London Borough of Haringey

Treasury Management Strategy Statement 2025/26

1. Introduction

1.1. Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and 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 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.

1.3. Investments held for service purposes or for commercial profit are considered in a different report.

2. External Context – provided by the Council's appointed treasury advisor, Arlingclose

Economic background

2.1. The impact on the UK from the government's Autumn Budget, slower expected interest rate cuts, a short-term boost to but 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.

UK inflation, interest rates and economic growth outlook

2.2. The Bank of England's (BoE) Monetary Policy Committee (MPC) held Bank Rate at 4.75% at its December 2024 meeting, having reduced it to that level in November and following a previous 25 basis point cut from the 5.25% peak at the August MPC meeting. At the December meeting, six Committee members voted to maintain Bank Rate at 4.75% while three members preferred to reduce it to 4.50%.

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 and in line with expectations. 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 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, but the data still require 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 fell to 21.7%. Pay growth for the same period was reported at 5.2% for both regular earnings (excluding bonuses) and for 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.

Global economic outlook

2.6. The US Federal Reserve has also been cutting interest rates, bringing down the Fed Funds Rate by 0.25% at its November 2024 monetary policy meeting to a range of 4.5%-4.75%. Further interest rate cuts are expected, but uncertainties around the potential inflationary impact of incoming President Trump's policies may muddy the waters in terms of the pace and magnitude of further rate reductions. Moreover, the US economy continues to expand at a decent pace, rising at an annual rate of 3.1% in the third quarter of 2024, and inflation remains elevated suggesting that monetary policy may need to remain more restrictive in the coming months than had previously been anticipated.

2.7. Euro zone inflation rose above the European Central Bank (ECB) 2% target in November 2024, hitting 2.2% as was widely expected and a further increase from 2% in the previous month. Despite the rise, the ECB continued its rate cutting cycle and reduced its three key policy rates by 0.25% in December. Inflation is expected to rise further in the short term, but then fall back towards the 2% target during 2025, with the ECB remaining committed to maintaining rates at levels consistent with bringing inflation to target, but without suggesting a specific path.

Credit Outlook

2.8. Credit Default Swap (CDS) prices have typically followed a general trend downwards during 2024, reflecting a relatively more stable financial period compared to the previous year. Improved credit conditions in 2024 have also led to greater convergence in CDS prices between ringfenced (retail) and non-ringfenced (investment) banking entities again.

2.9. Higher interest rates can lead to a deterioration in banks' asset quality through increased loan defaults and volatility in the value of capital investments. Fortunately, the rapid interest rate hikes during this monetary tightening cycle, while putting some strain on households and corporate borrowers, has not caused a rise in defaults, and banks have fared better than expected to date, buoyed by strong capital positions. Low unemployment and robust wage growth have also limited the number of problem loans, all of which are positive in terms of creditworthiness.

2.10. Moreover, while a potential easing of US financial regulations under a Donald Trump Presidency may aid their banks' competitiveness compared to institutions in the UK and other regions, it is unlikely there will be any material impact on the underlying creditworthiness of the institutions on the counterparty list maintained by Arlingclose, the authority's treasury adviser.

2.11. Overall, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2024)

2.12. The Authority's treasury management adviser Arlingclose expects the Bank of England's MPC will continue reducing Bank Rate through 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.

2.13. 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.

2.14. A more detailed economic and interest rate forecast provided by Arlingclose is included in this document as Appendix A.

2.15. For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate of 4.00%, and that new long-term loans will be borrowed at an average rate of 5.50%.

3. Local Context

Capital Expenditure and Financing

3.1. The Council's capital plans are the primary driver of the Council's borrowing requirement, and they are outlined in the Council's Capital Strategy 2025 to 2030 included in the Council's main budget report and has been considered when producing this report. Table 1 below summaries the Council's expenditure plans, both those previously agreed, and those to be agreed as part of this year's budget/MTFS plan. Members are asked to approve the following expenditure forecasts.

Table 1: Capital Expenditure

	31.3.24 Actual £m	31.3.25 Estimate £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m	31.3.29 Forecast £m	31.3.30 Forecast £m
General Fund Account (GF)	72,858	107,479	142,921	151,198	112,518	67,720	105,711
Commercial Activities & Investments	-	-	-	-	-	-	-
Housing Revenue Account (HRA)	158,783	161,694	256,407	260,804	261,529	225,897	199,968
Exceptional Financial Support (EFS)	-	20,000	20,000	-	-	-	-
Total	**231,641**	**289,173**	**419,327**	**412,002**	**374,047**	**293,617**	**305,679**

3.2. A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the Council's overall financial position. The capital expenditure figures shown in Table 1 above indicate that no such activity is proposed in the future programme.

3.3. The above programme excludes other long-term liabilities, such as Private Finance Initiative (PFI) and leasing arrangements, that already include borrowing instruments

3.4. If approved by MHCLG, the Exceptional Financial Support (see Section 3.16 to 3.19) will allow for certain items of revenue expenditure to be charged to Capital.

3.5. The proposed funding of the capital programme for 2025/26 to 2029/30 is set out in Table 2. Any shortfall of resources results in a borrowing need.

Table 2: Capital Financing

	31.3.24 Actual £m	31.3.25 Estimate £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m	31.3.29 Forecast £m	31.3.30 Forecast £m
Borrowing	-	79,463	76,622	44,963	44,396	11,840	9,130
Borrowing - Self-Funding	-	8,504	33,894	37,203	6,402	4,686	-
Capital Grants	28,349	24,526	23,139	39,875	19,110	8,584	8,231
Capital Receipts	-	-	10,000	-	-	-	-
Capital Reserves	-	1,100	-	-	-	-	-
Community Infrastructure Levy	2,204	4,690	5,879	3,407	2,781	2,781	-
HRA Contributions	-	-	5,000	-	-	-	-
Revenue contributions	210	300	500	500	500	500	500
S106/Developer Contributions	2,775	8,896	7,886	25,250	39,329	39,329	87,850
TOTAL GENERAL FUND (GF) FINANCING	**33,538**	**127,479**	**162,921**	**151,198**	**112,518**	**67,720**	**105,711**
Capital Grants	55,271	20,932	45,820	74,042	35,032	28,616	10,468
Major Repairs Reserve	22,901	22,597	22,729	23,776	25,044	26,181	27,434
Revenue contributions	-	4,365	2,005	6,689	6,703	4,490	5,994
RTB Capital Receipts	7,533	9,758	9,455	9,735	9,795	6,461	6,818
Leaseholder Contributions to Major Works	1,269	8,289	7,144	6,965	7,022	6,936	6,965
Market Sales Receipts	-	4,717	1,348	1,613	1,482	15,450	450
Borrowing	71,809	91,036	167,906	137,984	176,451	137,763	141,840
TOTAL HOUSING REVENUE ACCOUNT (HRA) FINANCING	**158,783**	**161,694**	**256,407**	**260,804**	**261,529**	**225,897**	**199,968**
TOTAL CAPITAL FINANCING	**192,321**	**289,173**	**419,327**	**412,002**	**374,047**	**293,617**	**305,679**

3.6. The Council's capital Strategy and programme is robustly scrutinised and tested to ensure that the capital plans are affordable and prudent. Table 1 shows the five-year effects of the Council's capital programme; however, all capital plans are assessed in their entirety (i.e., some schemes are for a greater than five year time frame).

3.7. On 31 December 2024, the Council held £956.9m of borrowing and £72.6m of treasury investments. This is set out further in detail at Annex B. Forecast changes in these sums are shown in the balance sheet analysis in Table 3 below.

Table 3: Balance Sheet Summary and Forecast (Capital Financing Requirement)

	31.3.24 Actual £m	**31.3.25 Estimate £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**	**31.3.28 Forecast £m**	**31.3.29 Forecast £m**	**31.3.30 Forecast £m**
General Fund CFR	677.3	726.1	828.4	916.0	975.1	1,001.3	1,013.5
HRA CFR	542.9	587.8	733.4	877.4	1,046.1	1,191.6	1,332.6
Total CFR	**1,242.2**	**1,313.9**	**1,561.8**	**1,793.4**	**2,021.2**	**2,192.9**	**2,346.1**
Less: Other debt liabilities*	-22.0	-17.7	-13.2	-10.6	-9.9	-9.2	-8.5
Loans CFR	**1,220.2**	**1,296.2**	**1,548.6**	**1,782.8**	**2,011.3**	**2,183.7**	**2,337.6**
Less: Internal borrowing	-328.3	-261.5	-283.9	-305.6	-324.1	-311.5	-295.4
CFR Funded by External Borrowing	**891.9**	**1,034.7**	**1,264.7**	**1,477.2**	**1,687.2**	**1,872.2**	**2,042.2**
Breakdown of External Borrowing:							
Existing borrowing**	891.9	954.8	864.8	852.3	832.3	792.3	772.3
New borrowing to be raised	-	79.9	399.9	624.9	854.9	1,079.9	1,269.9

* leases and PFI liabilities that form part of the Authority's total debt
** shows only loans to which the Authority is committed and excludes optional refinancing

3.8. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR). The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

3.9. CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 3 shows that the Council expects to comply with this recommendation during the medium-term financial strategy (MTFS) forecast period.

Reporting Requirements

3.10. CIPFA published the revised Treasury Management Code and Prudential Code on 20th December 2021 and has stated that revisions need to be included in the reporting framework from 2023/24 financial year. The Council receives and approves the reports below, which incorporate a variety of strategies and policies, and estimated and actual figures:

- Quarterly Treasury Management Update Reports, including Mid- year update that provides progress and updates members on the capital position, amending Prudential Indicators as necessary, and advises whether any policies require revision
- Annual Treasury Management Report - This is a backward-looking review and provides details of a selection of actual prudential capital and treasury management indicators and of actual treasury operations compared to the estimates
- Treasury Management Strategy - Prudential capital and treasury management indicators and treasury strategy (this report)

3.11. The Council adheres to these Codes of Practice and reporting requirements when it prepares the Treasury Management Strategy Statement and related reports during the financial year, reporting to Audit Committee, Overview and Scrutiny Committee and Full Council as required during the reporting cycle.

Training

3.12. The Treasury Management Code requires a Council officer (the "responsible officer") to ensure that members with responsibility for treasury management receive adequate training in that function. This especially applies to members responsible for scrutiny. Furthermore, the Code states that all organisations are expected to have a formal and comprehensive knowledge and skills or training policy for the effective acquisition and retention of treasury management knowledge and skills for those responsible for management, delivery, governance and decision making.

3.13. Training is made available to all Members involved in the monitoring of treasury management performance. Overview and Scrutiny and Audit Committee members receive Treasury Management training for the review, scrutiny and approval of the Treasury Management Strategy Statement annually as part of the budget planning process. The council will regularly assess whether treasury management staff and members have the required knowledge and skills to undertake their roles and ensure these skills are maintained and kept up to date.

Treasury management advisors

3.14. The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. Haringey employ the services of Arlingclose Ltd for advice on treasury management. Services cover advice on strategy setting and implementation, regulatory compliance, reporting, investments, counterparty credit worthiness, economic outlook, financial markets, interest rates, debt management, funding, training, and technical accounting support.

3.15. Treasury management decisions is the responsibility of the Council based on, but not solely, on the most up to date information available by external advisors. The Council will continue to ensure that undue reliance is not placed upon the services of Treasury Advisors.

Exceptional Financial Support

3.16. The Council's financial position is challenging. Efforts to reduce costs and identify additional savings continues but as part of contingency planning, Haringey has made an application to the Ministry for Housing, Communities and Local Government for Exceptional Financial Support (EFS) to be made available if it is required during 2025/26.

3.17. The application for EFS is a necessary response to the Council's financial circumstances and if required, support will be provided through an agreement by Government that the

Council can capitalise part of its day to day running costs. In practice this means that the Council has permission to either borrow or use capital receipts from the sale of assets to fund day-to-day expenditure.

3.18. An update on the Council's financial position will be presented to Overview and Scrutiny Committee on 30 January 2025 before the Cabinet consider the final draft budget on 11 February 2025. For planning purposes, this draft TMSS has been prepared on the basis that some support through a capitalisation directive that allows borrowing for some day to day services will be required. This assumption will remain under review over the next few weeks with the expectation that any EFS required to balance the budget will be minimised. Any update will be reflected in the updated TMSS to Audit Committee on 27 January 2025 and the final TMSS presented to Cabinet on 11 February 2025. Therefore, the figures in this TMSS are subject to change over the next few weeks. Full details will also be set out in the Chief Finance Officer's Section 25 Statement of the 2025/26 Budget and Medium Term Financial Strategy report going to Cabinet on 11 February 2025.

3.19. Support through EFS is not a long term sustainable financial strategy and work will continue through 2025/26 to reduce the amount of EFS drawdown and avoid the need for any EFS from 2026/27 onwards.

3.20. The Council has an increasing CFR due to the capital programme, but minimal treasury investments, therefore there will be a new borrowing requirement of up to £1,269.9m over the forecast period 2025/26 to 2029/30 (See Table 3). Table 4 below shows a breakdown of the forecast borrowing position at each financial year end to finance both the General Fund and the Housing Revenue Account's (HRA) capital programmes.

Table 4: Year-end Borrowing Position Summary

	31.3.24 Actual £m	31.3.25 Estimate £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m	31.3.29 Forecast £m	31.3.30 Forecast £m
General Fund borrowing	445.0	495.4	580.4	647.9	687.9	727.9	757.9
HRA borrowing	446.9	539.3	684.3	829.3	999.3	1,144.3	1,284.3
Total borrowing	**891.9**	**1,034.7**	**1,264.7**	**1,477.2**	**1,687.2**	**1,872.2**	**2,042.2**

Liability Benchmark

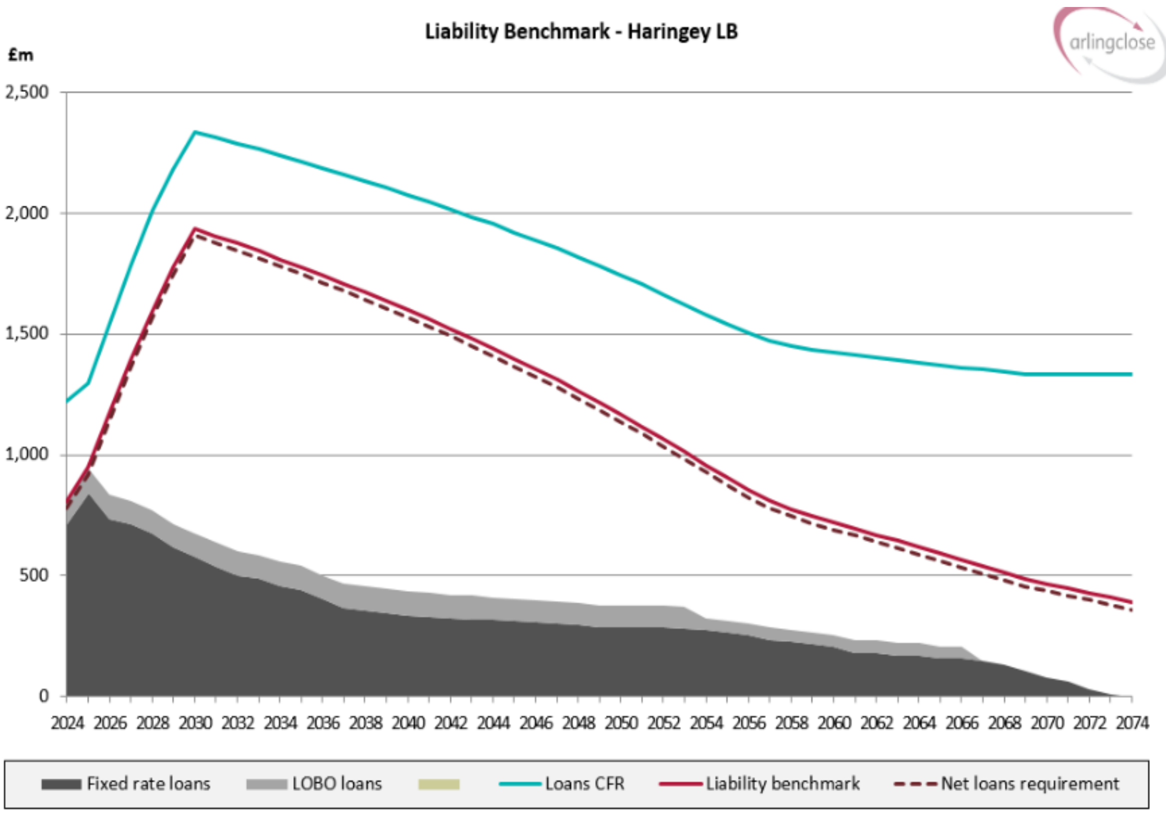
3.21. The liability benchmark has been calculated to compare the Council's actual borrowing against an alternative strategy. The liability benchmark shows the lowest risk level of borrowing. This assumes the same borrowing forecasts as Table 3 above, but that cash and investment balances are kept to a minimum level of £30m at each year-end to maintain sufficient liquidity but minimise credit risk.

3.22. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or a long-term investor in the future. This is important in developing the Council's 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.

Table 5: Prudential Indicator – Liability Benchmark

	31.3.24 Actual £m	31.3.25 Estimate £m	31.3.26 Forecast £m	31.3.27 Forecast £m	31.3.28 Forecast £m	31.3.29 Forecast £m	31.3.30 Forecast £m
Loans CFR	1,220.2	1,296.2	1,548.6	1,782.8	2,011.3	2,183.7	2,337.6
Less: Balance Sheet resources	-443.8	-377.0	-399.4	-421.1	-444.7	-439.4	-430.4
Net loans requirement	**776.4**	**919.2**	**1,149.2**	**1,361.7**	**1,566.6**	**1,744.3**	**1,907.2**
Plus: Liquidity allowance	30.0	30.0	30.0	30.0	30.0	30.0	30.0
Liability Benchmark	**806.4**	**949.2**	**1,179.2**	**1,391.7**	**1,596.6**	**1,774.3**	**1,937.2**

3.23. The long-term liability benchmark assumes the same capital expenditure funded by borrowing as included in the CFR, minimum revenue provision on new capital expenditure based on a 25-year asset life and income, expenditure and reserves all increasing by inflation of 2.5% a year. This is shown in the chart on the following page together with the maturity profile of the Council's existing borrowing.



4. Borrowing Strategy

4.1. On 31 December 2024, the Council held £956.9m of loans as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in Table 3 shows that the Council expects to increase its borrowing by up to £400m by the end of 2025/26. The Council may also borrow additional sums to pre-fund future years' borrowing requirements, provided this does not exceed the authorised limit for borrowing as set out in the Capital Strategy.

4.2. Borrowing can take the form of internal or external borrowing. Internal borrowing is a temporary position where the Council delays the need to borrow externally by temporarily using uses its cash it holds for other purposes. If not used for internal borrowing, these cash balances would be invested in accordance with the Treasury Management Strategy providing the Council with a return on investment.

Objectives

4.3. The Council's main 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 for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change, is a secondary objective.

Strategy

4.4. Given the significant reductions in national public expenditure and, in particular, to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. The scale of the Council's capital programme, and the need to diversify the Council's debt portfolio to further minimise refinancing risk means that long term borrowing will be required during

2025/26. Therefore, the Council's strategy will be to fulfil its borrowing requirement during the financial year with a mixture of short-term and long-term borrowing.

4.5. The Council aims to strike a balance between borrowing short-term loans that may be refinanced at a lower cost if rates fall, against the certainty of longer term fixed rate debt that will protect the council if interest rates rise.

4.6. The Council has in recent years raised all its long-term borrowing from the Public Works Loan Board (PWLB) but will continue to consider long-term loans from other sources including banks, pension funds and other local authorities, and may investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. The council has struggled to borrow from other sources due to it being perceived as having a higher risk than other local authorities. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council has not done this in the past and intends to avoid this activity in order to retain its access to PWLB loans.

4.7. Alternatively, the Council may arrange forward starting loans, 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.

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

4.9. The councils Medium Term Financial Strategy includes the provision of a Capitalisation Direction from Government. If agreed, the council has permission to either borrow or use capital receipts from the sale of assets to fund day-to-day expenditure. It is for the Council to decide which of its capital resources eg capital receipts or borrowing to allocate for this purpose at year end. With the previous Government, should a Council choose to borrow from the PWLB to finance a Capitalisation Direction, it was charged at the more disadvantageous rate of PWLB+1% . However, the new Government announced in the Provisional Local Government Finance Settlement (PLGFS) in December 2025 that as part of a framework, that they have put in place to support councils in the most difficult positions, they will not seek to replicate conditions that made borrowing more expensive. It has therefore been assumed in the TMSS that borrowing will be at PWLB rates included in Appendix A and MRP will be required using the asset life method with a proxy 'asset life' of no more than 20 years.

Sources of Borrowing

4.10. The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank Ltd
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Haringey Pension Fund and the London Collective Investment Vehicle)
- capital market bond investors
- retail investors via a regulated peer-to-peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other Sources of Debt Finance

4.11. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- Leasing
- Hire Purchase
- Private Finance Initiative
- Sale and Lease Back
- Similar asset based finance

Municipal Bonds Agency

4.12. The UK Municipal Bonds Agency was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will 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. There are no plans to borrow during 2025/26 from the Municipal Bonds Agency and any decision to borrow from the Agency will therefore be the subject of a separate report to the Audit Committee.

LOBOs

4.13. The Council holds £100m of 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. £50m of these LOBOs have options exercisable during 2025/26, and with interest rates having risen sharply recently, there is now a reasonable likelihood that lenders will explore their ability to exercise their options. If they do, the Council will take the option to repay the LOBO loans to reduce refinancing risk in later years.

4.14. Some LOBO lenders may be open to negotiating premature exit terms from LOBO loans via payment of a premium to the lender. The Council's policy will be to exit LOBO agreements if the costs of replacing the loans, including all premium, transaction and funding costs, generate a material net revenue saving for the Council over the life of the loan in net present value terms, and all costs are consistent with Haringey's approved medium term financial strategy. The decision to repay a LOBO loan will be determined by the S151 Officer in consultation with the lead Cabinet Member for Finance and Corporate Services, in line with Haringey's constitution.

4.15. When loans are prematurely repaid, there is usually a premium payable to the lender, to compensate them for interest forgone at the contractual rate, where prevailing interest rates are lower. The Council would need to refinance LOBOs by raising borrowing for both the original sum borrowed, and the premium payable to the lender. However, this type of arrangement can prove beneficial where interest savings exceed premium costs. Replacing LOBOs that contain an option for lenders to increase the rate, with fixed rate debt would reduce refinancing and interest rate risk.

Short-term and Variable Rate Loans

4.16. These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.

Debt Rescheduling

4.17. 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. Other lenders may also be prepared to negotiate premature redemption terms. 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. A rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Borrowing Limits

4.18. The Council's total borrowing limits are set out in Table 6 below.

4.19. The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e., not net of investments) and is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The indicator separately identifies borrowing from other long-term liabilities such as finance leases. The Authorised Limit has been set on the estimate of the most likely, prudent but not worst-case scenario with sufficient headroom over and above this to allow for unusual cash movements.

4.20. The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst-case scenario but without the additional headroom included within the Authorised Limit. The Operational Boundary and Authorised Limit apply at the total level.

4.21. The Chief Finance Officer has the delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Audit Committee.

Table 6: Borrowing Limits

	2023/24 Limit £m	**2024/25 Limit £m**	**2025/26 Limit £m**	**2026/27 Limit £m**	**2027/28 Limit £m**	**2028/29 Limit £m**
Authorised limit - borrowing	1,208.9	1,465.4	1,702.2	1,931.5	2,104.6	2,259.3
Authorised limit - PFI & Leases	23.3	17.4	13.9	13.0	12.1	11.2
Authorised limit - total external debt	**1,232.2**	**1,482.8**	**1,716.1**	**1,944.5**	**2,116.7**	**2,270.5**
Operational boundary - borrowing	1,158.9	1,415.4	1,652.2	1,881.5	2,054.6	2,209.3
Operational boundary - PFI & Leases	21.2	15.8	12.7	11.8	11.0	10.1
Operational boundary - total external debt	**1,180.1**	**1,431.2**	**1,664.9**	**1,893.3**	**2,065.6**	**2,219.4**

5. Treasury Investment Strategy

5.1. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between £33m and £84m, and similar levels are expected to be maintained in the forthcoming year.

Objectives

5.2. 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 the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. 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 aims to be a responsible investor and will consider environmental, social and governance (ESG) factors when making investment decisions.

Strategy

5.3. As demonstrated by the liability benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The Council aims to maintain its policy of utilising highly creditworthy and highly liquid investments such as deposits with the Debt Management Office (DMO), AAA rated money market funds and other entities on the Arlingclose approved counterparty list.

ESG policy

5.4. 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.

Business Models

5.5. Under the IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved Counterparties

5.6. The Council may invest its surplus funds with any of the counterparty types in Table 7, subject to the limits shown.

Table 7: Treasury Investment Counterparties and Limits

Sector	Time Limit	Counterparty Limit	Sector Limit
The UK Government	50 years	Unlimited	n/a
Money Market Funds	n/a	£10m	Unlimited
Local authorities & other government entities	25 years	£5m	Unlimited
Banks (secured)*	2 years	£5m	Unlimited
Banks (unsecured)*	13 months	£5m	Unlimited
Building societies (unsecured)*	13 months	£5m	£20m
Registered providers (unsecured)*	5 years	£5m	£20m
Strategic Pooled Funds	n/a	£5m	Unlimited
Real Estate Investment Trusts	n/a	£5m	Unlimited

Minimum Credit Rating

5.7. Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Government

5.8. The Council may invest in loans, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Bank Secured Investments

5.9. Bank secured investments are investments that are secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and Building Societies (unsecured)

5.10. The Council may invest in accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered Providers (unsecured)

5.11. The Council may invest in loans, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in

Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money Market Funds

5.12. Money market funds are pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over banks of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic Pooled Funds

5.13. Strategic pooled funds include bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Since these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real Estate Investment Trusts (REITs)

5.14. REITs are publicly traded companies that invest mainly in real estate and pay most of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational Bank Accounts

5.15. The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £10m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk Assessment and Credit Ratings

5.16. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. 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.

5.17. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating 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.

Other Information on the Security of Investments

5.18. The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

Reputational aspects

5.19. The Council acknowledges that investing with certain counterparties, although financially secure, may subject it to criticism, whether valid or not, that could impact its public reputation. This risk will be considered when making investment decisions.

5.20. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, this is not generally reflected in credit ratings but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment Limits

5.21. The Council's revenue reserves available to cover investment losses are forecast to be £30 million on 31st March 2025 and £30 million on 31 March 2026. In order that no more than 100% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be £10 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

5.22. Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country since the risk is diversified over many countries.

Table 8: Additional Investment Limits

	Cash Limit
Any single organisation, except the UK Central Government	£10m each

UK Central Government	Unlimited
Any group of organisations under the same ownership	£10m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£10m per country
Registered providers and registered social landlords	£10m in total
Unsecured investments with building societies	£10m in total
Loans to unrated corporates	£10m in total
Money market funds*	£50m in total
Real Estate Investment Trusts	£10m in total

* These limits apply for both Haringey Council and Haringey Pension Fund, so the limit for Money Market Funds is £10m per MMF and £50m aggregate limit for the Council, and £50m for the Pension Fund.

Liquidity Management

5.23. The Council uses purpose-built cash flow forecasting software 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.

6. <u>Treasury Management Prudential Indicators</u>

6.1. The Council measures and manages its exposures to treasury management risks using the following indicators.

Security

6.2. The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit Risk Indicator	Target
Portfolio average credit rating	Above A, score of 6 or lower

Liquidity

6.3. The Council 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 3-month period, without additional borrowing.

Liquidity Risk Indicator	Target
Total cash available within 3 months	£30m

Interest rate exposures

6.4. This indicator is set to control the Council'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
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£2m
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£2m

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

Maturity structure of borrowing

6.6. This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing are shown on the following page:

Refinancing Rate Risk Indicator	Upper Limit	Lower Limit
Under 12 months	40%	0%
12 months and within 24 months	40%	0%
24 months and within 5 years	50%	0%
5 years and within 10 years	50%	0%
10 years and above	100%	0%

6.7. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Total short-term borrowing

6.8. In recent years, the Council has used short term borrowing (under 1 year in duration) from other local authorities to meet short-term liquidity requirements. Short term borrowing can also be raised from other counterparties such as banks. This approach offers increased flexibility for cash flow management by the Council and can serve as an alternative to borrowing from PWLB over a longer term.

6.9. Short-term borrowing exposes the Council to refinancing risk. This is the risk that interest rates may rise quickly over a short period of time, resulting in significantly higher rates when the loans mature. In such cases, there is a risk that the new replacement borrowing would need to be taken at higher interest rates compared to the maturing loans.

6.10. Bearing this in mind, the Council has set a limit on the total amount of short-term borrowing that has no associated protection against interest rate rises, as a proportion of all borrowing.

Short term borrowing	Target
Upper limit on short-term borrowing that exposes the Council to interest rate rises as a percentage of total borrowing	20%

Long-term treasury management investments

6.11. 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
Limit on principal invested beyond year end	£5m	£5m	£5m

7. Related Matters

7.1. The CIPFA Code requires the Council to include the following in its treasury management strategy.

Financial Derivatives

7.2. 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 (i.e., those that are not embedded into a loan or investment).

7.3. 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 the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be considered when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

7.4. Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk will be included to count against the counterparty credit limit and the relevant foreign country limit.

7.5. 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.

Housing Revenue Account

7.6. On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g., premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. 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. This balance will be measured each month and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

Markets in Financial Instruments Directive

7.7. The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Director of Finance (S151 Officer) considers this to be the most appropriate status.

8. Financial Implications

8.1. The budget for investment income in 2025/26 is £2.0m based on an average investment portfolio of £50 million at an interest rate of 4.0%.

8.2. The budget for total debt interest paid in 2025/26 is detailed in Table 9 below for both the General Fund and HRA. If the actual levels of investments and borrowing, or the actual interest rates, differ from those forecasted, the performance against the budget will be correspondingly different. This will be reported through the quarterly Treasury Management report to Audit Committee.

8.3. As debt needs to be repaid the Council is required by statute to set aside from its revenue account an annual amount sufficient to repay its borrowing. This is known as the minimum revenue provision (MRP). No MRP is required for the HRA. Table 9 sets outs the revenue budgets in both the General Fund and HRA for both interest costs on borrowing and minimum revenue provision (MRP) charges.

8.4. The Council's MRP Policy Statement is included in the Capital Strategy 2025-2030 of the main Budget report going to Cabinet 11 February 2025.

8.5. The Department for Levelling Up, Housing and Communities (DLUHC) now Ministry of Housing, Communities and Local Government (MHCLG), issued statutory guidance (updated 2018) on determining a prudent level of MRP. The Council's Minimum MRP Policy is under review for 2025/26 and any significant updates will be factored into this report for Audit Committee on 27 January 2025.

Table 9: Revenue budget for interest costs and MRP

	2024/25 Budget £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m	2028/29 Forecast £m	2029/30 Forecast £m

MRP - pre 2008 expenditure	5.0	5.0	5.0	5.0	5.0	5.0
MRP - post 2008 expenditure	11.7	13.5	15.1	16.3	16.7	17.2
Total MRP	**16.7**	**18.5**	**20.1**	**21.3**	**21.7**	**22.2**
Interest Costs (GF)	14.1	18.5	24.4	27.4	29.6	31.4
Capital Financing Costs (GF)	**30.8**	**37.0**	**44.5**	**48.7**	**51.3**	**53.6**
Offsetting Savings for self-funded schemes	-0.1	-1.1	-2.7	-3.7	-4.2	-5.2
Estimated Capital Financing Budgets	**30.7**	**35.9**	**41.8**	**45.0**	**47.1**	**48.4**
Interest Costs (HRA)	**20.2**	**26.2**	**34.0**	**42.1**	**49.6**	**55.9**

9. Other Options Considered

9.1. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Finance (S151 Officer), having consulted the Cabinet Member for Finance and Corporate Services, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed on the following page.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Appendix A – Arlingclose Economic & Interest Rate Forecast – December 2024

Underlying assumptions:

- As expected, the Monetary Policy Committee (MPC) held Bank Rate at 4.75% in December, although, with a 6-3 voting split and obvious concerns about economic growth, presented a much more dovish stance than had been expected given recent inflationary data.

- The Budget measures remain a concern for policymakers, for both growth and inflation. Additional government spending will boost demand in a constrained supply environment, while pushing up direct costs for employers. The short to medium-term inflationary effects will promote caution amongst policymakers.

- UK GDP recovered well in H1 2024 from technical recession, but underlying growth has petered out as the year has progressed. While government spending should boost GDP growth in 2025, private sector activity appears to be waning, partly due to Budget measures.

- Private sector wage growth and services inflation remain elevated; wage growth picked up sharply in October. The increase in employers' NICs, minimum and public sector wage levels could have wide ranging impacts on private sector employment demand and costs, but the near-term impact will likely be inflationary as these additional costs get passed to consumers.

- CPI inflation rates have risen due to higher energy prices and less favourable base effects. The current CPI rate of 2.6% could rise further in Q1 2025. The Bank of England (BoE) estimates the CPI rate at 2.7% by year end 2025 and to remain over target in 2026.

- The MPC re-emphasised that monetary policy will be eased gradually. Despite recent inflation-related data moving upwards or surprising to the upside, the minutes suggested a significant minority of policymakers are at least as worried about the flatlining UK economy.

- US government bond yields have risen following strong US data and uncertainty about the effects of Donald Trump's policies on the US economy, particularly in terms of inflation and monetary policy. The Federal Reserve pared back its expectations for rate cuts in light of these issues. Higher US yields are also pushing up UK gilt yields, a relationship that will be maintained unless monetary policy in the UK and US diverges.

Forecast:

- In line with our forecast, Bank Rate was held at 4.75% in December.
- The MPC will reduce Bank Rate in a gradual manner. We see a rate cut in February 2025, followed by a cut alongside every Monetary Policy Report publication, to a low of 3.75%.
- Long-term gilt yields have risen to reflect both UK and US economic, monetary and fiscal policy expectations, and increases in bond supply. Volatility will remain elevated as the market digests incoming data for clues around the impact of policy changes.
- This uncertainty may also necessitate more frequent changes to our forecast than has been the case recently.
- The risks around the forecasts lie to the upside over the next 12 months but are broadly balanced in the medium term.

Interest Rate Forecast:

The table below shows the most recent interest rate forecast provided by Arlingclose.

	Current	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
Official Bank Rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.75	4.50	4.25	4.00	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75	3.75
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
3-month money market rate													
Upside risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
Central Case	4.90	4.60	4.35	4.10	3.90	3.85	3.85	3.85	3.85	3.85	3.85	3.85	3.85
Downside risk	0.00	-0.25	-0.25	-0.50	-0.50	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75	-0.75
5yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.34	4.30	4.20	4.10	4.00	3.90	3.90	3.95	4.00	4.05	4.05	4.05	4.05
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
10yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.56	4.55	4.45	4.30	4.20	4.20	4.20	4.20	4.25	4.25	4.25	4.25	4.25
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
20yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	5.05	5.00	4.90	4.80	4.70	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80
50yr gilt yield													
Upside risk	0.00	0.70	0.80	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90	0.90
Central Case	4.52	4.70	4.60	4.50	4.40	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Downside risk	0.00	-0.50	-0.60	-0.65	-0.65	-0.70	-0.70	-0.75	-0.75	-0.80	-0.80	-0.80	-0.80

PWLB Standard Rate = Gilt yield + 1.00%
PWLB Certainty Rate = Gilt yield + 0.80%
PWLB HRA Rate = Gilt yield + 0.40%
National Wealth Fund (NWF) Rate = Gilt yield + 0.40%

Annex B – Existing Investment & Debt Portfolio Position - December 2024

	Actual portfolio £m	Average rate %
External borrowing:		
Public Works Loan Board	781.9	3.2%
LOBO loans from banks	100.0	4.7%
Local authorities	75.0	5.0%
Total external borrowing	**956.9**	**3.5%**
Treasury investments:		
The UK Government	52.6	4.7%
Money market funds	20.0	4.8%
Total treasury investments	**72.6**	**4.7%**