Report to:	**Cabinet**
Date:	**23 January 2024**
By:	**Chief Finance Officer**
Title of report:	**Treasury Management Policy and Strategy 2024/25**
Purpose of report:	**This report proposes the Treasury Management Policy and Strategy for 2024/25. The Council is also required to set Prudential Indicators as set out in the Prudential Code which are included in this strategy for approval.**

RECOMMENDATIONS

Cabinet is recommended to recommend Council to:

1) **approve the Treasury Management Policy and Strategy Statement for 2024/25;**
2) **approve the Annual Investment Strategy for 2024/25;**
3) **approve the Prudential and Treasury Indicators 2024/25 to 2026/27; and**
4) **approve the Minimum Revenue Provision (MRP) Policy Statement 2024/25 at Appendix 1 (Section 3) of the report.**

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1. Background

1.1 A requirement under the Chartered Institute for Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Services is to prepare a Treasury Management Policy and Strategy setting out the Council's policies for managing investments and borrowing.

1.2 The Local Government Act 2003 and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.3 The Treasury Management Policy and Strategy Statement (TMSS) for 2024/25 is presented in Appendix 1 to this report. The strategy includes the Treasury Management Policy Statement, the Treasury Management Strategy Statement, the Annual Investment Strategy, Prudential and Treasury Indicators for the next three years and the annual Minimum Revenue Provision (MRP) Policy Statement.

1.4 The 2024/25 TMSS has been prepared within the context the financial challenge being faced by the County Council over the Medium Term Financial Plan. A summary of the outlook for Local Government finances is outlined in Annex F of Appendix 1 of this report. The treasury management strategy for the year seeks to compliment the Council Plan by:

- maximising investment income by seeking ways to increase cash balances. The work being undertaken to review the profile of the Capital Programme will assist with this to reduce borrowing and delay expenditure;
- utilising cash balances to fund the Council's borrowing need in order to minimise borrowing costs as far as possible;
- ensuring the investment portfolio is working hard to maximise income by seeking appropriate investment opportunities that meet the Council's security requirements during 2024/25;

- ensuring effective management of the borrowing portfolio by exploring rescheduling opportunities and identifying and exploiting the most cost effective ways of funding the Council's borrowing requirement.

Investment Strategy

1.5 The 2024/25 Investment Strategy has been set in the context of improved investment returns as a result of increases in the Bank of England (BofE) Base Rate. The Base Rate is expected to have peaked at its current rate of 5.25%, with markets and economists' current expectation that rates will start to fall as early as June 2024 as the BofE is expected to tighten monetary policy in order to contain the impact of a recession. At the time of writing, Link Asset Services are forecasting that Monetary Policy Committee will maintain Base Rate at 5.25% until September 2024. The investment performance for 2024/25 is therefore forecast at 5.00%. The average rate of return for 2022/23 was 1.89% and for the first six months of 2023/24 was 4.47%.

1.6 The Strategy is also being set in the context of the Council's deficit revenue budget forecast for 2023/24 and medium-term financial plan for 2024/25 to 2026/27. Annex F of Appendix 1 outlines the context for the outlook of Local Government finances in general. Additionally, Paragraph 1.4 outlines the principles that will be applied during the year to ensure the Investment Strategy appropriately contributes to mitigating the Council's deficit revenue position. Cash balances and therefore investment balances are expected to reduce to support the authority's borrowing need. However, in this context, the Council's risk appetite for investments will not be modified to increase income. The strategy will continue to prioritise security of the Council's funds. New investment options will be explored within the current risk appetite and strategy parameters.

1.7 There are no changes proposed in the Annual Investment Strategy for 2024/25.

1.8 Officers continue to seek out Environmental Social & Governance (ESG) investment opportunities with counterparties that meet the Council's investment parameters. The Council continues to invest in Standard Chartered's sustainable fixed deposits which aligns the Council's investments with the bank's ESG strategy. There are currently limited available products within the market that meet both the Council's security requirements and the Council's shortened investment time horizon due to the strategy to use cash to initially fund the Council's borrowing requirement. Nevertheless, appropriate ESG investment products will continue to be researched and considered into 2024/25.

Borrowing Strategy

1.9 The Borrowing Strategy and the Capital Programme identifies a borrowing need of £94m over the next 3 years (between 2024/25 and 2026/27). This level of borrowing is following a review and reprofiling of the Capital Programme. The objective of the review was to minimise the borrowing costs within the Treasury Management revenue budget. This review has reduced the borrowing requirement by £48m from £142m originally planned for the period between 2024/25 and 2026/27.

1.10 Officers will seek to use cash from the Council's own reserves to initially fund borrowing. This will decrease the Council's cash balances, reducing counterparty risk, and reduce borrowing costs. Modelling of the Council's capital plans and cashflows has identified an appropriate level of internal borrowing of around £50m in the longer term. This has been increased to £75m to 2024/25 on the basis that it is preferable to maximise internal borrowing as far as possible at a time where interest rates are higher. This strategy will be kept under constant review as there are risks that are required to be managed and balanced during the year. The Capital Programme will need to be funded in the most cost-effective way. Maximising internal borrowing will reduce investment balances and therefore investment income. Therefore officers will review the interest rate forecast, cashflow needs, the revenue deficit and the Capital Programme to ensure this remains the most appropriate strategy through the year.

1.11 The budget within the Medium Term Financial Plan (MTFP) is calculated using the Treasury Management Tool that reflects the costs of borrowing in support of the targeted basic need programme offset by returns on investment of the Council's balances. It is therefore reflective of a point in time. The treasury management tool, developed as part of the Capital Strategy, is reviewed regularly for reasonableness.

1.12 The liability benchmark in Section 2.4 of Appendix 1 demonstrates that if the Council were to internally borrow to utilise its cash-backed reserves and balances whilst maintaining a buffer for cash requirements, external borrowing could be avoided until 2027/28. This indicator will be used to assist with future borrowing decisions, in conjunction with the Treasury management Tool.

Revenue impact

1.13 The Treasury Management budget within the Medium-Term Financial Plan (MTFP) supports the cost of borrowing which includes MRP provision and interest. The budget has been reviewed to take into account the impact of proposed updates to the Capital Strategy and programme. It is proposed that a reduction of £2.850m is made to the Treasury Management budget in 2024/25. With interest rates expected to normalise at a lower level in the medium term, alongside increasing costs of capital programme borrowing, it is modelled that increases to the budget will be required in future years. Due to the Council's challenging revenue budget position, the capital programme will continue to be reviewed to minimise the borrowing costs of the overall capital programme within Treasury Management and the revenue budget.

Supporting Information

Treasury Management Reporting

2.1 As well as this annual strategy, the CIPFA Code requires the Council reports as a minimum:

- A mid-year review;
- An annual report at the close of the year;
- Quarterly updates on treasury activity.

2.2 This Council meets this requirement with the Treasury Management Annual Report 2022/23 and mid-year report 2023/24 presented to Cabinet on 12 December 2023. Additionally, the treasury management quarterly monitoring position is reported to Cabinet as part of the Reconciling, Policy, Performance and Resources quarterly monitoring.

Economic Background

2.3 The Council takes advice from Link Asset Services on its treasury management activities. A detailed view of the current economic situation and forecasts, as prepared by Link Asset Services is included in **Appendix 1 (Annex B)** to this report.

3. Conclusion and recommendations

3.1 This policy sets out the acceptable limits on ratings, investment periods, amounts to be invested and the borrowing strategy. Cabinet will be aware that the financial position is kept under constant review and if at any time it is felt that any of these limits represent an unacceptable risk appropriate and immediate action will be taken accordingly.

3.2 Cabinet is recommended to recommend the 2024/25 Treasury Management Policy and Strategy Statement to Council.

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BACKGROUND DOCUMENTS

CIPFA Prudential Code and CIPFA Treasury Management Code
Local Government Act 2003 – Capital Finance
DLUHC Statutory Guidance on Local Authority Investments and the Minimum Revenue Provision.