Governance and Audit Committee

Item
9

18 June 2024

Report of	**The Section 151 Officer**	**Author**	**Chris Hartgrove** (chris.hartgrove@colchester.gov.uk)
Title	**Treasury Management Strategy 2024/25**		
Wards affected	Not applicable		

1. Executive Summary

1.1 The preparation of an annual Treasury Management Strategy is a requirement of CIPFA's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) and generally accepted good practice. It covers planned treasury activity for the financial year 2024/25 and is attached at ***Appendix A***.

1.2 In addition, following the issue of (MHCLG) statutory guidance on Local Government Investments in 2018, the Council is also recommended to produce an annual Investment Strategy, covering the Council's wider investment activities.

1.3 The Finance team has faced significant resource challenges in recent years, which have been exacerbated by major delays and disruption caused by the backlog in the external audit process (a national problem). This has had a detrimental impact on the standard and timeliness of reporting in some instances. In response, the Council has entered a shared services partnership with Epping Forest District Council for the provision of its core Finance function. Fledgling arrangements were progressively developed during 2023/24, but during this transitional phase, the component parts of the Financial Planning and Reporting process had to be prioritised in accordance with available professional capacity, with the Statement of Accounts' and the 2024/25 Budget taking precedence.

1.4 Nevertheless, responding to Scrutiny feedback, and in the interests of transparency, an "abridged" version of the Treasury Management Strategy 2024/25 was presented alongside the 2024/25 Budget adopted by full Council on 21st February 2024. This report updates the abridged document and more formally establishes a Treasury Management Strategy for 2024/25, which will be monitored and reported to the Committee on a quarterly basis in accordance with the new CIPFA Code 2021.

1.5 A separate Investment Strategy for 2024/25, which is also a good practice requirement, and would normally be appended to the Treasury Management Strategy, is under development at the time of reporting, with clarifications awaited regarding the Council's Service and Commercial Investments as the 2023/24 year-end is finalised (in the context of hibernating Council companies) and the implementation of the Corporate Landlord model progresses (which affects Asset classifications). It is expected that the updated Investment Strategy, will be available for presentation to the September 2024 Committee.

1.6 Both borrowing and investing is taking place against a backdrop of significantly higher interest rates than have been seen for many years; although there are strong indications that interest rates have now peaked, with rate reductions anticipated soon.

1.7 The purpose of this report is to allow the Governance and Audit Committee to consider and comment on the Treasury Management Strategy, before making appropriate recommendations to full Council on 17th July 2024.

2. Recommended Decisions

2.1 To consider and recommend for approval by full Council, the draft Treasury Management Strategy 2024/25 (attached at ***Appendix A***); and

2.2 To note the current position regarding the draft Investment Strategy 2024/25

3. Reason for Recommended Decision

3.1 To provide assurance to full Council that the risks associated with Treasury Management and are being appropriately managed.

4. Alternative Options

4.1 In accordance with its constitutional terms of reference, the Committee has the discretion to make any comments and/or recommendations that it so chooses for the consideration of full Council.

5. Equality, Diversity and Human Rights implications

5.1 None.

6. Standard References

6.1 The capital investment plans included within the overall Capital Programme for 2024/25 (both General Fund and HRA) reflect the Council's priorities within the three-year Strategic Plan 2023-26 "A City fit for the Future".

6.2 Treasury Management in the Public Services: Code of Practice (2021 Edition) published by CIPFA December 2021.

6.3 (MHCLG) Statutory Guidance on Local Government Investments (3rd Edition). Issued under section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1st April 2018.

7. Environmental and Sustainability Implications

7.1 None.

8. Appendices

8.1 Draft Treasury Management Strategy 2024/25 – ***Appendix A***

Treasury Management Strategy 2024/25 (DRAFT)

Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year. Subject to a short publication delay, this report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

External Context

The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming General Election, together with war in Ukraine and the Middle East, will be major influences on the Council's Treasury Management Strategy for 2024/25.

UK inflation continued to decline during 2023/24 from the 8.7% rate seen at the start of the financial year. By the last quarter, Consumer Price Inflation (CPI) had fallen to 3.4% in February 2024 but was still above the Bank of England's 2.0% target at the end of the period.

The UK economy entered a 'technical recession' in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for Q3 and Q4. Over the 2023 calendar year, GDP growth only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics (ONS) reported a rebound in activity with economy expanding 0.2% in January 2024. While the economy may somewhat recover in Q1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.

Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased the Bank Rate to 5.25% in August 2023. The Bank Rate was maintained at 5.25% through to March 2024. Although financial markets shifted their interest rate expectations downwards with expectations of a cut in June 2024, the MPC's focus remained on assessing how long interest rates would need to be restrictive to control inflation over the medium term.

Updated Interest Rate Forecast
The Council's Treasury Advisors, Link most recently updated their Interest Rate Forecast on 29th May 2024, in the light of the Bank of England's decision to keep the Bank Rate on hold at 5.25% once again on 9th May 2024. Their forecast for future rates remains firmly down though as presented below in Table 1 below.

Table 1: Forecast Interest Rates (Link 29th May 2024)

	June 24	Sept 24	Dec 24	Mar 25	June 25	Sept 25	Dec 25	Mar 26	June 26	Sept 26	Dec 26	Mar 27
Bank Rate	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
PWLB 10 Year	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
PWLB 25 Year	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
PWLB 50 Year	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

The rates quoted in Table 1 above reflect the "Certainty Rate" (a 0.2% discount) available to the Council on PWLB borrowing (a further temporary reduction of 0.4% is currently available HRA loans). Link have marginally increased PWLB forecasts, typically by 0.2% to 0.30%, across the reported period compared to their February 2024 forecast, due to increased uncertainty surrounding central gilt market forecasts. However, the overall longer-run trend is for gilt yields and PWLB rates to fall back, as inflation continues to fall throughout 2024 and 2025.

Local Context

At close of business on 31st March 2024, the Council held £151.6 million Borrowing and £20.5 million in Treasury Investments. This is set out in further detail in Tables 4, 5, 6 and 7 below. Forecast changes in these sums are shown in the Balance Sheet analysis in Table 2 below.

Table 2: Balance Sheet Summary and Forecast

	31/03/24 Estimated £m's	31/03/25 Forecast £m's	31/03/26 Forecast £m's	31/03/27 Forecast £m's
General Fund CFR	46.2	59.5	59.5	58.1
HRA CFR	201.6	230.9	267.0	301.8
Total CFR	**247.8**	**290.4**	**326.5**	**359.9**
Less: Other debt liabilities*	0	0	0	0
Less: External borrowing	(151.6)	(141.8)	(141.8)	(141.8)
Internal borrowing	**96.2**	**148.6**	**184.7**	**218.1**
Less: Balance Sheet Resources	(116.6)	(106.8)	(111.8)	(86.8)
(Investments)/ New Borrowing	**(20.4)**	**41.8**	**72.9**	**131.3**

**Leases and PFI liabilities that form part of the Council's total debt*

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

The Council has an increasing CFR due to the Capital Programme and will therefore be required to take out further (new) borrowing up to £131.3 million over the forecast period (2024/25 to 2026/27). In the short-term (up to 31st March 2025), external borrowing is assumed to increase by £41.8 million. No principal repayments are anticipated on existing Borrowing over the three-year period (due to the prevalence of Maturity Loans).

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Council expects to comply with this recommendation during 2024/25.

Liability Benchmark

To compare the Council's actual borrowing against an alternative strategy, a Liability Benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as Table 1 above, but that cash and investment balances are kept to a minimum level of £20.0 million at each year-end to maintain adequate liquidity but minimise credit risk.

The Liability Benchmark is an important tool to help establish whether the Council is likely to be a Long-Term Borrower or Long-Term Investor in the future, and so shape its strategic focus and decision making. The Liability Benchmark itself represents an estimate of the cumulative amount of External Borrowing the Council must hold to fund its current Capital and Revenue plans while keeping Treasury Investments at the minimum level required to manage day-to-day cash flow.

The *estimated* position presented to full Council on 21st February 2024 is reproduced below in Table 3. It should be noted that will be *small* underlying differences in the very latest position due to late movements in the Treasury Management profile and the Capital Financing Requirement (both of which have subsequently crystallised in March 2024). However, there has been no material change in the profile based on the 2023/24 outturn and an updated Liability Benchmark reflecting the position as of 30th June 2024, will be prepared (with the support of Link) and presented to the Committee in September 2024.

Table 3: Prudential Indicator: Liability Benchmark (@ February 2024)

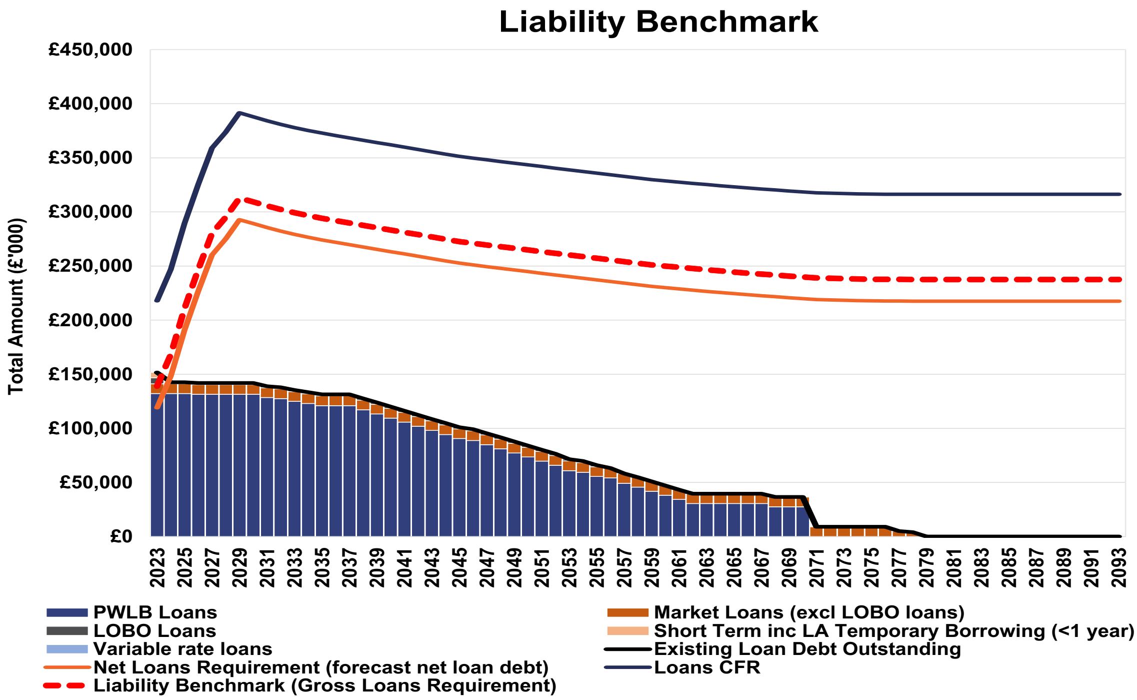

Table 3 above shows the potential level of external borrowing via the Loans CFR line (thick blue line). If capital schemes are deferred or delayed that line will be revised downwards. Moreover, because of the resilience of the Council's cash backed reserves and balances, the Council is more likely to borrow up to the Liability Benchmark (the broken red line), which also assumes that the Council will maintain at least £20 million cash investments in the way of a liquidity buffer, split £15.0 million General Fund and £5.0 million HRA.

Borrowing Strategy

The Council currently (@ 31st March 2024) holds £151.6 million in loans, a reduction of £5.0 million compared to 31st March 2023, as part of its strategy for funding previous years' capital programmes. The Council's current lenders are the PWLB, Banks and other local authorities. There are total loans of £132.1 million outstanding with the PWLB as summarised in Table 4 below.

Table 4: PWLB Borrowing

PWLB Loans (@ 31st March 2024)			
Description	**Amount (£'s)**	**Interest Rate (%)**	**Maturity Date**
Fixed Rate - Maturity	3,800,000	3.52	16/10/2043
Fixed Rate - Maturity	3,800,000	3.46	16/10/2037
Fixed Rate - Maturity	3,800,000	3.49	17/10/2059
Fixed Rate - Maturity	3,800,000	3.53	18/10/2047
Fixed Rate - Maturity	700,000	4.875	09/05/2025
Fixed Rate - Maturity	900,000	4.625	15/11/2038
Fixed Rate - Maturity	3,800,000	3.5	15/11/2041
Fixed Rate - Maturity	3,800,000	3.52	18/11/2044
Fixed Rate - Maturity	3,800,000	3.53	18/11/2050
Fixed Rate - Maturity	3,800,000	3.49	19/11/2060
Fixed Rate - Maturity	2,500,000	4.45	20/05/2032
Fixed Rate - Maturity	1,300,000	8.875	21/05/2055
Fixed Rate - Maturity	3,000,000	4.55	21/05/2030
Fixed Rate - Maturity	1,000,000	4.25	21/11/2031
Fixed Rate - Maturity	2,000,000	4.25	21/11/2033
Fixed Rate - Maturity	3,800,000	3.52	15/12/2051
Fixed Rate - Maturity	3,800,000	3.48	16/12/2039
Fixed Rate - Maturity	3,800,000	3.48	16/12/2061
Fixed Rate - Maturity	3,800,000	3.53	18/12/2048
Fixed Rate - Maturity	1,594,000	3.51	16/01/2054
Fixed Rate - Maturity	3,800,000	3.52	18/01/2047
Fixed Rate - Maturity	3,800,000	3.49	18/01/2041
Fixed Rate - Maturity	1,000,000	3.7	21/01/2050
Fixed Rate - Maturity	3,500,000	4.5	12/08/2057
Fixed Rate - Maturity	2,900,000	3.47	18/02/2039
Fixed Rate - Maturity	2,000,000	4.8	12/08/2034
Fixed Rate - Maturity	2,800,000	3.53	18/02/2050
Fixed Rate - Maturity	3,800,000	3.51	19/02/2055
Fixed Rate - Maturity	2,500,000	4.25	25/08/2056
Fixed Rate - Maturity	5,000,000	4.25	08/03/2053
Fixed Rate - Maturity	2,500,000	4.05	28/09/2056
Fixed Rate - Maturity	3,800,000	3.5	28/03/2059
Fixed Rate - Maturity	1,800,000	3.52	28/03/2046
Fixed Rate - Maturity	3,800,000	3.51	28/03/2043
Fixed Rate - Maturity	3,000,000	2.29	23/06/2067
Fixed Rate - Maturity	17,500,000	1.18	15/05/2070
Fixed Rate - Maturity	10,000,000	2.0	04/03/2071
Total PWLB	**132,094,000**		

Local authorities are able to access preferential interest rates on PWLB loans (known as the “Certainty Rate”; currently a 0.2% discount on published rates) provided they submit a high-level description of their capital spending and financing plans (whether it is financed through PWLB borrowing or another source) for the following three years (meaning any capital spending and financing for the whole current financial year and subsequent two financial years), including their expected use of the PWLB.

The PWLB lending terms are contained in *Circular 163* (issued 21st October 2021). The updated terms now explicitly forbid borrowing for the purposes of purchasing investment assets primarily for yield. Thus Paragraph 41 requires that – before a loan can be granted – the Council's Section 151 Officer must confirm that the Council does not plan to:

- Use the PWLB to refinance any prior investment asset primarily for yield transactions which concluded after 25th November 2020; and/or
- Buy investment assets primarily for yield in the next three years.

The Council also has outstanding loans of £9.0 million with other local authorities as summarised in Table 5 below.

Table 5: Local Authority Borrowing

Local Authority Loans (@ 31st March 2024)			
Description	**Amount (£'s)**	**Interest Rate (%)**	**Maturity Date**
London Borough Havering	5,000,000	6.5	10-Jun-24
Middlesborough	4,000,000	6.35	18-Apr-24
Total Local Authority Loans	**9,000,000**		

In addition, the Council has other outstanding loans of £10.5 million with Banks as summarised in Table 6 below.

Table 6: Other Borrowing

Other Loans (@ 31st March 2024)			
Description	**Amount (£'s)**	**Interest Rate (%)**	**Maturity Date**
Market Loans			
Barclays Bank	5,000,000	4.5	24-Jul-76
Barclays Bank	4,000,000	4.01	30-Apr-78
LOBOs			
Danske	1,500,000	3.53	26-Jan-56
Total Local Authority Loans	**10,500,000**		

The Council *expects* to borrow up to £203.6 million in 2024/25 (if the minimum Investment balance of £20.0 million illustrated in Table 2 is achieved). The Council may also borrow additional sums to pre-fund future years' requirements, providing the Authorised Limit for Borrowing of £316.225 million is not exceeded.

Objectives

The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy

Given the significant cuts to local government funding in recent years, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Interest rates are currently at a 15-year high but are expected to fall in the coming years and it is therefore likely to be more cost effective over the medium-term to (preferably) use internal resources, or to borrow short-term loans instead.

By doing so, the Council reduces its net borrowing costs (despite foregone investment income) and reduces overall treasury risk. The benefits of internal and short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Link will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2024/25 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity to retain its access to PWLB loans.

Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may take out further short-term loans to cover unplanned cash flow shortages.

Sources of Borrowing

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

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- Any other UK public sector body
- UK public and private sector pension funds (except Essex County Pension Fund)
- Capital market bond investors; and
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

Other sources of Debt Finance

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

- Leasing
- Hire purchase; and
- Sale and leaseback.

Short-Term and Variable Rate Loans

These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the Treasury Management indicators below.

Debt Rescheduling

The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure, plus balances and reserves held. The Strategy is to include a "Liquidity Allowance" of £20.0 million.

The Council currently (@ 31st March 2024) holds £20.5 million in Investments, representing a planned decrease of £12.0 million compared to 31st March 2023. The overall position is summarised in Table 7 below.

Table 7: Treasury Management Investments

Investments (@ 31st March 2024)		
Counterparty	**Amount (£'s)**	**Interest Rate (%)**
Long Term Investments (maturity > 12 months)		
None	N/A	N/A
Short Term Investments (maturity < 12 months)		
Eastleigh BC	5,000,000	5.57
Wirral MBC	5,000,000	5.5
Lloyds	1,500,000	5.14
Cash and Cash Equivalents (instant access)		
BNP Paribas	4,000,000	5.25
Federated Hermes	5,000,000	5.25
Total Investments	**20,500,000**	

Objectives

The CIPFA Code requires the Council to invest its Treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, to maintain the spending power of the sum invested. The Council also aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy

As demonstrated by the Liability Benchmark above, the Council expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments.

ESG Policy

Environmental, Social and Governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Council's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.

Nevertheless, the Council is mindful of its ESG responsibilities and only invests in banks and funds that have Link approval. This ensures (through an annual check) – for example – that approved banks remain signatories to the UN Principles for Responsible Banking and approved Money Market Fund managers remain signatories to the UN Principles for Responsible Investment.

Approved Counterparties

The Council may invest its surplus funds with any of the listed counterparty types, comprising two investment categories – Specified and Non-Specified Investments, subject to pre-determined/authorised limits.

- *Specified Investments* - these are sterling investments of not more than one year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are considered low risk assets where the possibility of loss of principal or investment income is small (see Table 8a); and
- *Non-Specified Investments* – these are investments that do not meet the Specified Investment criteria. A limit of the lesser of £20.0 million, or 50% of the portfolio, will be held in aggregate in Non-Specified Investments (see Table 8b).

Table 8a: Treasury Investment Counterparties and Limits (Specified Investments)

Specified Investments: Counterparties and Limits			
Organisation Type	**Minimum Credit Criteria**	**Investment Limit (£000s)**	**Maturity Limit (Days/Months/Years)**
Banks and Building Societies	Yellow	10,000	1 Year
	Purple	10,000	1 Year
	Orange	10,000	1 Year
	Blue	10,000	1 Year
	Red	7,500	6 Months
	Green	5,000	100 Days
	No Colour	Not to be used	
UK Government Gilts	UK Sovereign Rating	10,000	1 Year
UK Treasury Bills	UK Sovereign Rating	10,000	1 Year
UK Local & Police Authorities	N/A	Unlimited	1 Year
Debt Management Agency Deposit Facility	AAA	Unlimited	6 Months
Money Market Funds	AAA	10,000	Instant Access
Enhanced Money Market Funds	Dark Pink/Light Pink/AAA	10,000	Instant Access
Bonds issued by Multilateral Development Banks	AAA	3,000	6 Months

Table 8b: Treasury Investment Counterparties and Limits (Non-Specified Investments)

Non-Specified Investments: Counterparties and Limits			
Organisation Type	**Minimum Credit Criteria**	**Investment Limit (£000s)**	**Maturity Limit (Days/Months/Years)**
UK Local & Police Authorities	N/A	10,000	5 Years
Banks and Building Societies	Yellow/Purple	10,000	5 Years
UK Government Gilts	UK Sovereign Rating	10,000	5 Years
UK Government Treasury Bills	UK Sovereign Rating	10,000	5 Years
Property Funds	AAA	5,000	5 Years

Notes

- Non-UK country limit - £15.0 million
- All Building Societies limit - £10.0 million.

Risk Assessment and Credit Ratings

Credit ratings are obtained and monitored by the Council's Treasury Management advisers, Link who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- No new investments will be made.
- Any existing investments that can be recalled or sold at no cost, will be and
- Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn [on the next working day] will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments

Advice will be always taken from the Council's Treasury Management advisers, Link. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

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

Liquidity Management

The Council uses cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's Medium-Term Financial Forecast and Cash Flow Forecast.

The Council will usually spread its liquid cash over at least two providers (e.g., Bank and Money Market Funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider (whilst maximising interest receivable).

Treasury Management Prudential Indicators

The Council measures and manages its exposures to Treasury Management risks using the following indicators.

Security

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

Credit Risk Indicator	**Target**
Portfolio average credit rating	A-

Liquidity

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity Risk Indicator	**Target**
Total cash available within 3 months	£20.0 million

Interest Rate Exposure

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest Rate Risk Indicator	**Limit £'s**
Upper limit on one-year revenue impact of a 1% rise in interest rates	8,500
Upper limit on one-year revenue impact of a 1% fall in interest rates	(8,500)

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

Based on anticipated *existing* net borrowing movements during 2024/25, the potential one-year revenue impact of a 1% change in interest rates would not exceed £8,500.

Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the Maturity Structure of Borrowing will be:

Refinancing Rate Risk Indicator	Upper Limit	Lower Limit
Under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	30%	0%
10 years and within 15 years	30%	0%
15 years and within 20 years	30%	0%
20 years and within 25 years	30%	0%
25 years and above	30%	0%

It should be noted that the proposed limits presented above are deliberately wide in range. This is because the indicator is only designed to cover the risk of replacement loans being unavailable, rather than interest rate risk.

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

Long-Term Treasury Management Investments

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on long-term treasury management investments will be:

Price Risk Indicator	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£20.0 million	£20.0 million	£20.0 million

Related Matters

Housing Revenue Account

On 1st April 2012, the Council notionally split each of its existing long-term loans into General Fund and HRA pools. In future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g., premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured, with interest transferred between the General Fund and HRA at the Council's average interest rate on investments, adjusted for credit risk.

Markets in Financial Instruments Directive (MIFID)

The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers, and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's Treasury Management activities, the Section 151 Officer believes this to be the most appropriate status.

Financial Implications

In 2024/25, overall investment income (General Fund and HRA) is budgeted at £1,350,000. The budgets for General Fund and HRA debt interest payable in 2024/25 are £1,149,300 and £8,333,100 respectively.

If investment levels and borrowing, or interest rates, differ from expectations, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any specific Treasury Management Strategy for local authorities to adopt. The Section 151 Officer, having consulted the Portfolio Holder for Resources, believes that this Strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

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

Annex 1 (Appendix A)

Debt & Investment Portfolio (@31/03/24)

	31/03/24 Actual Portfolio £m	31/03/24 Average Rate %
External Borrowing		
Public Works Loan Board	132.1	3.79%
Local authorities	9.0	6.43%
Other loans	10.5	4.15%
Total External Borrowing	**151.6**	
Other Long-Term Liabilities:		
Leases	-	-
Total Other Long-Term Liabilities	**-**	
Total Gross External Debt	**151.6**	
Treasury Investments		
Local authorities	(10.0)	5.53%
Banks (unsecured)	(1.5)	5.14%
Money Market Funds	(9.0)	5.25%
Total Treasury Investments	**(20.5)**	
Net Debt	**131.1**	