

| Information needed | Details |
|---------------------------|--|
| Report To: | Audit and Corporate Governance Committee |
| Date: | 22nd January 2025 |
| Subject: | Treasury Management Strategy 2025/26 |
| Chief Officer: | Annabel Scholes - Executive Director Corporate Resources (S151 Officer) |
| Contact Officer: | Chris Holme – Finance Director (Corporate and Commercial) |
| Ward(s): | N/A |
| Exempt: | NO |
| Appendices: | Appendix 1 – Draft Treasury Management Strategy 2025/26 Appendix 2 – LTLF Investment Strategy 2024/25 |

1. Summary and Recommendations

- 1.1 This report sets out the context within which the Council’s treasury management activity operates and outlines a proposed strategy for the coming year. The report considers the council’s borrowing and investment strategy alongside required Prudential Indicators. It also identifies risk reduction strategies that have been established to ensure the fundamental aims of security, liquidity, and yield of the council’s investments.
- 1.2 The council must operate within the parameters of a balanced budget (taking account of the exceptional financial support), and that means broadly that cash raised during the year will meet cash expenditure requirements. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in secure counterparties or instruments commensurate with the council’s low risk appetite, providing adequate liquidity initially before considering investment return. The second main function of treasury management is the funding of the council’s capital expenditure plans. The 5-year capital programme provides a guide to the borrowing need of the council, essentially the longer-term cash flow planning to ensure that the council can meet its capital spending plans. This management of longer-term cash may involve arranging long or short-term loans or using longer term cash flow surpluses.
- 1.3 The Council is required to actively manage its substantial cashflows on a daily basis. The need to place monies in investments or to borrow monies to finance capital programmes and to cover daily operational needs, is an integral part of daily cash and investment portfolio management.
- 1.4 Full Council must approve the Treasury Management Strategy, Capital Strategy and any strategy setting out control of the authority’s borrowing, including determining the authority’s Minimum Revenue Provision, under the provisions for approving the annual budget. This reflects the legislative requirement for Full Council to approve the budget and policy framework. A review of CIPFA guidance and recommended changes to the constitution are being considered by the

Constitution Working Group for recommendation up to Full Council. These are likely to recommend that this committee provides the monitoring and scrutiny function and as such, Audit and Corporate Governance Committee is asked to consider and review the draft strategy for 2025/26 to 2028/29, as appended to this report, and subject to any changes arising from Cabinet's consideration of revenue and capital budget proposals, recommend that the strategy be referred to Full Council for approval.

1.5 Appendix 1 sets out the draft 2025/26 Treasury Management Strategy.

Recommendations:

Audit and Corporate Governance Committee is requested to:

- a. Consider the draft Treasury Management Strategy Statement 2025/26, as set out in Appendix 1 including:
 - Annual Borrowing Strategy
 - Annual Investment Strategy
 - Minimum Revenue Provision Statement
 - Prudential Indicators
 - Capital Strategy
- b. Note there may need be some amendments arising from Cabinet's consideration of the revenue and capital budgets prior to Full Council, and that the S151 Officer has authority to incorporate any specific amendments required prior to submission to Full Council for approval
- c. Subject to (b) above recommend that the draft 2025/26 Treasury Management Strategy be submitted to Full Council for approval.

Commissioner Review

This report is an important part of the Council's financial strategy and its financial recovery. It aims to protect the Council from market-related risks, interest rate exposure, and ensure liquidity in day-to-day revenue or for larger capital projects. Any decision to amend the investment strategy for Alternative Investment Funds or the provision of additional service investments or loans to third parties should only be considered after obtaining appropriate external advice and subsequent member approval.

The forecasted general fund external debt level continues to create a revenue challenge for the Council with both the interest costs and Minimum Revenue Provision charged to revenue budgets. The strategy remains (albeit to a lower value) to use capital receipts from the asset disposal programme to finance the Capitalisation Direction and repay borrowing and as such annual reviews should be conducted to evaluate changes in market conditions and whether any residual commercial investments should be sold to release funds, as capital receipts to finance new capital expenditure or refinance maturing debt. This will be fundamental in delivering the Council's future priorities in an affordable framework.

The Commissioners are content with this report being considered.

2. Introduction

- 2.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as *“The management of the local authority’s borrowing, investments and cash flows, 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.”*
- 2.2. The Treasury Management Strategy Statement (TMSS) sets out how the council undertakes these essential functions and helps deliver the Medium-Term Financial Strategy.
- 2.3. The Council has powers under Part 1 of the Local Government Act 2003 to borrow (i.e. prudential borrowing) and invest money in accordance with statute. In carrying out these functions, the Council is required to have regard to statutory guidance, which is currently found in the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice 2021. It requires Full Council to agree a treasury strategy for borrowing and to prepare an annual investment strategy. It also requires:
 - a mid-year treasury management report to council, setting out progress of the capital position, amending prudential indicators as necessary, and whether the treasury activity is meeting the strategy or whether any policies require revision.
 - An Annual Treasury Report – this provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- 2.4. In addition to the above, there is also provision for quarterly reporting (end of June/end of December) on Treasury/Prudential indicators. These additional reports do not have to be reported to Full Council but, there is an expectation that they will be appropriately scrutinised. This to date, has been a role undertaken by Audit and Corporate Governance Committee.
- 2.5. In keeping with best practice, a review into the constitutional arrangements for the governance and assurance of the treasury management function has been undertaken and is being taken to the Council’s Constitutional Working Group before seeking Full Council approval. This recommends that this committee undertakes the monitoring and scrutiny function and will review policies and reports on treasury management before being taken to Full Council and that cabinet will receive updates as part of budget and capital programme management reporting.

Options considered

*The option not to refer this report to Audit and Corporate Governance Committee is **not recommended**, as it is important that assurance is provided for the Council on current Treasury Management arrangements.*

In accordance with the current agreed Treasury Management Strategy, the draft Treasury Management Strategy Statement is required to be reviewed by Audit and Corporate Governance Committee prior to approval by Full Council.

3. Background

- 3.1. The Council's Treasury Management Strategy must be approved annually at Full Council as part of the annual budget. It was last approved by Full Council on 7th March 2024. As committee are aware, there were some concerns raised about the accuracy of some of the figures in the report and it is fair to say the finance team were still in discovery phase in relation to some of the detail.
- 3.2 At the last meeting of this Committee, on the 10th December 2024, we presented an updated Treasury Management Strategy for 2024/25, in response to the significant changes arising from the emerging outcomes of the asset review which was reported to Cabinet in November 2024. The update reflected the reduced asset disposal assumptions, as at September, and the need to redirect capital receipts from the revised capital programme to finance Capitalisation Directions. This Treasury Management Strategy Statement 2025/26 now takes account of the outcome of that asset review.
- 3.2 The contribution the treasury management function makes to the council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects.
- 3.3 External advice has been sought from Arlingclose, the Council's treasury management advisors in reviewing this strategy. Their advice is set out in the TMSS, Appendix 1, and includes a summary of the external economic context. Arlingclose have also been commissioned to provide training to Committee members to assist the Committee to fulfil its function to provide independent assurance and review of the council's governance, risk management and control frameworks and overseeing financial reporting and annual governance processes.

4. Treasury Management Strategy for 2025/26

- 4.1. The Treasury Management Strategy (TMS) for 2025/26 covers two core areas;
- capital expenditure plans, the underlying capital strategy and minimum revenue provision (MRP) policy; and
 - treasury management issues - current and projected treasury position, treasury indicators which limit the treasury risk and activities of the council, interest rate forecasts, and the borrowing and investment strategies.
- 4.2. The CIPFA Code identifies three key principles in relation to treasury management:
- Key principle 1 – the Council should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of its treasury management activities.
 - Key principle 2 – the Council's policies and objectives should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within the Council. Appetite for risk should form part of the annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and portfolio liquidity when investing treasury management funds.
 - Key principle 3 – the Council should acknowledge that the pursuit of value for money in treasury management and the use of suitable performance measures,

are valid and important tools for responsible organisations to employ in support of their business and service objectives, and that within the context of effective risk management, its treasury management policies and practices should reflect this.

- 4.3 The Council invests for treasury management purposes and for service and commercial purposes. The Councils TMSS covers non-treasury management investments as well as treasury management ones. Non treasury management investments are taken or held primarily to meet service requirements or for financial return. Local authorities must not borrow to invest for the primary purpose of financial return. The draft TMSS makes this clear as do the recommended amendments to the financial procedure rules in the Council's constitution.
- 4.4 This TMS is draft. There are ongoing budget decisions that could impact on the final version to be presented to Full Council, including finalisation and approval of the General Fund capital programme, Housing Revenue Account business plan, and any assumptions around use of reserves. Cabinet is also considering developing a long lease property option for temporary accommodation, to reduce the annual costs of TA. It is not anticipated that any such decisions will materially impact upon the 2025/26 assumptions outlined in this statement. It should also be noted that the Capital Financing Requirement assumptions remain estimated pending finalisation of the backlog accounts process.
- 4.3 The CIPFA Prudential and Treasury Management Codes requires all local authorities to prepare a capital strategy report which provides a high-level overview of how capital expenditure plans are decided upon and provides the framework for the development, management and monitoring of the council's capital investment plans. The draft capital strategy is sub-appended as Appendix A to the TMSS. The focus for capital expenditure will continue to align with delivery of the council's statutory duties and corporate plan priorities, with a focus on:
- Ensuring essential services are deliverable safely
 - Investment that delivers revenue savings or minimises revenue expenditure
 - Maximising external funding sources
- 4.4. The aim of this capital strategy is to ensure that all members of the council understand the overall long term policy objectives and resulting capital investment requirements, governance procedures and risk appetite.
- 4.5. The draft HRA capital programme aligns with the assumptions in the HRA 30-year business plan which was scheduled to be considered by Cabinet at its meeting on 20th January 2025, and assumes £105.5m capital investment in the council's housing stock over the 5 years to 2029/30, in addition to the £19.7m forecast for 2024/25. The programme is assumed to be funded from a number of sources including right-to-buy receipts, government grants and the Major Repairs Reserve. No additional borrowing is assumed over the period of the medium-term financial plan (MTFP), and so the HRA Capital Financing Requirement (CFR), which represents the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources, will remain at £164.6m over the period, as set out in Table 1B to Appendix 1.
- 4.6. The general fund programme is estimated to be £77.3m over the same period, in addition to the £27.0m forecast for 2024/25. Whilst primarily funded from capital grants, £11.4m of the programme will need to be financed through prudential

borrowing, as available capital receipts from asset disposals will be significantly lower than previous assumptions following the asset disposal review (as outlined in the December report). In addition, assumed capitalisation direction (CD) of £26.3m from 2025/26 to 2027/28 will have to be funded from borrowing (although the TMS assumes net GF capital receipts over the period of £27.1m - these will be applied primarily against prior years' CDs). These assumptions have been factored into the revised Capital Financing Requirement (CFR) and borrowing assumptions in the TMSS. Despite this change in assumptions the General Fund CFR is estimated to reduce from £507.6m as at 1st April 2024 to £443.6m at the end of 2028/29. Table 1B to Appendix 1 sets out the estimated CFR for each year over the period of the MTFP.

- 4.7. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used. External borrowing should remain below the CFR because the council is able to utilise internal borrowing from cash backed reserves, including from the HRA.
- 4.8. Subject to approval it is intended to take advantage of the Government's intention to extend the Flexible Use of Capital Receipts initiative which will facilitate utilisation of excess HRA capital receipts generated during 2024/25, and which under the "no detriment" principle can be applied to support General Fund one-off investment which will generate cashable savings.
- 4.9. Minimum Revenue Provision (MRP) – Where the council finances GF capital expenditure through borrowing, it must aside resources to repay the debt in later years. The amount charged annually to revenue for the repayment of GF debt is known as the minimum revenue provision (MRP). Under the current TMS this is charged on an annuity basis over the useful life of the asset. Repayments included in annual PFI or finance leases are applied as MRP. There is no requirement on the HRA to make a minimum revenue provision but, there is a requirement for a charge for depreciation. The MRP policy is set out on page 19 of Appendix 1.
- 4.10. Borrowing Strategy - Historically the Council's borrowing had been very high for its organisational size, reaching £738m at 31 March 2021, being the third highest per head of population amongst all unitary Councils. In particular around 50% of this was short-term temporary borrowing from other local Councils exposing the Council to financial risk from increasing interest rates. As highlighted in previous reports, this level of borrowing and risk was neither affordable nor financially sustainable.
- 4.11. In September 2021 the Council agreed a Debt Repayment Strategy, which was predicated on an orderly programme of asset disposals which could be used firstly to finance any Capitalisation Directions that may be received from the Government and secondly to repay existing external debt. The aim of this course of action was to reduce both interest costs and Minimum Revenue Provision (MRP) charged to revenue budgets. The objective of the strategy was to realise £200m of disposal by March 2024, with further disposals of between £200m and £400m by end of March 2027. A total of some £400m of disposals has been assumed in previous Treasury Management Strategies up-to and including that approved for 2024/25. As at 31st March 2023 actual gross receipts totalled £195.5m, including the Akzo Nobel disposal. Actual GF net receipts during 2023/24 totalled just £29.7m, and the current forecast for 2024/25 is £11.8m, with a further £27.1m over the following two years following the asset review exercise reported to Cabinet in November. So

current assumptions are some £135m below what has been assumed in previous treasury management strategies. The reduction is a consequence of both operational and financial assessment.

- 4.12. The impact of this is that whereas previously it was assumed 90% of the CDs would be financed from capital receipts, that has now reduced to an assumed 63%. The annual cost of servicing that debt has risen to £6.042m.
- 4.13. The council currently holds £9m of “Lender’s Option Borrower’s Option” (LOBO) loans. Opportunities to repay LOBO obligations will be considered when it can be demonstrated to be cost effective and affordable. An opportunity will arise for repayment of £4m LOBO during 2025/26.
- 4.14. Investment Strategy – The current strategy focuses on investments arising from surplus cash arising from day-to-day activities and is compliant with relevant statutory guidance. We must have regard to security and liquidity of these funds and ensuring the appropriate balance of risk and return. Given the council’s ongoing cash position there isn’t currently any scope for longer term investments. The investment limits with approved counterparties are set out in Table 7 of the TMSS.
- 4.14 The draft TMSS 2025/26 to 2028/29 summary position is outlined in table 1 below.

Table 1

| | 31.3.24 Actual £m | 31.3.25 Estimate £m | 31.3.26 Budget £m | 31.3.27 Forecast £m | 31.3.28 Forecast £m | 31.3.29 Forecast £m |
|-------------------------------|-------------------------|---------------------------|-------------------------|---------------------------|---------------------------|---------------------------|
| Existing Long-term borrowing | | | | | | |
| - PWLB | 446.4 | 425.5 | 331.1 | 306.4 | 267.6 | 253.7 |
| - LOBOs | 9.0 | 9.0 | 5.0 | 0.0 | 0.0 | 0.0 |
| - Bank | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Existing Short-term borrowing | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| New Expected Borrowing | | 8.2 | 94.7 | 122.8 | 156.3 | 142.7 |
| Total borrowing | 459.4 | 446.6 | 434.8 | 433.2 | 427.9 | 400.5 |
| Long-term investments | | | | | | |
| Short-term investments | -21.3 | -10.0 | -10.0 | -10.0 | -10.0 | -10.0 |
| Cash and cash equivalents | | | | | | |
| Total investments | -21.3 | -10.0 | -10.0 | -10.0 | -10.0 | -10.0 |
| Net borrowing | 438.1 | 436.6 | 424.8 | 423.2 | 417.9 | 390.5 |

- 4.15. Officers are currently assessing the practicality of investing through the London Treasury Liquidity Fund (LTLF). The LTLF is administered by London Treasury Limited, a wholly owned investment management subsidiary of the Greater London Authority. It is a specialist investment vehicle designed for local authorities. Given its scale and opportunity for wider diversification of investment could provide secure route for short-term investments, maintaining security, but saving on transaction and administrative costs, and potentially yield. Any decision to amend the investment strategy in such a way is a decision for Full Council following proper and independent due diligence. LTLF are currently finalising their 2025/26 investment strategy, and this will be incorporated in the final version for Council. The current 2024/25 strategy is attached as Appendix 2 to this report.

5. Implications of the Recommendation

5.1 Financial implications

5.1.1. This report details the Council's strategies for treasury management and investment activity. The council is required to invest its funds prudently and ensure its borrowing is affordable and does not breach the council's capital financing requirement. Key financial implications are reflected in the body of the report.

5.2 Legal implications

5.2.1 The Local Government Act 2003 provides that a local authority has the power both to borrow and invest money, subject to affordable borrowing limits, for any purpose relevant to its functions and for the prudent management of its financial affairs. The Act requires the Council to determine and to keep under review how much money it can afford to borrow. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, provide that, in complying with this duty, the Council must have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA. The Council is also required to have regard to the CIPFA Treasury Management Code of Practice. The CIPFA Treasury Management Code of Practice 2021 and the Secretary of State's Investment Code both require the Section 151 officer to present an Annual Treasury Management Strategy Statement, including key appendices, for the forthcoming year for approval by the Full Council before the beginning of each financial year. The CIPFA Prudential Code for Capital Finance in Local Authorities sets out various indicators that are to be used to support capital expenditure plans and treasury management decisions.

5.2.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The 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.

5.2.3 Full Council is required to approve a Treasury Management Strategy (TMS) and investment decisions must be made in accordance with that. Any decision to depart from this Strategy must be agreed by Full Council. The Council's draft TMS Appendix 1 confirms how the Council complies with the CIPFA Treasury Management Code. This confirms that the Audit and Corporate Governance Committee has responsibility for scrutinising treasury management activities.

5.3.4 Following a review of the CIPFA Code, officers have recommended changes to the Council's financial procedure rules. Alongside recommended minimum clauses to be included, the Council is recommended to include the following additional clauses to pick up learning from historic matters and from elsewhere:

(a) That the delegated officer must undertake all borrowing in accordance with the approved strategy and plan and any decision not in accordance with the approved strategy must be taken to Full Council. This picks up on learning following decisions to loan money to GRE5.

(b) Confirmation that Audit and Corporate Governance Committee will be responsible for effective scrutiny of the strategy and policies and will receive the draft strategy, mid-year review and outturn report in advance of them being

submitted to Full Council. This picks up on questions raised by committee members on its role and reporting to allow for effective scrutiny.

(c) That officers are expected to keep full records of all decisions both for the purposes of learning from the past and accountability. This picks up from concerns raised by external auditors about record keeping and quality of data to inform decision-making.

(d) That there must be effective systems in place for separation of functions and officers tasked with treasury management functions are professionally competent and there is effective deputisation arrangements. Those tasked with monitoring and scrutiny should receive training and flag any training needs. This picks up on learning from the accounts closure process in previous years, as well as learning from other councils who have excessively borrowed beyond their means.

(e) Clarification that the Council must not borrow primarily for a financial return. This picks up on learning from historic borrowing decisions in SBC and other councils.

5.3 Risk management implications

5.3.1 Best practice and learning from other local government failures has identified that a failure to properly review and monitor treasury management activity can expose the Council to significant financial risk. It is critical that council adheres to best practice governance and assurance protocols as set out by CIPFA and the MHCLG.

5.3.2 The key risks for future treasury activity are that asset sales either do not generate the expected receipts or are further delayed. The mitigation is using external consultants to ensure best consideration is achieved through a managed asset disposal plan; and interest rates rise thus increasing borrowing costs.

5.4 Environmental implications

6.4.1 There are no specific environmental implications arising from the recommendations.

5.5 Equality implications

5.5.1 There are no specific equalities implications arising from the recommendations.

6. Background Papers

None