



SIGNED OFF BY	Chief Finance Officer
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TO	Overview & Scrutiny Committee Executive Council
DATE	Thursday 14 March 2024 Thursday 21 March 2024 Thursday 28 March 2024
EXECUTIVE MEMBER	Deputy Leader and Portfolio Holder for Finance and Governance

KEY DECISION REQUIRED	Y
WARDS AFFECTED	(All Wards)

SUBJECT	Treasury Management Strategy Statement 2024/25
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RECOMMENDATIONS
<p>Overview & Scrutiny Committee:</p> <p>i) Overview & Scrutiny Committee is asked to consider and to provide feedback on the following which are to be finalised and submitted for approval by the Executive on 14 March 2024 and Council on 28 March 2024:</p> <ul style="list-style-type: none"> • Treasury Management Strategy 2024/25; • Investment Strategy 2024/25; and • Capital Strategy 2024/25. <p>Executive:</p> <p>i) Executive is asked to consider the following and recommend their approval by Council:</p> <ul style="list-style-type: none"> • Treasury Management Strategy for 2024/25; • Investment Strategy 2024/25; and • Capital Strategy 2024/25

Council:

i) Council is asked to approve the following:

- **Treasury Management Strategy for 2024/25;**
- **Investment Strategy 2024/25; and**
- **Capital Strategy 2024/25**

REASONS FOR RECOMMENDATIONS

To enable the adoption of the updated Treasury Management Strategy Statement for the 2024/25 financial year in order to comply with the Chartered Institute of Public Finance Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities. Also, with Government (Department for Levelling up, Housing and Communities) investment and borrowing guidance.

EXECUTIVE SUMMARY

This report sets out the Treasury Management Strategy, Investment Strategy and Capital Strategy for 2024/25.

It has been prepared in consultation with the Council's treasury management advisors and confirms compliance with relevant guidance.

Council has authority to approve the Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy and Borrowing Limits.

STATUTORY POWERS

1. The Council is required to approve an annual Treasury Management Strategy Statement, Investment Strategy and Capital Strategy to ensure that borrowing and investment activities are prudent, affordable and sustainable.
2. The Council operates its treasury management activity as an integral part of its statutory obligation to manage the Council's finances effectively under the Local Government Act 2003 and associated guidance.
3. Treasury Management activities are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, the Prudential Code for Capital Finance in Local Authorities, and the Government's (Department for Levelling up, Housing and Communities - DLUHC) investment and borrowing guidance.

BACKGROUND

4. The Council is required to approve an annual Treasury Management Strategy, Investment Strategy and Capital Strategy (in combination referred to as 'the Strategy') to ensure that borrowing and investments are prudent, affordable and sustainable.
5. The Strategy for 2024/25 is set out in the attached Annexes.

It has been prepared in line with the CIPFA Codes and Government guidance and comprises three sections:

1. **Treasury Management Strategy** which explains the Council's approach to management of cash flows, borrowing and investments, and the associated risks;
2. **Investment Strategy** which sets out how the Council invests its cash and what it aims to achieve through that investment; and
3. **Capital Strategy** which provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services.

6. The Strategy has the following objectives:

- To consider and effectively address the risks associated with Treasury Management activity;
- To optimise the flow of cash through the organisation in order to maximise the potential for using it to earn investment income for the Council, and where required limit the borrowing costs;
- To optimise the returns from investments while meeting the overriding need to protect the capital sum and ensure that the cash is available when required;
- To align investments in relation to cash flow, within statutory constraints, in order to increase investment returns in future years;
- To optimise the revenue budget costs of undertaking all treasury activities;
- To monitor and review significant changes in the pattern of cash movements and interest rate movements and react accordingly;
- To incorporate any changes to CIPFA's Treasury Management Code of Practice and the Prudential Code and Government guidance that govern effective treasury management; and
- To incorporate implementation of International Financial Reporting Standard (IFRS) 16 in April 2024.

KEY INFORMATION

Capital Investment Strategy and Capital Programme

7. The capital expenditure plans set out in this report are based on the Capital Programme 2024/25 to 2028/29 that was approved by Executive and Council in February 2024.

Prudential Indicators

8. The Prudential Indicators as set out in the Strategy provide a sound basis for future investment and borrowing decisions. A summary of the key indicators is provided in the table below and they are explained in the Treasury Management Strategy at Annex 1.

Table 1: PRUDENTIAL INDICATORS	2022/23 Actual £000	2023/24 Forecast £000	2024/25 Forecast £000	2025/26 Forecast £000	2026/27 Forecast £000
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Capital Expenditure	21,156	10,773	16,048	6,665	4,856
Capital Financing Requirement (CFR)	93,300	72,600	79,300	80,800	82,100
Cumulative External Debt	7,000	-	-	-	-
Operational Boundary for External Debt	69,000	35,000	36,000	37,000	38,000
Authorised Limit for External Debt	79,000	40,000	41,000	42,000	43,000
Liability Benchmark	(9,000)	(3,500)	3,100	11,600	11,000
Proportion of financing costs to revenue stream as a %	4.08%	3.55%	8.20%	8.34%	8.44%
Net income from commercial and service investments to net revenue stream as a %	13.52%	9.18%	10.55%	12.14%	13.96%
Credit risk indicator - portfolio average risk	A				
Liquidity risk - cash available within 3 months	£3.0 million				
Revenue impact of a 1% change in rates	£0.451 million pa				
Maturity Structure of Borrowing 2024/25 – Upper Limit	100%				
Maturity Structure of Borrowing 2024/25 – Lower Limit	0%				

CIPFA Code

9. CIPFA published the latest Prudential and Treasury Management Codes in December 2021. They require investments and investment income to be attributed to one of three purposes:

(i) Treasury management

- Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use; and
- Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

(ii) Service delivery

- Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure; and
- Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is '*...either related to the financial viability of the project in question or otherwise incidental to the primary purpose...*'.

(iii) Commercial return

- Investments held primarily for financial return with no treasury management or direct service provision purpose;
- Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services; and
- Councils must not borrow to invest primarily for financial return.

10. The Investment Strategy at Annex 2 covers:

- Classification of investments for service or commercial purposes;
- The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;
- An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (ie. whether losses could be absorbed in budgets or reserves without unmanageable detriment to local services);
- Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;
- Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);
- Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them is periodically re-evaluated to inform the overall strategy); and
- Statement of compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

11. The Code also requires authorities to:

- Adopt a debt Liability Benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
- Class long term treasury investments, (including pooled funds), as commercial investments unless justified by a cash flow business case;
- Include some pooled funds (longer term instruments, including those with no fixed maturity date) in the indicator for principal sums maturing in years beyond the initial budget year;
- Ensure that the knowledge and skills register for officers and members involved in the treasury management function is proportionate to the size and complexity of the treasury management conducted;

- Submit quarterly performance reports to Members (as part of integrated budget monitoring reports), including updates on performance against the Prudential Indicators; and
- Set out any environmental, social and governance (ESG) issues to be addressed within the treasury management policies and practices.

12. The main requirements of the Code relating to service and commercial investments are:

- The risks associated with service and commercial investments should be proportionate to their financial capacity – losses to be absorbed in budgets or reserves without unmanageable detriment to local services;
- An authority must not borrow to invest for the primary purpose of commercial return. It is not prudent for local authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority;
- To conduct an annual review to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
- To include the new Prudential Indicator for the net income from commercial and service investments as a proportion of the net revenue stream; and
- To prepare supporting Investment Management Practices which set out how the Council will manage risks associated with non-treasury investments.

13. The underlying principles, including that an authority must not borrow to invest primarily for financial return, align with the Government's changes to PWLB borrowing terms in 2020.

OPTIONS

14. Overview & Scrutiny Committee has two options

- **Option 1:** Note the report and make no observations to the Executive.
- **Option 2:** Note the report and make any observations to the Executive.

15. Executive has two options:

- **Option 1:** Recommend the Treasury Management Strategy, Investment Strategy and Capital Strategy for 2024/25 to Council for approval;
- **Option 1:** Request further information before the Treasury Management Strategy, Investment Strategy and Capital Strategy for 2024/25 are recommended to Council for approval. This option would delay approval of the Strategy and may constrain treasury management activity.

16. Council has two options:

- **Option 1:** To approve the Treasury Management Strategy, Investment Strategy and Capital Strategy for 2024/25 to Council;
- **Option 1:** To request further information before the Treasury Management Strategy, Investment Strategy and Capital Strategy for 2024/25 are approved. This option would delay approval of the Strategy and may constrain treasury management activity.

17. A delay in approving the 2024/25 Treasury Management Strategy Statement may result in reduced returns on investments and delay borrowing to fund planned capital investment. It would also mean that the Council is at risk of non-compliance with the latest CIPFA Codes of Practice and DLUHC guidance.

LEGAL IMPLICATIONS

18. There are no further legal implications arising from this report.

FINANCIAL IMPLICATIONS

19. The financial impacts of this Strategy have been reflected within the Council's approved 2024/25 Budget. There are therefore no additional financial implications from this report.

EQUALITIES IMPLICATIONS

20. The Council has a statutory duty to consider equality implications as part of the decision making process and demonstrate this. There are no equality implications arising from this report.

ENVIRONMENTAL SUSTAINABILITY IMPLICATIONS

21. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

COMMUNICATION IMPLICATIONS

22. There are no communication implications arising from this report.

RISK MANAGEMENT CONSIDERATIONS

23. These are set out in the Annexes to the report

CONSULTATION

24. The Finance & Governance Portfolio holder, the Chair of Overview & Scrutiny and Overview & Scrutiny Committee Members had an opportunity to consider the Council's approach to Treasury Management at a briefing with the Council's treasury advisors Arlingclose and the Finance team on 5 March 2024.

25. Overview & Scrutiny Committee's feedback at its meeting on 14 March 2024 will be considered by Executive on 21 March 2023 and Council on 28 March 2024.

POLICY FRAMEWORK

26. The Strategy is part of the Council's Policy Framework as set out in Article 4 of the Constitution.

BACKGROUND PAPERS

- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ('the Code')
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ('the Code')
- CIPFA Treasury Management Guidance Notes 2018 and 2021
- DLUHC Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
- CIPFA Prudential Code for Capital Finance in Local Authorities (2021) (Prudential Code)
- CIPFA Prudential Code for Capital Finance in Local Authorities (2021) Guidance Notes
- DLUHC Consultation on changes to the capital framework - Minimum Revenue Provision (November 2021 to February 2022). Latest consultation closed 16 February 2024.
- *CIL Strategic Infrastructure Programme 2023-2027*, report to Executive, 23 March 2023
- *Budget and Capital Programme 2024/25*, report to Executive, 1 February 2024

ANNEXES

1. Treasury Management Strategy 2024/25
2. Investment Strategy 2024/25
3. Capital Strategy 2024/25