DECISION-MAKER:		AUDIT COMMITTEE		
SUBJECT:		TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2025/26 TO 2028/29		
DATE OF DECISION:		12 FEBRUARY 2025		
REPORT OF:		EXECUTIVE DIRECTOR CORPORATE SERVICES AND S151 OFFICER		
CONTACT DETAILS				
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STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE

BRIEF SUMMARY

With overall annual expenditure more than £600M and an extensive capital programme, the Council is required to actively manage its cash-flows daily. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs is an integral part of daily cash and investment portfolio management.

This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the associated risks. This includes the loss of invested funds and the revenue effect of changing interest rates.

Investment limits within this report have been adjusted accordingly in line with the strategy.

AUDIT COMMITTEE

It is recommended that AUDIT COMMITTEE:

	(i)	Note the Council's Treasury Management (TM) Strategy and Indicators for 2025/26 to 2028/29, as detailed in Appendix 1 to be taken to Full Council on the 26 February 2025 for approval.
	(ii)	Note that at the time of writing this report it has been assumed that the budget proposals within the Medium-Term Financial Strategy, Budget and Capital Programme 2025/26 to 2028/29 report, to be reported to Council on the 26 February 2025, will be approved. Should the recommendations change and have any impact on the Prudential Indicators this will be reported to Council on 26 February 2025.
	(iii)	The Director of Finance will report any amendments to the TM Strategy as part of quarterly financial and performance monitoring.
	(iv)	Endorse the proposal to continue to explore an alternative Treasury Strategy to generate additional income that can support local services, whilst maintaining a prudent approach.

REASONS FOR REPORT RECOMMENDATIONS	
1.	To comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Council, each year the Council must set certain borrowing limits and approve the Treasury Management Strategy, as detailed in Appendix 1 (Treasury Management Strategy 2025-26).
2.	This report only covers treasury investments. Investments held for service purposes or for commercial profit will be considered in a separate report being taken to Full Council on 26 February 2025.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	Alternative options for borrowing would depend on decisions taken on the review of the capital update report at Full Council on 26 February 2025.
DETAIL (Including consultation carried out)	
	BACKGROUND
4.	Since 2012, the Council has pursued a strategy of internal borrowing – minimising external borrowing by running down its own investment balances and only borrowing short term to cover cash flow requirements. This has both reduced the credit risk exposure and saved money in terms of net interest costs. When opportunities arise long term borrowing has and will be considered.
5.	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). These define treasury management investments as those investments that arise from the organisation's cash flows or treasury risk management activity that need to be invested until the cash is required for business use.
6.	The strategy considers the impact of the council's proposed revenue budget and capital programme on the balance sheet position, the treasury prudential indicators and the treasury position. The economic background and outlook for interest rates (Annex 2) has also been considered in developing this strategy.
7.	The council acknowledges that effective TM provides support towards the achievement of its business and service objectives. It is committed to achieving value for money, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To assist, the council has appointed TM Advisors (Arlingclose), who advise on strategy and provide market information to aid decision making. However, it should be noted that the Executive Director– Enabling Services takes the decisions independently, considering this advice and all other factors.
8.	Both the CIPFA Code and government guidance require the council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The 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.
9.	Under the IFRS 9 standard, the accounting for certain investments depends on the "business model" for managing them. The aim is to achieve value from treasury investments by a business model of collecting the contractual cash

flows and therefore, where other criteria are met, these investments will continue to be accounted for at amortised cost.

10. The core elements of the 2025/26 Treasury strategy are:

- To constantly review longer term forecasts and to lock into longer and term rates through a variety of instruments as appropriate during the year, to provide a balanced portfolio against interest rate risk.
- To secure the best rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio.
- To invest surplus funds prudently, the Council’s priorities being:
    - Security of invested capital
    - Liquidity of invested capital
    - An optimum yield which is commensurate with security & liquidity.
- To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council’s risk boundaries.

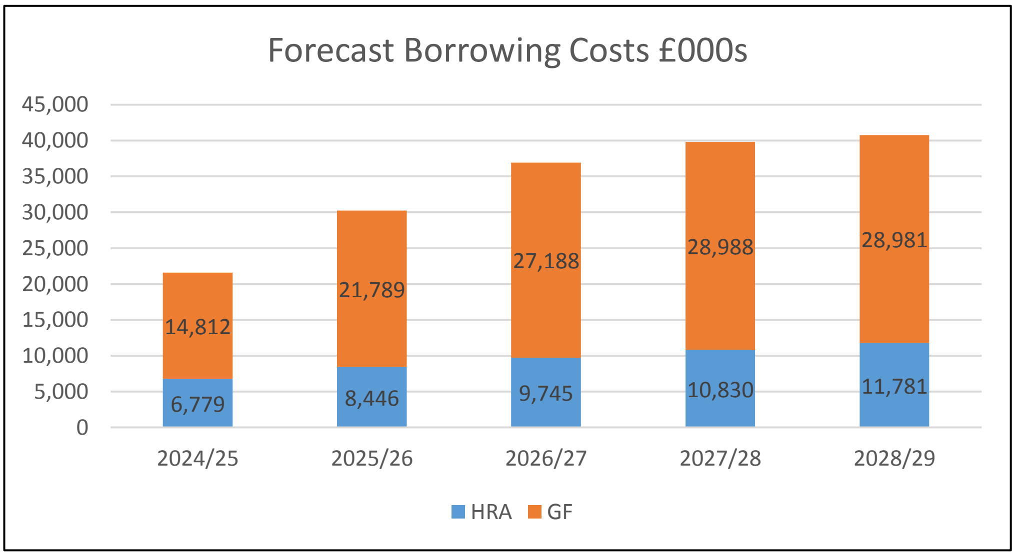
RESOURCE IMPLICATIONS

Capital/Revenue

11. The revenue and capital implications of TM form part of ongoing monitoring which is reported to Cabinet each quarter and as part of the budget setting process.

12. The forecast for borrowing costs in 2025/26 is £30.24M, of which £8.45M relates to the HRA. This is made up of interest on borrowing of £16.24M (based on an average debt portfolio of £436.28M at an average interest rate of 3.72% plus MRP and other costs of £10.46M. This is forecast to rise to £40.76M (£11.78M HRA) by 2028/29 to accommodate the capital programme, utilisation of reserves, EFS financing and refinancing of borrowing.

New long-term loans taken over the period of the strategy have been budgeted at an average rate of 5%, based on our advisors’ forecast rates.



13. Investment income for 2025/26 is forecast to be £2.06M, based on an average portfolio of £47M at an average of 4.38% interest.

Property/Other

14. None

LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
15.	Local Authority borrowing is regulated by Part 1 of the Local Government Act 2003, which introduced the new Prudential Capital Finance System.
16.	From 1 April 2004, investments are governed, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1) (a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to "prudent management of its financial affairs" refers to investments, not linked to identifiable statutory functions, but are simply part of TM. It allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, borrowing purely to invest and make a return remains unlawful.
Other Legal Implications:	
17.	None
POLICY FRAMEWORK IMPLICATIONS	
18.	This report was prepared having regard with the CIPFA Code of Practice on TM.
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
SUPPORTING DOCUMENTATION	
Appendices	
1.	Treasury Management Strategy 2025-26
Annex 1	Treasury Management Policy Statement
Annex 2	Economic and Interest Outlook
Annex 3	Existing Investment & Debt Portfolio Position and Projections
Annex 4	Projected Movement on Capital Financing Requirement
2.	Treasury Management Practices
Equality Impact Assessment	
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	**No**
Privacy Impact Assessment	
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	**No**
Other Background Documents	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None