Audit Committee	
Meeting Date	24 January 2024
Report Title	**Treasury Management Strategy 2024/25**
EMT Lead	Lisa Fillery, Director of Resources
Head of Service	Claire Stanbury, Head of Finance and Procurement
Lead Officer	Claire Stanbury, Head of Finance and Procurement Olga Cole, Management Accountant
Classification	Open
Recommendations	1. To recommend to Policy and Resources committee the Treasury Management Strategy 2024/25 and the Prudential and Treasury Management Indicators.

1. Purpose of Report and Executive Summary

1.1 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has 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.

1.2 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. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2. External Context

2.1 **Economic background:** 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.

2.2 The Bank of England (BoE) increased Bank Rate to 5.25% in August 2023, before maintaining this level in September and then again in November. Members of the BoE's Monetary Policy Committee voted 6-3 in favour of keeping Bank Rate at 5.25%. The three dissenters wanted to increase rates by another 0.25%.

2.3 The November quarterly Monetary Policy Report (MPR) forecast a prolonged period of weak Gross Domestic Product (GDP) with the potential for a mild contraction due to ongoing weak economic activity. The outlook for CPI inflation was deemed to be highly uncertain, with near-term risks to CPI falling to the 2% target coming from potential energy price increases, strong domestic wage growth and persistence in price-setting.

2.4 ONS figures showed CPI inflation was 3.9% in November 2023, down from a 4.6% rate in the previous month and, in line with the recent trend, lower than expected. The core CPI inflation rate declined to 5.1% from the previous month's 5.7%, again lower than predictions. Looking ahead, using the interest rate path implied by financial markets the BoE expects CPI inflation to continue falling slowly, but taking until early 2025 to reach the 2% target before dropping below target during the second half 2025 and into 2026.

2.5 ONS figures showed the UK economy contracted by 0.1% between July and September 2023. The BoE forecasts that higher interest rates will constrain GDP growth, which will remain weak over the entire forecast horizon.

2.6 **Credit outlook:** Moody's revised its outlook on the UK sovereign to stable from negative to reflect its view of restored political predictability following the volatility after the 2022 mini-budget. Moody's also affirmed the Aa3 rating in recognition of the UK's economic resilience and strong institutional framework.

2.7 Following its rating action on the UK sovereign, Moody's revised the outlook on five UK banks to stable from negative and then followed this by the same action on five rated local authorities. However, within the same update the long-term ratings of those five local authorities were downgraded.

2.8 There remain competing tensions in the banking sector, on one side from higher interest rates boosting net income and profitability against another of a weakening economic outlook and likely recessions that increase the possibility of a deterioration in the quality of banks' assets. However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

3. Background

Interest Rate Forecast and Market Outlook

3.1 **Interest rate forecast (December 2023):** Although UK inflation and wage growth remain elevated, the Council's treasury management adviser Arlingclose forecasts that Bank Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

3.2 Arlingclose expects long-term gilt yields to be broadly stable at current levels (amid continued volatility), following the decline in yields towards the end of 2023, which reflects the expected lower medium-term path for Bank Rate. Yields will remain relatively higher than in the past, due to quantitative tightening and significant bond supply. As ever, there will undoubtedly be short-term volatility due to economic and political uncertainty and events.

Official Bank Rate	Current	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
	%	%	%	%	%	%	%	%	%	%	%	%	%
Upside Risk	0.00	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.75	0.75	0.75	1.00	1.00
Central Case	5.25	5.25	5.25	5.25	5.00	4.75	4.25	4.00	3.75	3.50	3.25	3.00	3.00
Downside Risk	0.00	0.00	-0.25	-0.50	-0.75	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00	-1.00

3.3 For the purpose of setting the 2024/25 budget, it has been assumed that new treasury investments will be made at an average rate of 4.50%, and that new short-term loans will be borrowed at an average rate of 5.50%.

3.4 Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then an assessment of savings will be made with a view to transferring an appropriate amount to a treasury management reserve to cover the risk of capital losses or higher interest rates payable in future years. Transfers to reserves will be brought before the Policy and Resources Committee for approval.

Borrowing Strategy

3.5 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.

3.6 The Council currently holds £5 million of loans, as part of its strategy for funding previous years’ capital programmes. The Council may borrow additional sums to pre-fund future years’ requirements, providing this does not exceed the authorised limit for borrowing of £57.5 million.

3.7 Councils are required to balance their revenue budget annually and cannot borrow to achieve a balanced position. However, they have very far reaching powers to borrow to fund capital expenditure. Recently this has been funded from borrowing from other Local Authorities. There is also an option to borrow from Public Works Loans Board (PWLB), which is part of the Debt Management Office which is part of the Treasury. Borrowing from PWLB can be for up to 50 years at rates which are below commercial rates.

3.8 CIPFA has published its revised Prudential Code and Treasury Management Code of Practice and these are available for sale on the CIPFA publications website. The Revised Prudential Code took effect from December 2021, although authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. It particularly highlights that the requirement that local authorities must not borrow to invest primarily for financial return applies with immediate effect. In August 2021 HM Treasury significantly revised their PWLB guidance. This includes a statement highlighting that the government and CIPFA are clear that borrowing to invest for yield is not permitted under the prudential framework. This Council has had a clear policy of not borrowing for income purposes.

3.9 Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. Short-term 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 either use internal resources, or to borrow short-term loans instead.

3.10 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal/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. Arlingclose 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.

3.11 The Council may also consider 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 borrow short-term loans to cover unplanned cash flow shortages.

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

- HM Treasury's PWLB Lending facility (formerly the Public Works Loan Board)
- UK Infrastructure Bank Ltd
- Any institution approved for investments
- UK Local Authorities
- Any other UK public sector body
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except the Kent Pension Fund)
- Capital market bond investors
- Retail investors via a regulated peer-to-peer platform
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues.

3.13 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
- Private Finance Initiative
- Sale and Leaseback

- Similar Asset Based Finance

3.14 The Council has the following loan outstanding:

Lender	Amount (£ million)	Borrowing rate	Start Date of Loan	Maturity Date of loan	Duration
North Northamptonshire Council	5	4.30 %	27/02/2023	26/02/2024	12 months
Total	**5**				

Capital Programme

3.15 The capital program contains a number of projects that will need to be funded from borrowing. The anticipated breakdown of capital funding is detailed in Appendix I. The Director of Resources has delegation to make borrowing decision as and when required to ensure best value is obtained and risks are minimised.

3.16 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.

3.17 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. As we currently don't have any long-term loans, this would not be applicable to 2024-25.

Treasury Investment Strategy

3.18 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £7.5 and £46.1 million with an average investment balance of £25 million. Levels are expected to be slightly lower in the forthcoming year, as capital projects require payment, as well as a reduction in passported government grant schemes.

3.19 The CIPFA Code requires the Council to invest its 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, in order to maintain the spending power of the sum invested. The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

3.20 The Council largely uses Money Market Funds and the Debt Management office for short-term investments. The only long-term investment remains the £3 million in the Church, Charities and Local Authorities (CCLA) Property Fund.

3.21 The CIPFA Code doesn't permit local authorities to both borrow and invest long-term for cash flow management. But the Council may make long-term investments for treasury risk management purposes, including to manage interest risk by investing sums borrowed in advance for the capital programme for up to three years; to manage inflation risk by investing usable reserves in instruments whose value raises with inflation; and to manage price risk by adding diversification to the strategic pooled fund portfolio.

3.22 **Environmental, Social and Governance Policy** (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. When investing in banks and funds, the Council will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

3.23 **Business models:** Under the International Financial Reporting Standard (IFRS) 9 the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

3.24 The Council could make use of the following counterparties for both Treasury and Non Treasury investments:

Treasury Investments	
Government	Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.
Banks and Building Societies (unsecured)	Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.
Operational Bank Accounts	The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £500,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Money Market Funds	Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.
Strategic Pooled Funds	Bond, equity and property funds offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.
Registered Providers (unsecured)	Loans to, and bonds issued or guaranteed by, registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing in England. As providers of public services, they retain the likelihood of receiving government support if needed.
Secured investments	Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.
Other Investments	This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.
Non-Treasury Investments	
Non-Treasury Investments	The Council invests in property in the borough and will, where there are opportunities, consider further investment, where this is primarily related to the functions of the Council such as service delivery and regeneration. However, the Council will not borrow to invest primarily for financial return.

3.25 The Council will retain the CCLA property fund and keep the remaining monies primarily in Money Market Funds and the Debt Management Account Deposit Facility (DMADF) (an investment facility operated by the UK Government) or other counterparties in table 4.1. The Head of Finance and Procurement does not believe that investing in equity or bond funds is advisable at the current time, given equity market valuations and the impact on bond investments. This will be reviewed as market conditions develop.

3.26 Currently the Council makes no direct investments in equities or corporate bonds. If this changed in the year the Head of Finance and Procurement will ensure that investments are consistent with the Council's health and climate change objectives.

3.27 Credit ratings are obtained and monitored by the Council's treasury advisers, 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.

3.28 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") 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.

3.29 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will, therefore, be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may meet the credit rating criteria.

3.30 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008, 2020 and 2022, 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.

3.31 The Council currently has the following Investments:

Counterparty	**Average Rate %**	**Balance Invested at 30 November 2023 £'000**
Invesco Money Market Fund	5.33	3,000
DWS (Deutsche) Money Market Fund	5.24	2,470
Goldman Sachs Money Market Fund	5.27	3,000
Aberdeen Standard Money Market Fund	5.25	3,000
Black Rock Money Market Fund	5.27	3,000
Morgan Stanley Money Market Fund	5.32	3,000
SSGA Money Market Fund	5.29	3,000
CCLA Property Fund	5.04	3,000
Total Investments		**23,470**

3.32 The definition of investments in CIPFA's revised Codes now covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the 2018 Investment Guidance from the Department of Levelling Up, Housing and Communities (DLUHC), in which the definition of investments is further broadened to also include all such assets held partially for financial return. The Prudential and Treasury Management Codes now have detailed definitions of treasury, service and commercial investments.

3.33 The Council has not made, and will not make, any direct commercial investments outside of the Borough. Capital funds will be used for the benefit of local residents.

3.34 At 31 March 2023 the Council held £4.173 million of longstanding investments in 12 directly owned properties. These investments generated £0.2 million of investment income for the Council in 2022/23 after taking account of direct costs, representing a rate of return of 5.8%. No significant change in this Investment is anticipated in 2024/25.

3.35 Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments carry similar risks to the Council and are included here for completeness.

3.36 The loans made by the Council are shown below:

	31 March 2023 £'000
Housing repair loans	1,748
Employee car loans	51
Other debtors	304
Total	**2,103**

3.37 The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. In order to limit this risk, a loss allowance is calculated for each debt reflecting the statistical likelihood that the debtor will be unable to meet their contractual commitments to the Council, which for 2022/23 was £97,000. The loss allowance has been calculated by reference to the Council's historic experience of default. In addition, to mitigate risk, all debts have to be managed in accordance with the Council's Financial Regulations.

3.38 The most significant loans shown are the Housing Repair Loans which are loans for private sector housing home adaptations – landlords and owner-occupiers can apply for a loan for adaptations that will enable them to stay in their own homes. The risk relating to these loans is low as they are a charge of the property and are repayable when a property is sold.

3.39 An analysis of short-term debtors is reported to Policy and Resources committee as part of the quarterly Financial Management Report.

4. Proposal

4.1 **Approved counterparties**: The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Counterparty	**Time Limit**	**Cash Limits**
The UK Government	50 years	Unlimited
Local Authorities and other government entities	25 years	£3m
Major UK banks / building societies unsecured deposits*	13 months	£3m
Leeds Building Society unsecured deposits*	As per credit advice	£1.5m
Close Brothers unsecured deposits*	As per credit advice	£1.5m
Money Market Funds*	n/a**	£3m each
Strategic Pooled Funds e.g., Absolute return, Equity income, Corporate Bond Funds, Multi Asset Funds	n/a**	£3m each
CCLA Property Fund	n/a**	£3m
Registered providers (unsecured) *	5 years	£3m in aggregate
Secured Investments*	25 years	£3m in aggregate
Other Investments *	5 years	£3m in aggregate
Non treasury investments	As per credit advice	To be agreed on a case by case basis

This table must be read in conjunction with the notes below.

* **Minimum credit rating**: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than [A-]. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

4.2 The Director of Resources in consultation with the Chair of Policy and Resources committee may consider longer duration depending on market conditions.

4.3 The Council may also purchase property for investment purposes, but the Council will not borrow to invest primarily for financial return. The Council may also make loans and investments for service purposes, for example in shared ownership housing, as loans to local businesses and landlords, or as equity investments and loans to the Council's owned companies, in line with existing policies and where there is a sound business case.

4.4 The Council does not directly invest in financial derivatives although these may be present in pooled funds and will be managed in line with the overall treasury strategy. The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

4.5 Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be manged in line with the overall treasury risk management strategy.

4.6 The Head of Finance and Procurement ensures that any commercial deals meet the regulatory requirements and the CIPFA prudential framework.

Treasury Adviser

4.7 The Council has appointed Arlingclose Limited as its treasury management adviser and receives specific advice on investment, debt and capital finance issues. Officers meet with Arlingclose on a quarterly basis, receive information daily and attend relevant training courses.

4.8 The day-to-day treasury management activity is undertaken on the Council's behalf by Kent County Council's Treasury & Investments team to the criteria set out in this report. This has been particularly beneficial in using their relationships to obtain the low-cost loans from other Councils.

5. Alternative Options

5.1 The Strategy is intended to give flexibility with regard to borrowing and investment options.

5.2 The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Director of Resources believes that the above 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

Alternative	Impact on income and expenditure	Impact on risk management
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

6. Consultation Undertaken or Proposed

6.1 Consultation has been taken with Arlingclose.

7. Implications

Issue	Implications
Corporate Plan	Good management of the Council's cash balances assists the overall financial position of the Council and this helps to meet the emerging Corporate Plan objectives.
Financial, Resource and Property	The budget for net investment income in 2024/25 is £(121,000).
Legal, Statutory and Procurement	Government and CIPFA requirements complied with.
Crime and Disorder	Not applicable
Environment and Climate/Ecological Emergency	Not applicable
Health and Wellbeing	Not applicable
Safeguarding of Children, Young People and Vulnerable Adults	Not applicable

Issue	Implications
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice and Cross-Sectoral Guidance Notes. The principle of security of funds over-rides investment performance considerations.
Equality and Diversity	Not applicable
Privacy and Data Protection	Not applicable

8. Appendices

8.1 The following appendices are published with this report and form part of the report.

- Appendix I Treasury Management Prudential Indicators

9. Background Papers

None

Acronyms Used:

BoE	The Bank of England
CCLA	Church, Charities and Local Authorities
CFR	Capital Financing Requirement
CIPFA	The Chartered Institute of Public Finance and Accountancy
DLUHC	Department of Levelling Up, Housing & Communities
DMADF	Debt Management Account Deposit Facility
MHCLG	Ministry of Housing, Communities and Local Government
PWLB	Public Works Loan Board

Treasury Management Prudential Indicators

Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. Statutory guidance states that external debt should not exceed the capital financing requirement in the previous year plus the estimates of any increase in the CFR at the end of the current year and the next two years. The table below demonstrates that the Council is complying with this aspect of the Prudential Code.

Gross Debt and the Capital Financing Requirement	**2023/24 Revised**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Capital Financing Requirements	60,521	72,390	77,412	76,445
Gross External Debt (incl leases)	(10,000)	(30,500)	(40,500)	(50,500)
Internal Borrowing	**50,521**	**41,890**	**36,912**	**25,945**

Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax. (See Capital Programme in 2024/25 Budget Report to Policy and Resources Committee.)

Capital Expenditure and Financing	**2023/24 Revised**	**2024/25 Estimate**	**2025/26 Estimate**	**2026/27 Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Total Expenditure	**33,185**	**31,384**	**10,625**	**4,935**
Section 106 Contribution	110	0	0	0
Grants	14,015	16,469	2,725	2,725
Capital receipts	2,463	0	0	0
Reserves	1,910	871	350	460
Borrowing	14,687	14,044	7,550	1,750
Total Financing	**33,185**	**31,384**	**10,625**	**4,935**

Treasury Management Prudential Indicators

Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2023/24 Revised	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Fund Total	5.16%	6.85%	6.59%	6.36%

Authorised Limit for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e., not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e., long and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indictor separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management policy statement and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst-case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Authorised Limit for External Debt	2023/24 Revised £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Borrowing	60,000	55,000	55,000	50,000
Other long-term liabilities	2,500	2,500	2,500	2,500
Total	**62,500**	**57,500**	**57,500**	**52,500**

Treasury Management Prudential Indicators

Operational Boundary for External Debt

The operational boundary is based on the Council's estimate of most likely (i.e., prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases and other liabilities that are not borrowing but form part of the Council's debt.

Operational Boundary	2023/24 Revised £'000	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000
Borrowing	40,000	45,000	45,000	40,000
Other long-term liabilities	1,000	1,000	1,000	1,000
Total Operational Boundary	**41,000**	**46,000**	**46,000**	**41,000**

Interest Rate Exposures: 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
Upper limit on one-year revenue impact of a 1% rise in interest rates	£(180,000)
Upper limit on one-year revenue impact of a 1% fall in interest rates	£180,000

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 fixed rate borrowing will be:

Maturity Structure of Borrowing	Lower Limit for 2024/25 %	Upper Limit for 2024/25 %
Under 12 months	0	100
12 months and within 24 months	0	100
24 months and within 5 years	0	100
5 years and within 10 years	0	100
10 years and above	0	100

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

Treasury Management Prudential Indicators

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 the long-term treasury management investments will be:

Price Risk Indicator	2024/25 Estimate £'000	2025/26 Estimate £'000	2026/27 Estimate £'000	No Fixed Date £'000
Limit on principal invested longer than 1 year	10,000	10,000	10,000	10,000

Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

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 that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient 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.

Prudential Indicator: Liability benchmark

	31.3.23 Actual £m	31.3.24 Estimate £m	31.3.25 Forecast £m	31.3.26 Forecast £m	31.3.27 Forecast £m
Loans CFR	48.3	61.9	73.9	79.1	78.3
Less: Balance sheet resources	(46.3)	(41.8)	(41.3)	(40.8)	(40.8)
Net loans requirement	**2.0**	**20.1**	**32.6**	**38.3**	**37.5**
Plus: Liquidity allowance	10	10	10	10	10
Liability benchmark	**12**	**30.1**	**42.6**	**48.3**	**47.5**

The long-term liability benchmark above assumes capital expenditure funded by borrowing, minimum revenue provision on new capital expenditure based on income, expenditure and reserves all increasing by inflation and appropriate asset life values (8 years for waste vehicles, 50 years for all other assets).

Treasury Management Prudential Indicators