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Treasury Management Strategy Statement 2024-2025

1.0 Introduction

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

1.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act) (included as Appendix 2 of this report), which sets out the Council's policies for managing its investments and in particular for giving priority to the security and liquidity of those investments.

1.3 Part of the treasury management operation is to ensure that the Council's cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's approach to risk management, providing adequate liquidity initially before considering investment return.

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

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

1.6 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

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

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1.7 In 2019-2020 a new requirement for a capital strategy was introduced. The capital strategy provides a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is reported separately.

1.8 The capital strategy provides the following:

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

1.9 The aim of the capital strategy is to ensure that all elected councillors fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.10 The capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy shows:

- the corporate governance arrangements for these types of activities
- any service objectives relating to the investments
- the expected income, costs and resulting contribution
- the debt related to the activity and the associated interest costs

1.11 The recommended strategy for 2024-2025 in respect of the following aspects of the treasury management function is based upon the Director of Finance's views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Link Group.

The strategy covers:

- treasury limits in force which will limit the treasury risk and activities of the Council
- Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers
- the Minimum Revenue Provision (MRP) strategy

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1.12 **Balanced budget requirement**

It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority, when calculating its budget requirement for the forthcoming financial year, to include the revenue costs that result from capital financing decisions. This means that increases in capital expenditure must be limited to a level whereby increases in interest charges, MRP and other costs associated with borrowing to finance capital expenditure, as well as any increases in running costs from new capital projects, are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

1.13 **Training**

The CIPFA Code requires the Director of Finance to ensure that councillors with responsibility for treasury management receive adequate training in treasury management. This especially applies to councillors responsible for scrutiny.

The training needs of councillors and treasury management employees are periodically reviewed to ensure that they have the appropriate level of knowledge for their roles in respect of treasury management. Any identified shortfalls in knowledge are then addressed by the identifying the most suitable form of training.

Treasury management is covered in the councillor's induction programme along with financial training. In addition, on an annual basis. the Resources and Equality Scrutiny Panel will receive a presentation on the Treasury Management Strategy by Strategic Finance.

A formal record of the training received by employees central to the treasury function will be maintained in Strategic Finance. Similarly, training received by councillors is maintained by Organisational Development.

1.14 **Treasury management consultants**

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

The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon the external service providers.

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

The scope of investments within the Council's operations includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more service and commercial type investments, such as investment properties, property funds and equity investments. The service and commercial type investments require specialist advisers, and the Council uses a range of consultants with relevant industry knowledge, dependant on the specific aspects of the project, in relation to this activity.

2.0 Treasury limits for 2024-2025 to 2026-2027

2.1 It is a statutory duty under Section 3 of the Act and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales, the Authorised Limit represents the legislative limit specified in the Act.

2.2 The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future Council tax and Council housing rent levels is 'acceptable'.

2.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of financing such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years. Details of the Authorised Limit can be found in Appendix 3 of this report.

2.4 The revised Treasury Management Code of Practice has removed the interest rate exposure indicator from a formal indicator to a narrative in the Treasury Management Strategy. The Council will continue to manage and monitor its interest rate exposure against the limits set previously:

Upper limit for fixed rate	100%
Upper limit for variable rate	20%

3.0 Current portfolio position

3.1 The Council's forecast treasury portfolio position at 31 March 2024 is shown below:

	Forecast £000	Average Rate %
External Debt		
Fixed rate borrowing - PWLB / Local Authorities	727,309	3.6438
Fixed rate borrowing - Market	55,800	4.4700
Variable rate borrowing - Market	37,000	4.2365
Total Gross Borrowing	820,109	3.7435
Other Long Term Liabilities*	73,960	-
Total External Debt	894,069	-
Total Investments **	5,000	4.6798

*Other long term liabilities are finance leases and Private Finance Initiatives (PFIs), an average rate is not applicable as the forecast reflects the underlying liability attached to the financial models.

**It is the policy to use cash balances to fund capital expenditure to avoid the need for borrowing, therefore, the level of cash investments is forecast to be minimal.

4.0 Borrowing requirement

4.1 The Council's forecast borrowing requirement is summarised below. The table shows the forecast external debt against the underlying capital borrowing need (the Capital Financing Requirement), highlighting any over or under borrowing:

External Debt	2023-2024 Forecast £000	2024-2025 Forecast £000	2025-2026 Forecast £000	2026-2027 Forecast £000
Borrowing at 1 April	710,248	820,109	967,398	1,078,236
Expected change in borrowing	109,861	147,289	110,838	58,594
Other long term liabilities at 1 April	76,928	73,960	74,416	70,939
Expected change in other long term liabilities	(2,968)	456	(3,477)	(3,630)
Forecast debt at 31 March	894,069	1,041,814	1,149,175	1,204,139
Capital Financing Requirement	1,043,488	1,175,233	1,279,595	1,324,559
Under / (over) borrowing	149,419	133,419	130,420	120,420
External debt for service investments *				
Forecast debt at 31 March	44,319	47,968	48,046	49,187
Percentage of total external debt	5%	5%	4%	4%

* These relate to areas such as capital expenditure on investment properties and loans to third parties etc. for service and regeneration delivery purposes.

5.0 Prospects for interest rates

5.1 The Council has appointed Link Group as treasury advisor to the Council and part of their service is to assist the Council to formulate a view on interest rates. Link Group provided the following forecasts on 8 January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

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

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6.0 Borrowing strategy

6.1 Borrowing considerations

When undertaking any new borrowing the Director of Finance will give consideration to the following to ensure the best deal is obtained for the Council:

1. Internal / external borrowing.
2. Temporary borrowing (less than 1 year).
3. Variable / fixed rate.
4. Short / long term borrowing.
5. PWLB / market debt.

When considering the above, the balance and spread of debt in the Council's portfolio will be taken into account along with the financial implications for the medium term financial strategy.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. That is, Bank Rate remains elevated through to the second half of 2024, however the Director of Finance will keep this strategy under review and consider opportunities to secure higher returns on investment where the balance of risk, return, security and liquidity are considered acceptable.

6.2 Sensitivity of the forecast – In normal circumstances the main sensitivities of the forecast are likely to be the two scenarios noted below. Council employees, in conjunction with the treasury advisers, will continually monitor both the prevailing interest rates and the market forecasts, adopting the following responses to a change of sentiment:

- if it was felt that there was a significant risk of a sharp fall in borrowing rates, then 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 will be drawn whilst interest rates are lower than they are projected to be in the next few years.

6.3 External versus internal borrowing

The general aim of this treasury management strategy is to maintain cash balances at a reduced level, keeping under review the level of forecast reserves and therefore anticipated cash balances and opportunities for longer term investment, whilst maintaining an appropriate level of risk; therefore keeping to a minimum the credit risk incurred by holding investments. Measures taken over the last few years have already reduced the level of credit risk and the difference between borrowing rates and investment rates has been carefully considered to ensure the Council obtains value for money once an appropriate level of risk management has been attained to ensure the security of its investments.

Where investment rates are below long term borrowing rates, the Council can minimise its overall net treasury costs in the short term by continuing to avoid new external borrowing and by using internal cash balances to finance new capital expenditure or to replace maturing external debt (this is referred to as internal borrowing).

However, short term savings by avoiding new long term external borrowing will also be weighed against the potential for incurring additional long term extra costs by delaying unavoidable new external borrowing until later years when PWLB long term rates are forecast to be higher.

6.4 **Policy on borrowing in advance of need**

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

In determining whether borrowing will be undertaken in advance of need the Council will:

- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
- ensure the ongoing revenue costs created, and the implications for the future plans and budgets have been considered
- evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
- consider the merits and demerits of alternative forms of funding
- consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- consider the impact of borrowing in advance on temporarily increasing investment cash balances and the consequent increase in exposure to counterparty risk, and other risks, having regard to the controls in place to minimise such risks.

7.0 Debt rescheduling

7.1 The spread between the rates applied to new borrowing and repayment of debt has meant that PWLB to PWLB debt restructuring is now much less attractive than it was.

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In particular, consideration would have to be given to the large premiums which would be incurred by prematurely repaying existing PWLB loans and it is very unlikely that these could be justified on value for money grounds in using replacement PWLB refinancing. Therefore, rescheduling of current borrowing in the Council's debt portfolio is unlikely to occur.

7.2 If rescheduling was done, it will be reported to the Cabinet (Resources) Panel, at the earliest meeting following its action.