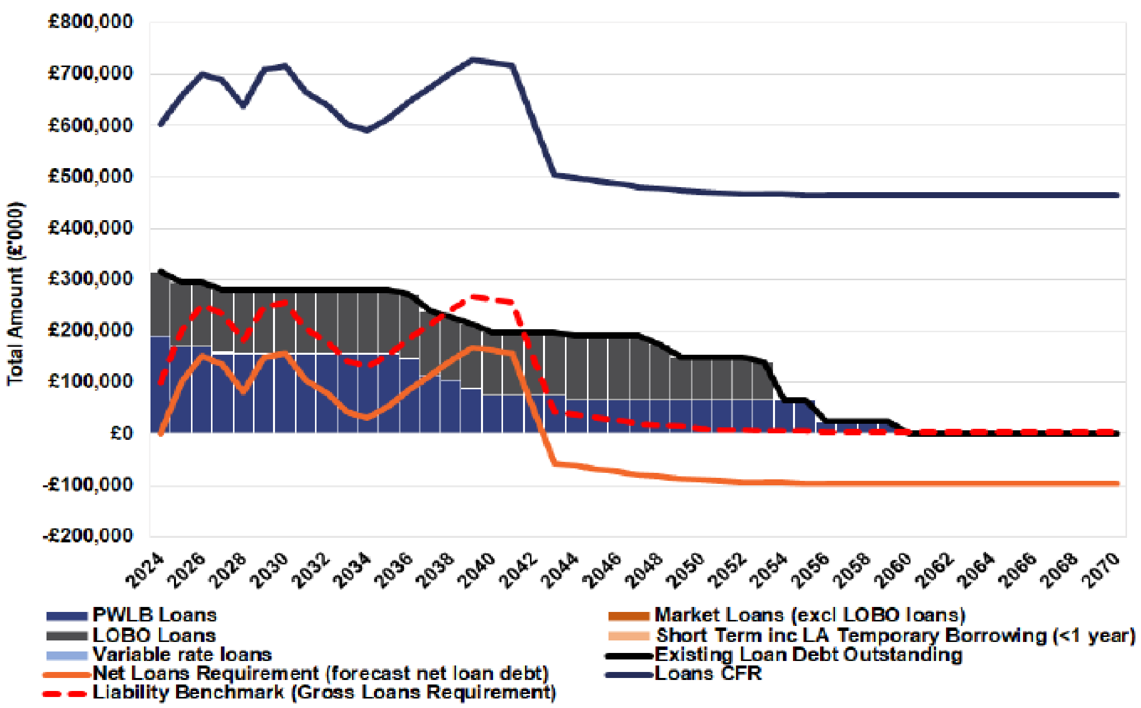
Table 18	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
	£m	**£m**	**£m**	**£m**	**£m**
CFR	656.1	707.6	728.3	764.5	771.9
Less: PFI & Finance Leases	44.3	40.0	38.0	35.0	33.0
Loans CFR	**611.8**	**667.6**	**690.3**	**729.5**	**738.9**
Less: Balance Sheet Resources	554.8	468.9	477.4	482.9	492.4
Net Loans Requirement	**57.0**	**198.7**	**212.9**	**246.6**	**246.5**
Plus: Liquidity Allowance	50.0	50.0	50.0	50.0	50.0
Liability Benchmark	**107.0**	**248.7**	**262.9**	**296.6**	**296.5**

8.4 The benchmark compares the borrowing in each year (blue and grey bars) with the CFR (purple line). It then deducts forecast spare cash to arrive at a net loan requirement (i.e. assuming all spare cash is available to use for internal borrowing).

A margin of £100m is deducted to ensure that there is ample room in the revenue operations to cope with timings differences in cash flow.

8.5 The graph illustrates that based on current forecasts the Authority does not have an immediate borrowing need relative to its Liability Benchmark. The current borrowing portfolio is in excess of the Liability Benchmark through to 2037/38, and therefore based on these projections the Authority will have investments over and above the £100m liquidity allowance incorporated into the calculations of the Prudential Indicator throughout this period. The projected borrowing required in 2038/39 would be approximately £60m and would be required for 4 years based on the current information.

Chart 2 – Liability Benchmark



9.0 Minimum Revenue Provision (MRP)

9.1 For local authorities, depreciation on fixed assets is a notional charge which is reversed out of the accounts through a statutory adjustment. In its place, a 'Minimum Revenue Provision' (MRP) is required to be charged to the General Fund. The regulations specify that local authorities must charge an amount to revenue with respect to all capital expenditure financed by debt. It requires the council to calculate in each financial year an amount of MRP that it considers to be prudent.

9.2 An underpinning principle of the local authority financial system is that all capital expenditure has to be ultimately funded either from capital receipts, capital grants (or other contributions) or eventually from the revenue of an authority. Before the start of each financial year, the council must prepare a statement of its policy on making MRP in respect of that financial year and submit it to Full Council for approval. This sits alongside reports on Prudential Borrowing limits and the Treasury Management Strategy.

9.3 The guidance presents four ready-made options for calculating prudent provision. Local authorities can use a mix of these options for debt taken out at different times should they consider it appropriate to do so.

Option 1: Regulatory method

MRP is equal to the amount determined in accordance with the former Regulations 28 and 29 of the 2003 Regulations as if they had not been revoked by the 2008 amendment to those regulations.

Option 2: CFR method

MRP is equal to 4% of the non-housing CFR at the end of the preceding financial Year.

Option 3: Asset Life Method

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the useful life of the asset. There are two main methods by which this can be achieved a) Equal Instalment Method, or b) Annuity Method.

Option 4: Depreciation method

MRP is deemed to be equal to the provision required in accordance with deprecation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment charged to the income and expenditure accounts.

MRP Policy for Camden

For 2025/26 it is proposed that the Council continues to apply Option 2 for supported borrowing and Option 3 for borrowing under the prudential system.

Capital expenditure incurred during 2025/26 will not be subject to an MRP charge until 2026/27, or in the year after the asset becomes operational.

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.

MRP in respect of assets acquired under Finance Leases or PFI will be charged at an amount equal to the principal element of the annual repayment.

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

10.0 Environmental, Social and Governance (ESG)

10.1 This topic is becoming a more commonplace discussion within the wider investment community, including Local Authorities. Whilst many councils have declared a “climate emergency” this has not yet translated into formal professional guidance within the local government sector.

10.2 At Camden we hold most of our day to day treasury cash balances in Money Market Funds (MMFs), with our remaining investments in deposits with various high-grade counterparties and UK Treasury bills. Generally, the risks and opportunities associated with ESG, sustainability and climate change are, by nature, long term, which makes it difficult to have an impact on these issues where investments are short-term, with maturities less than 12 months.

10.3 However, as noted in the investment strategy (section 7);

- The council requires a minimum rating -AA to AAA for individual investments for up to 2 years.

- Before investing, the Council takes ESG into account using credit ratings.

- All the main ratings agencies are now considering how they incorporate ESG risks alongside traditional a financial risk matrix to assess counterparty ratings. Financial institutions with poor/weak ESG approach are generally less well rated or are likely to be subject to a negative rating and would therefore not meet the council's' requirements for investing.

- All of the council's MMFs are highly rated according to the European Sustainable Finance Disclosures Regulations, meaning that the council is actively integrating and promoting sustainability considerations into all our day to day investment decisions.

11.0 Risks

11.1 As noted in the main report the council's borrowing and investment balances are significant and it is therefore important that the Council manages the risks associated with its treasury position in order to safeguard the authority's financial position. The following risks and mitigations have been identified in compiling this strategy.

Risk	Mitigation
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	The Council will ensure its counterparty lists and limits reflect a prudent attitude towards organisations with whom funds may be deposited and will limit its treasury management investment activities to the instruments, methods and techniques referred to in its approved instruments within the TMS
Liquidity risk That cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, and that the Council's business/service objectives will be thereby compromised.	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 it which are necessary for the achievement of its business/service objectives.
Interest Rate Risk The risk that fluctuations in the levels of interest rates result in unplanned costs	The proportion of fixed and variable rate debt will be determined as part of the annual borrowing strategy to address the issues of affordability but without compromising the longer-term stability of the debt portfolio. The proportion will be kept under review on a regular basis.
Exchange Rate Risk That fluctuations in foreign exchange rates create unplanned budgetary pressures.	The Council will manage its exposure to fluctuations in exchange rates so as to minimise any detrimental impact on its budgeted income/expenditure levels. This Council does not, on a day to day basis, have

	foreign currency transactions or receipts, although the NLWA has borrowed €280 Euros to fund specific elements of its new Heat & Power Plant contract that is payable in Euros.
Inflation Risk The risk that the cash flows from an investment would not be worth as much in the future because of changes in purchasing power due to inflation.	Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Council will identify all major contractual obligations which are linked to inflation, whether receipts or payments, in relation to its treasury assets and liabilities and regularly review the financial impact of a <+/- 1%> increase/decrease in inflation from existing levels.
Refinancing Risk The risk that maturing borrowings, capital, project or partnership financing 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	The Council will actively manage its relationships with its counterparties in these transactions in such a manner as to secure this objective and will avoid over reliance on any one source of funding if this might jeopardise achievement of the above.
Legal and Regulatory Risk The risk that the Council 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 Council suffers losses accordingly.	The Council will ensure that all of its treasury management activities comply with its statutory powers and regulatory requirements. It will demonstrate such compliance, if required to do so, to all parties with whom it deals in such activities. In framing its credit and counterparty polices.

12.0 Training

12.1 The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management, this is especially applicable to members responsible for scrutiny.

12.2 Council members have had a training session with Link last financial year (2024-25). Members were able to gain an appreciation of what Treasury Management involved; gain an understanding of how Treasury Management is undertaken; understanding the role of Officers and Members in Treasury Management decisions; understanding the risks in Treasury Management and how they should be managed; develop the skills and knowledge for Member scrutiny of Treasury Management decisions. This included training the Members to understand the CFR, the legislation involved and to help in their understanding of the balance sheet review. Treasury officers attend Link webinars and records of attendance are kept on file.

12.3 Since January 2018 the Markets in Financial Instruments Directive II (MiFID II) regulations are in force. For the Council to continue to invest as before it is required to opt up to become a “Professional Status” counterparty. Those with responsibility for the delivery of the treasury management function must be able to demonstrate that they have significant skills and experience of working in a market environment. The existing team fulfils this requirement, and the Council currently holds "Professional Status".

13.0 Treasury Management Scheme of Delegation

13.1 Under the Council's constitution, the Section 151 officer for the Council has delegated responsibility to make all decisions on borrowing, investment or financing on behalf of the Executive, acting in accordance with Prudential Code and the Council's treasury management strategy.

Full Council

- Approval of annual strategy and Performance Indicators
- Approval of the Mid-Year Report
- Approval of the Annual Outturn Report

Cabinet

- Recommend the annual strategy and Performance Indicators to Full Council for approval
- Recommend the Mid-Year Report to Full Council for approval
- Recommend the Annual Outturn Report to Full Council for approval

Audit & Corporate Governance Committee

- Note and comment on the Mid-Year Report to Cabinet
- Note and comment on the Annual Outturn Report to Cabinet

Executive Director Resources / Director of Finance

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

- **Raising borrowing or funding finance from the most appropriate of these sources:**
    - Government's Public Works Loans Board
    - lenders' option borrowers' option (LOBO) loans
    - local bond issues
    - European Investment Bank
    - overdraft
    - banks and building societies
    - local authorities
    - lease finance providers
    - internal borrowing
    - municipal bonds agency

- **Debt management:**
    - managing the cost of debt
    - delegate authority to treasury management staff to undertake borrowing and debt rescheduling

- **CIPFA Prudential Code for Capital Finance in Local Authorities:**
    - ensuring that this requirement is not breached, considering current commitments, existing plans, and the proposals in the budget report

- **Investing:**
    - setting investment criteria in response to changing circumstances
    - arranging investments using these instruments:
      – fixed term deposits with banks and building societies

- money market funds
  - local authorities
  - Government's Debt Management Agency deposits
  - pooled funds: gilts and corporate funds
- compiling and updating the lending list, utilising the criteria for counterparties
- managing surplus funds and revenue from investments
- delegate authority to invest to designated treasury management staff

- **Loan rescheduling:**
  - any debt rescheduling which may be done in consultation with the TM consultants.

- **Policy documentation:**
  - formulation and review of the treasury management strategy statement;
  - formulation and review of the treasury management practices (TMPs).

- **Strategy implementation:**
  - implementing the strategy, ensuring no breaches of regulations;
  - reporting to Cabinet any material divergence from the strategy making requests to Council to approve amendments to the strategy as required;
  - ensuring that TM activities are carried out in accordance with CIPFA Codes of Practice.