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Report to Cabinet

Report Title	Annual Treasury Management Strategy Statement 2025/26
Date of Meeting	Wednesday, 12 February 2025
Report Author	Richard Dunlop, Interim Treasury Manager
Corporate Director	Dawn Calvert, Chief Financial Officer (S151)
Lead Cabinet Member(s)	Cabinet Member for Resources
Why is this a key decision?	1. Expenditure over £500K yes 2. Significant impact on 2 or more wards yes
Wards Affected	(All Wards);
Identify exempt information and exemption category	Choose an item. *N/A*

Is report Urgent?	No
Reasons for urgency (only where applicable)	*N/A*
Appendices (if any)	None

1. Executive Summary

1.1 The Council is required to approve a Treasury Management Strategy before the start of each financial year. This is in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) - Code of Practice on Treasury Management 2021, Prudential Code 2021 and statutory guidance on investments and Minimum Revenue Provision (MRP).

1.2 The Council's Treasury Management Strategy sets out the parameters for the planned treasury activity during 2025/26 under which the Treasury Team will manage activity. The strategy reflects the Council's proposed Capital Programme 2025/26 to 2029/30 as set out in a separate report on this agenda.

1.3 The Strategy requires approval of the forward-looking prudential indicators, but also includes actual prudential indicators for 2023/24 which require approval. The report covering these actual indicators was presented to Cabinet on 11 December 2024, but approval of the actual indicators was postponed until this meeting.

2. Recommendations

For the reasons set out in this report, the Cabinet recommend to Full Council to:

2.1 **The proposed Treasury Management Strategy and prudential indicators for 2025/26, 2026/27, 2027/28 2028/29 and 2029/30 in 11.1, 12.4, 15.6, 15.8, 15.9, 16.16 and 17.2.**

2.2 **The proposed change in the Authorised Limit 2024/25 to £1.4bn, and the approval of a £1.4bn Authorised Limit in 2025/26 and the following four years, as set out in Section 15.10.**

2.3 **the proposed MRP Policy for 2025/26 as set out in Section 8.3 and will be reviewed for 2026/27.**

2.4 **the proposed Borrowing Strategy as set out in Section 9.**

2.5 **the proposed investment policy as set out in 10.**

2.6 **The actual prudential indicators for 2023/24 shown at Appendix A.**

3. Commissioner's Comments

3.1 Commissioners endorse the Treasury Management Strategy outlined however there remains areas for focus and a timetable for their review needs to be presented to Finance Recovery Board. There is a need to carry out a review of adoption of IFRS 16 Leases and provide evidence of that. There is further needs to publish further detail on the MRP rules as per the new guidance; again it is proposed that this is taken to FRB in the first instance and then reported to the next Quarterly Cabinet. Finally there is a need to review the maturity structure of debt, which is currently set at 100% for all periods; it is proposed that a report on the maturity profile of debt is brought to FRB in the next quarter with an appropriate exploration and consideration of risk and recommendations on the future debt maturity profile for Thurrock.

4. Introduction and Background

4.1 This strategy sets out the expected treasury management activities for the financial year 1 April 2025 to 31 March 2026 and broader estimates for a minimum of the following two years. The arrangements proposed in this strategy meet all statutory reporting requirements, non-statutory guidance published by government and best practice as set out by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities.

4.2 It is a requirement of CIPFA's Prudential Code that a strategy covering these areas is approved by Council prior to the start of the financial year and that Council should also approve any amendments to the original strategy. The previous version of this document was approved by Council on 28 February 2024 for the financial year 2024/25. This strategy updates the previous version and extends expected activity to 2029/30.

4.3 The Prudential Code does require the Council's capital plans to be prudent, affordable, and sustainable. Whilst new capital plans have been contained to those required for health and safety reasons and those providing long term value for money, the burden of the overall historical capital structure is unaffordable in the long term. The Intervention and Best Value Inspection identified the enormous financial difficulties facing the Council with the burden of the commercial investment portfolio through impairments and associated debt costs which significantly outweigh the Council's ability to meet these costs through its income. The enormity of this financial position is demonstrated by an estimated £33.6m of debt interest costs and £30.4m Minimum Revenue Provision (MRP) costs included in the Capitalisation Direction for 2025/26. These costs are in the context of a challenging backdrop of a net £10m deficit between the operational budget and core funding in 2025/26, and these additional total treasury management non-HRA costs of £64.0m form the bulk of the Government's capitalisation direction support. The commercial investment portfolio is subject to a divestment policy and this strategy covers the treasury management implications.

4.4 The Council's Treasury Management Strategy has been set in line with:

- The Local Government Act 2003.
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended.
- Statutory Guidance on Minimum Revenue Provision issued by MHCLG (now DLUHC) 2018 (fourth edition) & 2024 (fifth edition).
- Statutory Guidance on Local Government Investments issued by MHCLG (now DLUHC) 2018 (third edition).
- The Prudential Code issued by CIPFA 2021 Edition.
- The Treasury Management Code of Practice issued by CIPFA (2021 Edition).

4.5 CIPFA defines treasury management as:

"The management of the local Council'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."

4.6 This definition reflects that the Council is required to operate a balanced revenue budget, which broadly means that cash revenue raised during the year will meet cash revenue expenditure. This broad approach is adjusted for any cash put aside, or used from, reserves and balances, and any borrowing/repayment in relation to the capital plans. Within these parameters the treasury management operation ensures that:

- This 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 low risk appetite.
- There is adequate funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council (termed the Capital Financing Requirement, CFR), essentially the longer-term cash flow planning, to ensure that it 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.

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

5. Treasury Management Reporting

5.1 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

5.2 **Prudential and treasury indicators and treasury strategy** (this report) -

The first, and most important report is forward looking and covers: -

- the capital plans, (including prudential indicators)
- how residual capital expenditure is charged to revenue over time (the minimum revenue provision (MRP) policy)
- the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an Annual Investment Strategy, (the parameters on how surplus cash investments are to be managed)

5.3 **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision (approved by Cabinet 11 December 2024).

5.4 **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy (approved by Cabinet 11 December 2024).

6. Treasury Strategy Objectives 2025/26

6.1 The 2024/25 strategy focussed on addressing the primary concerns raised in the intervention, and was focussed on the following factors:

- The overall objective is to reduce debt and therefore the ongoing costs associated with it.
- The Council will seek to divest from its commercial investments and use sums received to reduce borrowing.
- The Council will undertake asset sales and use sums received to reduce borrowing further.
- The remaining debt will be restructured over time so as to be more manageable and to provide more certainty to the cost.
- The Council will fully comply with all statutory and non-statutory requirements covering the areas included in this strategy.

6.2 These objectives have been carried through into this 2025/26 strategy.

7. Treasury Management Strategy for 2025/26

7.1 The strategy for 2024/25 covers two main areas:

Capital expenditure

- The capital expenditure plans.
- How the capital expenditure is being resourced.
- How any residual un-resourced capital expenditure is being paid for (the minimum revenue provision (MRP) policy).
- The prudential indicators associated with this capital activity.

Treasury management

- The current treasury position.
- The expected future cash flow position
- The borrowing and investment strategy
- Treasury indicators which seek to limit the treasury risk and activities of the Council.
- Interest rates expectations for borrowing and investing.
- Policy on borrowing in advance of need.
- Debt rescheduling.
- Investment creditworthiness policy; and
- The policy on use of external **service providers**

8. Training

8.1 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 especially applies to members responsible for scrutiny.

8.2 Furthermore, pages 47 and 48 of the Code state that they expect "all organisations 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.

9. Treasury Management Consultants

9.1 The Council employs MUFG Corporate Markets Treasury Ltd (previously Link Treasury Services Limited) as its external treasury management advisors.

9.2 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

9.3 It also recognises that there is value in employing external providers of treasury management services 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.

10. Capital Expenditure

10.1 The Council's capital expenditure plans are a key driver of treasury management borrowing activity. The capital expenditure plans are reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans are prudent, affordable, and sustainable.

11. Capital Expenditure and Financing

11.1 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle (Draft Capital Programme 25-26 to 29-30, Cabinet 12 February 2025). These figures exclude the Capitalisation Direction, which is broken down annually in the table in 11.2 below. Members are asked to approve the first prudential indicator; the capital expenditure forecasts:

Capital expenditure £m	2024/25 Budget	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Non-HRA	19.1	80.6	30.2	10.5	8.4	6.1
HRA	36.9	48.3	59.7	44.5	14.1	14.2
Total	**58.4**	**128.9**	**89.9**	**55.0**	**22.5**	**20.3**

11.2 The table below, whilst not a prudential indicator, summarises plans how these capital expenditure plans are being immediately paid for by capital or revenue resources with any shortfall of resources results in a funding borrowing need. This borrowing need is paid annually through the Minimum Revenue Provision Policy (as set out in 13 below) until the asset has been fully written out.

Financing of capital expenditure £m	2024/25 Budget	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Capital Receipts	2.8	14.9	16.3	8.0	1.6	0.0
Reserves	11.3	11.5	11.6	11.8	11.9	12.0
Government Grants	14.1	55.0	19.7	5.1	4.7	4.7
Other Grants	0.3	0.0	0.0	0.0	0.0	0.0
Developer Contributions (S106)	0.4	1.7	0.0	0.0	0.0	0.0
Total financing	**29.2**	**83.4**	**47.6**	**24.9**	**18.2**	**16.7**
Prudential Borrowing	29.2	45.5	42.3	30.1	4.4	3.6
Total financing and borrowing	**58.4**	**128.9**	**89.9**	**55.0**	**22.5**	**20.3**

12. **The Council's Borrowing Need (the Capital Financing Requirement)**

12.1 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources (i.e. the shortfall of resources or borrowing need in 8.1 above). It is essentially a measure of the Council's overall capital indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, leads to a borrowing need which will increase the CFR.

12.2 The CFR does not increase indefinitely. A statutory annual revenue charge, termed the minimum revenue provision (MRP), is applied to pay down the net financing need and is an annual revenue charge which broadly allocates the residual cost of capital expenditure in line with each asset's life. The MRP mechanism therefore charges the economic consumption of capital assets as they are used. The Council can also pay down the CFR with additional voluntary revenue provision (VRP), with capital receipts or other revenue contributions if these are available.

12.3 The CFR also includes any other long-term liabilities (e.g., PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility (the lease provider) and so the Council is not required to separately borrow for these schemes. The Council, within the HRA, currently has £11.5m of such schemes within the CFR on 31 March 2025.

12.4 **IFRS 16 Leases** – The Council is required to adopt IFRS 16 for 2024/25 to bring operating leases onto the balance sheet. The material leases currently held by the Council are finance leases which are already accounted for on the balance sheet. Although work is ongoing initial analysis indicates that the level of agreements which may fall under operating leases and subject to IFRS 16 are limited and assessed as immaterial (c£2m).

12.5 The Council is asked to approve the CFR projections below:

£m	31/3/26 Estimate	31/3/27 Estimate	31/3/28 Estimate	31/3/29 Estimate	2029/30 Estimate
Non-HRA	400	391	376	361	343
Capitalisation Direction	400	392	436	484	532
Housing	297	330	357	359	361
Total CFR	**1,105**	**1,113**	**1,169**	**1,204**	**1,236**
Movement in year	55	16	56	35	33
Movement represented by:					
Net financing need for the year (above)	45	42	30	4	4
Capitalisation Direction	72	73	69	67	69
Less MRP	(29)	(33)	(33)	(36)	(40)
Capital Receipts	(33)	(66)	(10)	0	0
Movement in CFR	**55**	**16**	**56**	**36**	**33**

12.6 Note the Capitalisation Direction (CD) each year is accumulated, and the total utilised to 31 March 2029 is expected to be £691m. However, each year the Council applies capital receipts and MRP against this total, so on 31 March 2030 the CD balance is expected to be £531m as £160m of resources will have been applied to reduce the CD. Any future capital receipts will be applied against the CD and so are not expected to reduce external debt.

13. Minimum Revenue Provision (MRP) Policy Statement

13.1 Where the Council has a new capital expenditure, under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, any financing need which will be initially funded by borrowing will be paid by a provision each year through a revenue charge (termed the MRP).

13.2 The Council is therefore required to calculate a prudent provision of MRP which ensures that the outstanding debt liability, the CFR, is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits (i.e. its asset life).

13.3 There are no departures from the MHCLG Guidance and no plans to make any voluntary revenue provision (VRP). The outstanding capital liability can be addressed by the application of surplus capital receipts. In the Council’s case any capital receipts arising during 2025/26 will be applied to the Capitalisation Direction.

13.4 The Council introduced an MRP Policy for 2024/25 in full compliance with Government Guidance (Treasury Management Strategy 2024/25, Cabinet 21 February 2024). There is no proposal to change the approaches approved for 2024/25. All non-HRA assets will be written down in accordance with MHCLG Guidance.

13.5 The MRP policy statement requires full council approval (or closest equivalent level) in advance of each financial year.

13.6 The Council is recommended to approve the following MRP Statement:

For expenditure incurred before 1 April 2008 which forms part of supported capital expenditure, the MRP policy will be:

- **4% reducing balance (regulatory method) -** MRP will follow the historical practice outlined in former regulations as 4% of the opening GF CFR balance less adjustment “A” (“A” is a technical regulatory adjustment).

From 1 April 2008 to 31 March 2013 for all unsupported borrowing the MRP policy will be*:*

- **Asset life method (straight line)** – MRP will be based on the estimated life of the assets for unsupported capital expenditure.

From 1 April 2013 for all unsupported borrowing, equity, commercial loans, and the Capitalisation Direction the MRP policy will be:

- **Asset life method (annuity)** – MRP will be based on the estimated life of the assets for unsupported capital expenditure, or as prescribed in the MRP Guidance, from 1 April 2013.

13.7 Under the statutory guidance capital expenditure incurred during 2025/26 will not be subject to an MRP charge until 1 April 2026, or in the year after the asset becomes operational.

13.8 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.

13.9 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.

13.10 **Loans to third parties** - 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. Currently the Council has one loan falling in this category.

13.11 Where no principal loan 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. All loans to third parties have been assessed for potential impairment and these have been disclosed in the Council’s draft accounts. All these types of loans have MRP requirements applied from 1 April 2023 to write out the full remaining balance.

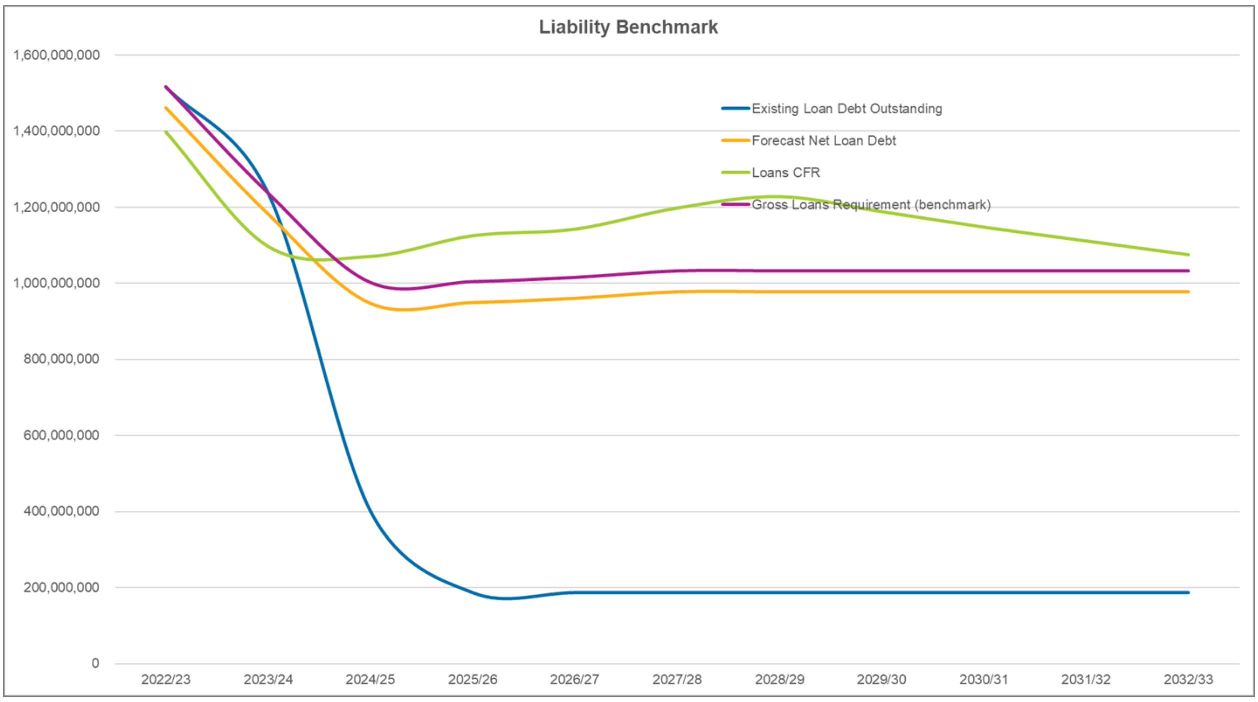
13.12 **Investment in commercial assets** – As set out in 4.4 above, the Council invested in £0.9bn of assets to supplement revenue streams. Under accounting requirements the nature of these financial instruments was subject to review and reclassification, with a proportion reassessed as revenue investments. These revenue loans have been reviewed and subject to impairment where necessary, with the impairments directly impacting on the capitalisation direction. The remaining capital assets have been written down by any capital receipts, with any remaining capital balance in the CFR being written down over the estimated original life of the asset in accordance with MHCLG Guidance.

14. Liability Benchmark

14.1 As a minimum the Council is required to estimate and measure the Liability Benchmark (LB) for the forthcoming financial year and the following two financial years. The liability benchmark, as shown below, compares:

- The CFR (borrowing requirement, but net of leases), with
- The CFR net of treasury investments, with
- The maturity profile of existing debt against the Liability benchmark (or gross loans requirement).

This equals the net loans requirement plus short-term liquidity allowance.



14.2 The Liability benchmark graph illustrates that the Council's borrowing requirement (CFR) will rise through the current planning period to 2029/30, that external borrowing is expected to remain at £1bn and the current external debt structure is relatively short dated. This represents a refinancing risk if external borrowing rates increase unexpectedly, although this position is mitigated by an expectation of falling interest rates over the medium term. The structure of the debt was maintained with a high proportion of short-dated PWLB debt to allow easier debt repayment from any capital receipts arising from the divestment initiative. However, the review and reclassification of the commercial assets has resulted in significant impairments, which coupled with the high debt interest charges and associated MRP, has resulted in an increasing CFR (borrowing need). The MTFS has now planned for a move from short to longer fixed rate borrowing to provide greater certainty.

15. Borrowing

15.1 The capital expenditure plans set out in Section 11 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This will involve both the organisation of the cash flow and, where there is a significant long-term funding requirement for capital plans, the organisation of appropriate borrowing facilities. These facilities are expected to be provided through the Public Works Loans Board (PWLB), which can provide funding from 1 to 50-year periods and can provide fixed term or variable interest rates (up to 10 years). The use of internal borrowing, so utilising cash supporting reserves and balances, may also be utilised.

15.2 **Historic Portfolio Position** - The overall treasury and non-treasury management portfolio on 31 March 23, 31 March 24 and for the position on 30 September 2024 are shown below for both borrowing and investments. The non-treasury element relates to the commercial investment portfolio and is required to be reported with the treasury position. This shows the progress made to reduce the debt and investment portfolios. The non-treasury figures for 31 December 2024 are estimated.

TREASURY PORTFOLIO			
£m	**31/3/23**	**31/3/24**	**31/12/24**
Treasury investments			
Building societies	28	0	0
Local authorities	25	0	0
DMADF (H.M. Treasury)	0	364	9
Money Market Funds	0	45	0
Treasury management investments	**53**	**409**	**9**
Non-Treasury Capital Investments	660	166	63
Non-Treasury Revenue Investments	54	45	34
Property Funds	97	0	0
Total other Investments	**801**	**211**	**97**
Total investments	**854**	**620**	**106**
Treasury external borrowing			
Local Authorities	227	0	0
PWLB	1,259	1,211	828
Market Loans	7	7	7
LOBOs	22	19	19
Total external borrowing	**1,515**	**1,237**	**847**
Net treasury & other investments / (borrowing)	**(661)**	**(617)**	**(741)**
Net treasury investments / (borrowing)	**(1,452)**	**(828)**	**(838)**

15.3 The Council's forward projections for borrowing are summarised in the table overleaf. The table shows the expected external debt, against the underlying capital borrowing need, (the Capital Financing Requirement – CFR).

£m	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
External Debt						
Debt on 1 April	1,236	1,013	1,015	1,033	1,050	1,029
Expected change in Debt	(380)	(9)	7	6	(31)	15
Add Other long-term liabilities (OLTL)	11	11	11	11	11	11
Actual gross debt on 31 March	**867**	**1,015**	**1,033**	**1,050**	**1,029**	**1,054**
CFR	1,049	1,105	1,127	1,186	1,223	1,257

15.4 The CFR position has been estimated assuming any new capital expenditure, MRP and any expected capital receipts. It is therefore not expected that the external debt will fall further with any future capital receipts as the increase in the CD outweighs any expected receipts.

15.5 The external debt is expected to be £867m on 31 March 2025, £247m beneath the estimated CFR. As the CFR is the total borrowing need this £247m difference is funded temporarily by internal borrowing. This internal borrowing is any temporarily available Council cash which derives from monies set aside in the Council's reserves and balances supplemented by any positive working capital cash flow position. The internal borrowing is used in lieu of external borrowing taking place. At the Council it is not expected that this cash position can be sustained into the future and as a prudent measure the internal borrowing difference between the Council's overall borrowing need, the CFR, and its actual external debt has been reduced by assuming a higher level of external borrowing.

15.6 Within the range of prudential indicators there are several to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that future borrowing is not undertaken for revenue or speculative purposes. The Chief Financial Officer/s151 projects that activity will remain within this prudential indicator and that no forward borrowing activities are expected.

15.7 **Treasury Indicators: Limits and expectations of Borrowing Activity -** In accordance with the Prudential Code requirements the Chief Financial Officer (s151) reported to Cabinet on 11 December 2024 that the original Authorised Limit approved in February 2024 was incorrect and calculated in error, and that the Council had breached this prudential indicator in the 2024/25. A revised limit for the remainder of 2024/25 has been proposed for approval in this report at £1.4bn (see table below). Treasury operations have not breached this revised limit during 2024/25. The Chief Financial Officer (s151) can report the revised prudential indicators below have been set in accordance with the principles of the Prudential Code, so they are consistent with the expected CFR and external debt projections.

15.8 **The Operational Boundary.** 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.

Operational Boundary £m	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**
Debt	985	1,035	1,035	1,035	1,035
Other long-term liabilities	15	15	15	15	15
Total	1,000	1,050	1,050	1,050	1,050

15.9 **The Authorised Limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal requirement (Local Government Act 2003, s3(1)), 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. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local Council plans, or those of a specific Council, although this power has not yet been exercised.

15.10 The Council is asked to approve the following Authorised Limit:

Authorised Limit £m	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**
Debt	1,350	1,350	1,350	1,350	1,350
Other long-term liabilities	50	50	50	50	50
Total	1,400	1,400	1,400	1,400	1,400

15.11 **Prospects for Interest Rates -** The Authority has appointed MUFG as its treasury advisor and part of their service is to assist the Authority to formulate a view on interest rates. Link provided the following forecasts on 11 November 2024. These are forecasts for Bank Rate, average investment earnings and fixed rate PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

15.12 **Borrowing and Investment Forecasts -** The advisor's long-term view (beyond 10 years) is for Bank Rate moving to 3. 5%. As all PWLB certainty fixed interest rates are currently above this level, borrowing strategies will need to be considered in that context. Overall, it is considered that better value can currently be obtained at the shorter end of the curve.

15.13 **Borrowing and Rescheduling Strategy -** The Council is currently utilising internal borrowing as well as external funding. 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, albeit only once prevailing inflation concerns are addressed by restrictive near-term monetary policy. That is, Bank Rate remains relatively elevated in 2025 even if some rate cuts arise.

15.14 The current debt portfolio structure is relatively short-dated, and exhibits risk of an adverse increase in interest rates which will expose 76% of the current portfolio to higher interest rates and debt management costs. This position is set out in more detail in 17.3 below. The expectation for interest rates in 15.11 above are for all rates to move downwards and so be refinanced on cheaper interest rates. The forward plans expect the proportion of short-term debt to be reduced and replaced by fixed rate, longer-term debt over the planning period to 2029/30. Whilst some shorter term debt will be maintained, it is envisaged that the majority of the portfolio will be for fixed periods in excess of 5 years (and potentially up to 50 years duration), on maturity or Equal Instalments of Principal) basis This approach has been discussed with our treasury advisers and the risk of an adverse increase in interest rates being outweighed by the expectation of future interest rates falls.

15.15 Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Chief Financial Officer 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 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.

15.16 Any decisions will be reported to Cabinet at the next available opportunity.

15.17 Rescheduling of borrowing currently in our debt portfolio may be considered where it is appropriate to do so, primarily if the rescheduling reduces treasury management risk or provides ongoing revenue savings. If rescheduling is to be undertaken, it will be reported to the Cabinet at the earliest meeting following its action.

15.18 **Policy on Borrowing in Advance of Need -** On occasions and in particular circumstances a Council can borrow more than it needs in any particular year if the intent is to lower treasury management costs or risks. It is not envisaged that the Council will borrow more than or in advance of its needs during 2025/26 and will seek Cabinet approval before doing so should the need arise.

15.19 **Approved Sources of Long and Short-term Borrowing -** It is expected that the Council will continue to rely on PWLB and existing finance lease funding for the foreseeable future. If more appropriate borrowing sources are considered to be beneficial to the Council the Chief Financial Officer will discuss their use with the commissioners and report the benefits and risks to Cabinet before their use.

16. Annual Investment Strategy

16.1 **Investment Policy – Management of Risk -** The Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy (a separate report). The Council has no plans to undertake any further non-financial asset purchases and a key Council objective is to divest itself of those currently held.

16.2 The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

16.3 The Council's investment priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Council's low risk appetite.

16.4 In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs although it is envisaged that investments (and external debt) will be held to the minimum required for Council purposes.

16.5 The above guidance from MHCLGC and CIPFA places a high priority on the management of risk. This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.
2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a

monitor on market pricing such as **“credit default swaps”** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.
4. This Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. Investment activities will be limited to ‘specified’ investments, including Money Market Funds. **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity.
5. **Lending limits**, (amounts and maturity), for each counterparty will be set.
6. **Transaction limits** are set for each type of investment.
7. This Council will limit its investments to be invested for no **longer than 365 days**.
8. Investments will only be placed with counterparties from the UK or Money Market Funds.
9. This Council has engaged **external consultants** (MUFG Corporate Markets Treasury Limited), to provide expert advice on how to optimise an appropriate balance of security, liquidity, and yield, given the risk appetite of this Council in the context of the expected level of cash balances and need for liquidity throughout the year.
10. All investments will be denominated in **sterling**.

16.6 However, this Council will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance.

16.7 Changes in risk management policy from last year - The above criteria are unchanged from last year. However the Council no longer uses the CCLA property fund or the CCLA Diversified Income Fund and so this part of the policy has been removed. No further non-financial/non-treasury/commercial assets are planned and those currently held are subject to a divestment policy. The Council has maintained investments with the Debt Management Office (DMADF – UK Government) and Money Market Funds (MMFs) during 2024/25 and it is envisaged this will remain the primary investment vehicles.

16.8 Creditworthiness Policy - The primary principle governing the Council’s investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle, the Council will ensure that: -

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may

prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

16.9 The Chief Financial Officer will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Full Council for approval as necessary. These criteria are separate to that which determines which types of investment instrument are either specified or non-specified as it provides an overall pool of counterparties considered high quality which the Council may use, rather than defining what types of investment instruments are to be used.

16.10 Credit rating information is supplied by Link, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur, and this information is considered before dealing. For instance, a negative rating Watch applying to a counterparty at the minimum Council criteria will be suspended from use, with all others being reviewed in light of market conditions.

16.11 The criteria for providing a pool of high-quality investment counterparties, (specified and MMFs) is:

Banks 1 - good credit quality **–** the Council will only use banks or building societies which are UK banks.

and/or

have, as a minimum, the following Fitch, Moody's and Standard & Poor's credit ratings (where rated):

i. Short Term – F1

ii. Long Term – A-

Banks 2 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.

Money Market Funds (MMFs) CNAV – *AAA*

UK Government (including gilts, Treasury Bills and the DMADF)

Local authorities, parish councils etc.

16.12 **Use of additional information other than credit ratings.** Additional requirements under the Code 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, rating Watches/Outlooks) will be applied to compare the relative security of differing investment opportunities.

16.13 **Time and monetary limits applying to investments.** The time and monetary limits for institutions on the Council's counterparty list are as follows (these will cover both specified and non-specified investments):

	Fitch long-term rating (or equivalent)	Money and/or % limit	Time limit
National Westminster Bank PLC	*A*	£40m	Overnight deposits
Banks and building societies - Fixed Term	*A+*	£10m	Up to 1 year
Banks and building societies – overnight deposits	*A+*	£40m	Overnight deposits
DMADF	UK sovereign rating	unlimited	6 months
Local authorities	N/A	£10m	Up to 1 year
Money Market Funds CNAV – per fund	AAA	£40m	liquid

16.14 **Investment Strategy -** The Council will seek to minimise investment balances (and debt levels) and maintain a prudent and low risk strategy at all times. The current approach has been to utilise the UK Government (DMO - Debt Management Office) and MMFs for investments.

16.15 Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set in the context of the Council's liquidity requirements. It is not envisaged that treasury investments will be placed for a period greater than one year and so the upper limit for principal sums invested for over 364 days will be nil.

16.16 **Investment Performance / Risk Benchmarking -** This Council will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day compounded / SONIA.

16.17 **End of Year Investment Report -** At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

17. Other Prudential Indicators

17.1 The Council is required to approve a number of prudential indicators to demonstrate that capital plans are affordable, sustainable and prudent. The indicators are provided against the background of the Government intervention due to the Council's financial position being unsustainable.

17.2 In addition to the capital expenditure, CFR, Authorised Limit and Operational Boundary prudential indicators highlighted in the report, the additional required prudential indicators are set out below.

17.3 The above indicators for the maturity profile are set to provide maximum

Prudential Indicator	**2025/26 Estimate**	**2026/27 Estimate**	**2027/28 Estimate**	**2028/29 Estimate**	**2029/30 Estimate**
Ratio of financing costs to net revenue stream					
General Fund	36.11%	36.70%	36.95%	37.21%	40.67%
HRA	32.44%	34.11%	35.00%	35.10%	38.86%
Incremental impact of borrowing on the Council Tax					
Maturity structure of borrowing	£10.33	£43.98	£3.80	£2.99	£2.35
Upper limit under 12 months	100%	100%	100%	100%	100%
1 - 2 years	100%	100%	100%	100%	100%
2 - 5 years	100%	100%	100%	100%	100%
5 - 10 years	100%	100%	100%	100%	100%
10 years or more	100%	100%	100%	100%	100%

flexibility in the near term as the challenges of the MTFP and size, cost and structure of the Council's external debt position are planned. The current debt maturity profile position is heavily weighted to short-term borrowing with 76% of the portfolio likely to mature within one year.

	£m	
0 - 1	660	76%
1 - 2	20	2%
17 - 18	18	2%
29 - 30	7	1%
30+	162	19%
	867	**100%**

17.4 This debt maturity structure was originally used in the anticipation that receipts from the divestment programme would be used to repay this short-term debt with minimal penalty costs. However, the level of investment impairments and the associated treasury management costs have resulted in a higher than anticipated Capitalisation Direction and consequently a higher required debt requirement, as evidenced by the CFR in 12.5 above. This debt portfolio structure exhibits:

17.4.1 Risks – an unexpected movement up in fixed interest rates will see 76% of the debt requiring near term refinancing at higher rates, and consequently higher costs for the Council.

17.4.2 Benefits – The external expectations for interest rate movements is for a fall in short term variable and longer term fixed interest rates to fall meaning any refinancing should be at cheaper rates by holding short-term debt. This shorter-term debt is also easier to repay without penalty.

17.5 The MTFP includes provision for this proportion of short-term debt to be rescheduled into longer-term fixed borrowing over a number of successive years, thereby reducing this risk in a measured basis.

18. Consultation

18.1 The Treasury Management Strategy reflects the activities set out in the Draft Budget and MTFS report and are required by regulation. Consultation has taken place with the Commissioners.

19. Financial Implications

19.1 The comments of the Director of Finance have been incorporated into this report.

Implications Verified by: Jasbir Kaur Sandhu (Head of Financial Strategy and Planning)

Date: 04 February 2025

20. Risk Implications

The following risks should be considered when agreeing the recommendations of this report:

Risk Description	Mitigations	RAG Status
Interest rate risk - External factors, outside of the control of the Council, will be subject to volatility and create a financial risk on the treasury strategy and so the draft budget and MTFS. Primary amongst these risks is the economy and interest rates, with a high proportion of short-term debt.	• The s151 monitors the interest rate outlook and meets at least monthly to discuss the treasury risk position. • The Council employs external professional treasury advisors to support this process. • The Council has access to PWLB funding and can borrow fixed rate funding when needed.	Amber
Counterparty default risk - The Council treasury operations may involve investing significant cash deposits which have the risk of partial or full loss.	• The Council operates a low-risk investment counterparty process. • The Council employs external professional treasury advisors to support this process.	Green

Liquidity risk – The Council's risk that cash will not be available when it is needed, that ineffective management of liquidity creates additional unbudgeted costs, compromising the Council's business/service objectives.	• The Council operates a treasury management service in compliance with industry practices and professional/Government guidance. • The Council has access to PWLB funding and can borrow fixed rate funding when needed.	Green
Divestment income flows – The Council's treasury management plans are impacted by the expected divestment programme to provide a borrowing need and budgetary costs – These flows may be lower or unpredictable in timings leading to higher costs.	• The Capitalisation direction provides exceptional support to the Council to cover unexpected costs/events, within the boundaries of the commissioners' requirements. Any additional costs will impact in the CD and MRP/interest costs.	Amber

Implications Verified by: Dawn Calvert (Director of Finance)
Date: 04 February 2025

21. Legal and Governance Implications

21.1 Pursuant to Part 1 of the Local Government Act 2003 the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. These require the Treasury Management Strategy to be agreed by the Council. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

21.2 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to the above treasury management report by the Cabinet before they are reported to the Full Council.

Implications Verified by: Helen Nicol (Assistant Director Legal & Governance)
Date: 04 February 2025

22. Equality and Diversity Implications (including the public sector equality duty)

22.1 There are no direct diversity implications noted in this report.

Implications Verified by: Dawn Calvert (Director of Finance)
Date: 04 February 2025

23. Other Relevant Implications

23.1 N/A

24. Background Documents

- The Local Government Act 2003.
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended.
- Statutory Guidance on Minimum Revenue Provision issued by MHCLG (now DLUHC) 2018 (fourth edition) & 2024 (fifth edition).
- Statutory Guidance on Local Government Investments issued by MHCLG (now DLUHC) 2018 (third edition).
- The Prudential Code issued by CIPFA 2021 Edition.
- The Treasury Management Code of Practice issued by CIPFA (2021 Edition).