



**AUDIT COMMITTEE/ CABINET /
COUNCIL**

Portfolio Area: Resources

**Date: 4 February 2025 / 12 February
2025 / 26 February 2025**



**ANNUAL TREASURY MANAGEMENT STRATEGY INCLUDING PRUDENTIAL
INDICATORS 2025/26**

NON-KEY DECISION

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1 PURPOSE

1.1 To recommend to Council the approval of the Treasury Management Strategy 2025/26, including its Annual Investment Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) policy following considerations from Audit and Cabinet committees.

2 RECOMMENDATIONS

2.1 Audit Committee

That post consideration by the Audit Committee to the Cabinet, the 2025/26 Treasury Management Strategy is recommended to Council for approval.

2.2 Cabinet

That post consideration by the Cabinet, in addition to those made by the Audit Committee, the 2025/26 Treasury Management Strategy is recommended to Council for approval.

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2.3 Council

That post consideration by the Audit Committee and the Cabinet, the 2025/26 Treasury Management Strategy be approved by Council.

3 BACKGROUND

- 3.1.1 CIPFA published the updated Treasury Management and Prudential Codes on 20 December 2021 for implementation from 2023/24. This Council therefore, has to have regard to these Codes of Practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.
- 3.1.2 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. 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 low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 3.1.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide 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 obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 3.1.4 The contribution the treasury management function makes to the authority 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. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.
- 3.1.5 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.”*
- 3.1.6 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

3.2 Reporting Requirements

3.2.1 Capital Strategy

The Capital Strategy will be brought before members as a separate report. The aim of that strategy is to ensure that all Members of the Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

3.2.2 Treasury Management reporting

The Council is required to receive and approve (as a minimum) three main treasury reports each year. The annual treasury management strategy including the Prudential Indicators (this report) is forward looking, it is the first and most important of the three and includes:

- a. **Prudential and treasury indicators and treasury strategy** (this report)
 -
 - the capital plans, (including prudential indicators).
 - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time).
 - the Treasury Management Strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
 - an Annual Investment Strategy, (the parameters on how investments are to be managed).
- b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- c. **An annual treasury report** – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

3.2.3 These reports are required to be adequately scrutinised, and this is undertaken by the Audit Committee and Cabinet.

3.2.4 In addition to the three major reports detailed above from 2023/24 quarterly reporting is also required and form an appendix to the quarterly Capital monitoring reports, where not included in the main reports. However, these additional reports do not have to be reported to Full Council but do require to be adequately scrutinised. This role is undertaken by the Cabinet (The reports should comprise updated Treasury / Prudential Indicators only).

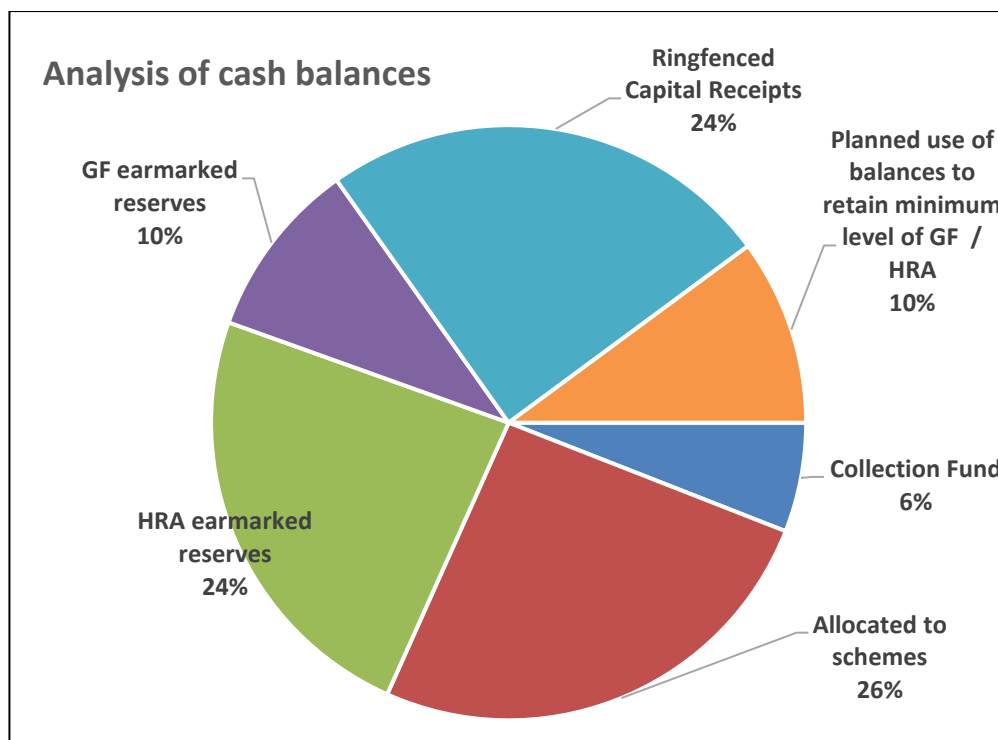
4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Performance of Current Treasury Strategy

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- 4.1.1 For the financial year to 31 December 2024 returns on investments have averaged 5.22% and total interest earned was £1.706Million contributing to General Fund and Housing Revenue Account income.
- 4.1.2 Cash balances as of 31 December 2024 were £57.8Million and are forecast to be £37Million as of 31 March 2025. The Council's balances are made up of cash reserves e.g., HRA and General Fund balances, restricted use receipts such as right to buy one for one receipts and balances held for provisions such as business rate appeals, reduced by internal borrowing.
- 4.1.3 In considering the Council's level of cash balances, Members should note that the General Fund MTFS and Capital Strategy have a planned use of resources over a minimum of five years and the HRA Business Plan (HRA BP) a planned use of resources over a 30-year period, which means, while not committed in the current year; they are required in future years.
- 4.1.4 The Council's current investment portfolio is held for Treasury management purposes only and consists of "conventional" cash investments: deposits with banks and building societies, Money Market Funds and loans to other Local Authorities. Currently no investments have been made with any of the other approved instruments within the Specified and Non-specified Investment Criteria (see Appendix D).
- 4.1.5 There have been **no breaches** of treasury **counter party limits**, with the investment activity during the year conforming to the approved strategy. Any breach would be notified to the Chief Finance Officer. The Council has had no liquidity difficulties and no funds have been placed with the Debt Management Office (DMO) during 2024/25 to date, demonstrating that counterparty limits and availability for placing funds approved in the TM Strategy were working effectively. It is possible that surplus funds borrowed during the year may be placed in the DMO temporarily if cash balances, due to the timing of taking out new loans would breach other counterparty limits.
- 4.1.6 The following chart shows the planned use of cash balances forecast to be held at 31 March 2025.

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4.2 Treasury Management Strategy for 2025/26

4.2.1 The strategy for 2025/26 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators.
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position.
- treasury indicators which limit the treasury risk and activities of the Council.
- prospects for interest rates.
- the borrowing strategy.
- policy on borrowing in advance of need.
- debt rescheduling.
- the investment strategy.
- creditworthiness policy; and
- the policy on use of external service providers.

4.2.2 These elements cover the requirements of the Local Government Act 2003, MHCLG Investment Guidance, MHCLG MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

4.2.3 The Council's Treasury Management Policy Statement can be found at **Appendix A**.

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4.2.4 The Council's Capital Strategy is reported separately from the Treasury Management Strategy. Non-treasury investments are reported through the former, ensuring the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

4.2.5 The revised Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

- **Treasury management**

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

- **Service delivery**

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

- **Commercial return**

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

4.2.6 The Council's current investment portfolio is held for Treasury management purposes only.

4.2.7 **Environmental, social and governance (ESG)** investment considerations - investment considerations here means understanding the ESG "risks" that the council is exposed to and evaluating how well it manages these risks. It is NOT the same as Socially Responsible Investing.

4.2.8 Managing the ESG risk is already part of the current Treasury Investment Strategy, as the council uses mainstream rating agencies to assess counterparty creditworthiness – they now incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings.

4.3 Training

4.3.1 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

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- 4.3.2 The last training arranged for members took place in November 2024, further training will be arranged as required.
- 4.3.3 The training needs of treasury management officers are periodically reviewed.
- 4.3.4 A formal record of the training received by officers central to the Treasury function will be maintained by the Head of Technical Accounting. Similarly, a formal record of the treasury management training received by members will also be maintained by the Head of Technical Accounting.

4.4 Treasury Management Consultants

- 4.4.1 The Council uses MUFG Corporate Markets Treasury Limited (MUFG - formerly Link Asset Services) as its external treasury management advisors.
- 4.4.2 The Council recognises that responsibility for treasury management decisions always remains with the organisation and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisors.
- 4.4.3 It also recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

4.5 THE CAPITAL PRUDENTIAL INDICATORS 2025/26-2027/28

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

- 4.5.1 **Capital Expenditure and Financing** – this prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of the Capital Strategy 2025/26. Members are asked to approve the capital expenditure forecasts: -

Capital Expenditure	2023/24	2024/25	2025/26	2026/27	2027/28
£000	Actual	Estimate	Estimate	Estimate	Estimate
Non-HRA	8,880	26,276	51,821	4,460	0
HRA	37,568	31,662	51,399	57,249	41,030
Total	46,448	57,938	103,220	61,710	41,030

- 4.5.2 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

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Financing of Capital Expenditure £000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital receipts	4,830	14,604	16,648	5,579	5,060
Capital grants and contributions	7,202	11,982	39,464	5,798	5,313
Capital reserves	132	496	569	0	0
Revenue	3,830	4,960	617	3,390	4,439
Major Repairs Reserve	18,429	18,671	13,138	13,532	13,938
Net financing need for the year	34,422	50,713	70,436	28,299	28,750
Capital Expenditure requiring borrowing	12,026	7,225	32,784	33,411	12,280

4.6 The Council's Borrowing Need (the Capital Financing Requirement) -

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

4.6.1 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

4.6.2 The CFR includes any other long-term liabilities (e.g., finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes.

4.6.3 The Council is asked to approve the CFR projections below:

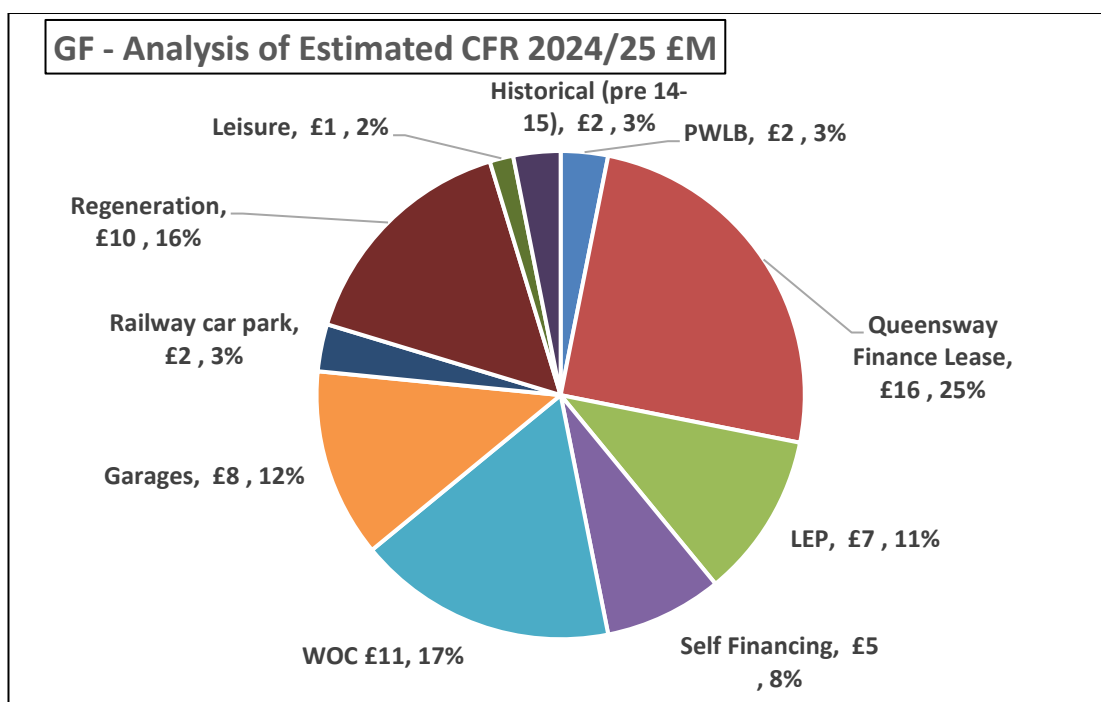
£000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital Financing Requirement					
General Fund excluding Finance Lease	42,160	47,924	54,626	45,471	33,700
Finance Lease	16,475	16,208	15,935	15,654	15,357
Total General Fund	58,635	64,133	70,561	61,125	49,057
Housing	272,394	272,356	286,179	309,125	312,692
Total CFR	331,029	336,489	356,740	370,250	361,749
Movement in CFR		5,470	20,251	13,511	(8,500)

Movement in CFR represented by					
Net financing need for the year (above)		7,225	32,784	33,411	12,280
Internal and External debt repayments		(1,000)	(11,656)	(18,918)	(19,806)

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£000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Less MRP/VRP ¹ and other financing movements		(756)	(877)	(981)	(974)
Movement in CFR		5,470	20,251	13,511	(8,500)

4.6.4 The general fund CFR is made up mainly of internal borrowing as illustrated below for 2024/25.



4.7 Liability Benchmark

4.7.1 A third prudential indicator is the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years.

Financial Year End	2024 £'000	2025 £'000	2026 £'000
(Over)/Under Liability Benchmark	4,798	(1,919)	0

4.7.2 This benchmark compares actual loan debt outstanding and the liability benchmark (loans less investments, plus a liquidity buffer). Years where actual loans are less than the benchmark (negative value) indicate a future borrowing requirement; any years where actual loans outstanding exceed the benchmark (positive value) represent a technically overborrowed position.

4.7.3 The table above shows the current forecast overborrowed position remaining over the short term. This shows that in each year, there are theoretical investment balances that if unallocated, could be used to pay off debt.

¹ Voluntary Revenue Provision

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4.7.4 Investment balances held by the council are already allocated and are not available for repayment of debt or additional capital expenditure. As a result, the Council will need to externally borrow to replace internal borrowing in the medium term.

4.7.5 Cashflow is monitored on an ongoing basis to ensure that the timing of external borrowing to support the Capital Strategy and Treasury function is undertaken in a timely and prudent manner.

4.8 Core Funds and Expected Investment Balances

4.8.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources £000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Fund balances / reserves	90,484	59,681	52,693	47,961	48,070
Provisions	4,361	3,361	2,361	2,361	2,361
Total core funds	94,845	63,042	55,054	50,322	50,431
Working capital*	2,854	33,105	25,000	10,324	3,155
(Under)/over borrowing	(72,497)	(64,228)	(50,054)	(30,646)	(20,617)
Expected investments	25,202	31,919	30,000	30,000	32,969

*Working capital balances shown are estimated year-end; these may be higher mid-year

4.9 Minimum Revenue Provision (MRP) Policy Statement

4.9.1 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Council has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP). The 2003 Regulations have been further amended with full effect from April 2025 to expressly provide that in determining a prudent provision local authorities cannot exclude any amount of CFR from its calculation, unless by an exception set out in statute.

4.9.2 The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

4.9.3 The MRP policy statement requires full council approval in advance of each financial year. The Council is recommended to approve the MRP Statement at **Appendix B** to this report.

4.10 Borrowing

4.10.1 The capital expenditure plans set out in paragraph 4.5.1 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's Capital Strategy. This will involve both the

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organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions, and the Annual Investment Strategy.

4.10.2 Current Portfolio Position

The overall treasury management portfolio as at 31 March 2024 and as at 31 December 2024 are shown below for both borrowing and investments.

TREASURY PORTFOLIO		
£000	actual	current
	31.3.24	31.12.24
Total treasury investments	25,202	57,815
Treasury external borrowing:		
PWLB	234,987	247,987
Finance Leases and other external borrowing	23,543	21,715
Total external borrowing	258,530	269,702
Net treasury investments / (borrowing)	(233,328)	(211,887)

4.10.3 The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, highlighting any over or under borrowing.

£000	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Estimate	Estimate	Estimate	Estimate
External Debt					
Debt at 1 April	251,693	258,532	272,261	306,686	339,604
Expected change in Debt	7,500	13,996	23,530	33,199	1,824
Expected change in Other long-term liabilities (OLTL)	(259)	(266)	(273)	(281)	(296)
Actual gross external debt at 31 March	258,532	272,261	306,686	339,604	341,132
The Capital Financing Requirement	(331,029)	(336,489)	(356,740)	(370,250)	(361,749)
(Under) / over borrowing external debt	(72,497)	(64,228)	(50,054)	(30,646)	(20,617)

4.10.4 Within the range of prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short-term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2025/26 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

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4.10.5 Based on the capital programme 2025/26 (February 2025 Update) resourcing projections, the Council has the following borrowing requirements in 2025/26:

- General Fund £3.8Million in relation to the Garages Improvement Plan (£1.7Million) and other commercial property works (£2.1Million).
- HRA £31.4Million of which £17Million is to replace internal borrowing and £14.4Million for new capital expenditure.

4.10.6 The current PWLB borrowing rate is unusually high and costs of external borrowing as taken into account when the Council allocates funding to capital projects. The Borrowing strategy is considered later in the report.

4.10.7 The S151 officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes account of current commitments, existing plans and the proposals in this budget report.

4.11 Treasury Indicators: Limits to Borrowing Activity

4.11.1 **The Operational Boundary.** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational Boundary £000	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund	49,133	55,561	46,125	34,057
General Fund additional borrowing facility available to the Housing (WOC) Wholly Owned Company	15,000	15,000	15,000	15,000
Total - General Fund	64,133	70,561	61,125	49,057
HRA	272,356	286,179	309,125	312,692
Total	336,489	356,740	370,250	361,749
Previous Operational Boundary	355,749	373,964	399,360	375,132

4.11.2 **The Authorised Limit for external debt.** This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all local authority plans, or those of a specific authority, although this power has not yet been exercised.
- The Council is asked to approve the following Authorised Limit:

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Authorised Limit £000	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
General Fund Finance lease	16,208	15,935	15,654	15,357
General Fund Borrowing for capital expenditure including WOC	54,924	61,626	52,471	40,700
Total Borrowing - General Fund	71,132	77,561	68,125	56,057
Borrowing - HRA	283,356	297,179	320,125	323,692
Total	354,488	374,740	388,250	379,749
Previous Authorised Limit	373,549	391,764	416,360	392,132

4.12 Prospects for Interest Rates

4.12.1 The Council retains MUFG as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. MUFG provided the following forecasts on 20 January 2025. These PWLB rates exclude the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1 November 2012. Please note, the lower Housing Revenue Account (HRA) PWLB rate started on 15 June 2023 (standard rate minus 60 bps).

Interest Rate Forecasts								
Bank Rate	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
MUFG CM	4.50%	4.25%	4.00%	4.00%	3.75%	3.75%	3.75%	3.50%
Cap Econ	4.50%	4.25%	4.00%	3.75%	3.50%	3.50%	3.50%	3.50%
5Y PWLB RATE								
MUFG CM	4.90%	4.80%	4.60%	4.50%	4.50%	4.40%	4.30%	4.20%
Cap Econ	5.10%	4.90%	4.80%	4.60%	4.60%	4.50%	4.50%	4.40%
10Y PWLB RATE								
MUFG CM	5.10%	5.00%	4.80%	4.80%	4.70%	4.50%	4.50%	4.40%
Cap Econ	5.30%	5.10%	5.00%	4.80%	4.80%	4.70%	4.60%	4.60%
25Y PWLB RATE								
MUFG CM	5.50%	5.40%	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%
Cap Econ	5.70%	5.50%	5.30%	5.00%	4.90%	4.90%	4.80%	4.70%
50Y PWLB RATE								
MUFG CM	5.30%	5.20%	5.10%	5.00%	4.90%	4.80%	4.70%	4.60%
Cap Econ	5.30%	5.20%	5.20%	5.10%	5.00%	4.90%	4.80%	4.80%

4.12.2 The Bank of England (BOE) base rate stands at 4.75% currently and is expected to remain at this level for the first quarter of 2025, reducing gradually thereafter when both the CPI inflation and wage/employment data are supportive of such a move.

4.12.3 The CPI measure of inflation (a key bank of England KPI driving decisions on interest rates) is now 2.5%. The BOE expects inflation to rise to around 2.75% over the next year as household energy prices provide less of a drag on inflation than they have done in recent months. Inflation is expected to fall back to the 2% target after that.

4.12.4 Regarding the PWLB forecast, these have been materially lifted since the last update, to not only reflect our increased concerns around the future path of

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inflation, but also the increased level of Government borrowing over the term of the current Parliament.

4.12.5 The short to medium part of the curve is forecast to remain elevated over the course of the next year, and the degree to which rates moderate will be tied to the arguments for further Bank Rate loosening or otherwise. The longer part of the curve will also be impacted by inflation factors, but there is also the additional concern that with other major developed economies such as the US and France looking to run large budget deficits there could be a glut of government debt issuance that investors will only agree to digest if the interest rates paid provide sufficient reward for that scenario.

4.12.6 Invariably the direction of US Treasury yields in reaction to a new presidential term, and change in core policies will, in all probability, impact UK gilt yields. So, there are domestic and international factors that could impact PWLB rates whilst, as a general comment, geo-political risks abound in Europe, the Middle East and Asia.

4.13 Current Borrowing Position

4.13.1 The estimated Council's capital financing requirement (CFR) for 2024/25 is £336Million. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council had £272Million in external debt at 31 December 2024, of which PWLB debt and its purpose is detailed in the table below.

Purpose of Loan	PWLB Loan £'000
General Fund Regeneration Assets	1,756
HRA	
Decent Homes	38,320
Self-Financing	207,911
Total HRA Loans	246,231
Total PWLB Debt at 31st December 2024	247,987

4.13.2 The Council is forecast to utilise (short term) £59Million of cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring if any upside risk to gilt yields prevails.

4.13.3 External borrowing for the HRA of £13Million has been taken in 2024/25. The capital programme is being kept under regular review because of inflationary pressures, shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.

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4.13.4 The General Fund has PWLB external borrowing of £1.8Million and other external borrowing of £7.6Million (Local Enterprise Partnership - LEP) and finance lease of £16.5Million (Aviva). Discussions are continuing with the LEP regarding making these re-investible loans for further regeneration of the town, rather than needing to be repaid on the dates originally agreed. As indicated in the table, the current position is that the remaining balance is repayable - £6.57Million in 2030 and £1Million in 2025. The loans are at zero interest.

Table 5: LEP Loans					
Loan Received	Site Assembly	Land Assembly	SG1	Repaid	Total
2015/16	762,488			(208,795)	553,693
2018/19	416,306				416,306
2019/20		4,108,709			4,108,709
2020/21		1,491,291	500,000		1,991,291
2022/23			500,000		500,000
Total	1,178,794	5,600,000	1,000,000	(208,795)	7,569,999

4.13.5 The Aviva finance lease entered in 2018/19 for 37 years was immediately sublet to Queensway Properties (Stevenage) LLP for 37 years.

4.13.6 The HRA has external borrowing from PWLB of £246Million

- £7.763Million from pre-2012,
- £4.010Million taken out in 2019/20,
- £10.0 Million taken out in 2020/21,
- £9.047Million taken out in 2021/22,
- £7.5Million taken out in 2023/24 and
- £13Million taken out in 2024/25.

The remainder of £194.911 Million relates to HRA self-financing payment made to central government in 2012.

4.13.7 The target average borrowing rate in the latest HRA MTFS is 4.88% in 2024/25 and 4.4% in 2025/26.

4.13.8 The HRA BP includes a heightened reserves provision going forward to mitigate the risk associated with having a higher borrowed BP.

4.13.9 Finance leases entered between the HRA and Marshgate Ltd during 2021/22 and 2022/23, the Council's Wholly Owned Housing Company, relating to 10 residential dwellings, leased for 25 years amounted to £1.3Million.

4.14 Borrowing Strategy

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- 4.14.1 The Council is currently maintaining a non-fully funded position. This means that the capital borrowing need, (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy.
- 4.14.2 Against this background and the risks within the economic forecast, caution will be adopted with the 2025/26 treasury operations. The Assistant Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances.
- 4.14.3 Borrowing may be taken to facilitate investment in regeneration and/or economic improvements for the town. This may include investment in special purpose vehicles owned by the Council to facilitate regeneration aspirations. Any such investments will be presented to Members.

4.15 Policy on Borrowing in advance of Need

- 4.15.1 It is the Council's intention not to borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.
- 4.15.2 In determining whether borrowing will be undertaken in advance of need the Council will.
- ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need
 - ensure the ongoing revenue liabilities created, and the implications for the future and budgets have been considered
 - evaluate the economic and market factors that might influence the manner and timing of any decision to borrow
 - consider the merits and demerits of alternative forms of funding
 - consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.

4.16 Rescheduling

- 4.16.1 Rescheduling of current borrowing in the debt portfolio may be considered whilst premature redemption rates remain elevated but only if there is surplus cash available to facilitate any repayment, or rebalancing of the portfolio to provide more certainty is considered appropriate.

4.17 New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

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- 4.17.1 Currently the PWLB Certainty Rate is set at gilts + 80 basis points. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:
- 4.17.2 Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- 4.17.3 Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- 4.17.4 Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.
- 4.17.5 The latest list of approved borrowing sources is in Appendix F. These options allow flexibility if funds are required for the short or medium term in order to minimise costs where possible.

4.18 ANNUAL INVESTMENT STRATEGY

- 4.18.1 Ministry of Housing, Communities and Local Government (MHCLG) and CIPFA have extended the meaning of ‘investments’ to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets and service investments, are covered in the Capital Strategy, (a separate report).
- 4.18.2 In managing the TM function other areas kept under review include:
- Training opportunities available to Members and officers (the most recent training for Members took place on 26 November 2024)
 - That those charged with governance are also personally responsible for ensuring they have the necessary skills and training
 - A full mid-year review of the TMS will be reported in 2025/26.
- 4.18.3 The 2025/26 Strategy uses the credit worthiness service provided by MUFG the Council’s treasury advisors. This service uses a sophisticated modelling approach which utilises credit ratings from the three main credit rating agencies and is compliant with CIPFA code of practice.
- 4.18.4 While MUFG may advise the Council, the responsibility for treasury management decisions always remains with the Council and officers do not place undue reliance on the external service advice.
- 4.18.5 The TM limits for 2025/26 (Appendix D) have been reviewed. No changes are considered necessary since that agreed as part of the Mid-Year Review of 2024/25.
- 4.18.6 The latest list of “Approved Countries for Investment” is detailed in Appendix E. This lists the countries that the Council may invest with providing they meet the minimum credit rating of AA-. The Council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues.

4.19 Non-Treasury Investments

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4.19.1 The CIPFA Prudential and Treasury Codes recommend that authorities' capital strategies should include a policy and risk management framework for all investments. The Codes identify three types of local authority investment:

- Treasury management investments, which are taken to manage cashflows and as part of the Council's debt and financing activity
- Commercial investments (including investment properties), which are taken mainly to earn a positive net financial return (previously purchased commercial investments only as Council's are no longer permitted to access PWLB rates if they invest in commercial investments primarily for gain.
- Service investments, which are taken mainly to support service outcomes

4.19.2 Details of the Annual Investment Strategy can be found in Appendix A.

4.20 Investment returns expectations

4.20.1 The current BOE base rate of 4.75% is expected to reduce to 4.5% by March 2025. The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

Average earnings in each year	
2025/26	4.1%
2026/27	3.7%
2027/28	3.5%
2028/29	3.5%
Years 6+	3.5%

4.20.2 As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.

4.20.3 Against this view the forecast of interest earned on Treasury investments in 2025/26 is £1.7Million based on average balances of £44Million.

4.20.4 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits, to benefit from the compounding of interest.

4.21 Changes of investment strategy

4.21.1 There are no proposed changes to the Strategy for 2025/26.

4.22 OTHER ISSUES

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4.22.1 **UK Sovereign rating and investment criteria:** The UK sovereign rating is currently on the lowest acceptable level suggested for approved countries as set out in Appendix E. The Council's investment criteria only use countries with a rating of AA- or above. The UK rating will be exempt from the sovereign rating investment criteria so in this event if it were to result in the UK being downgraded below AA- it would not impact on the Council's ability to invest with UK institutions. Other investment criteria will be considered in this event to ensure security of funds for the Council.

4.22.2 **Queensway Properties (Stevenage) LLP:** In December 2018, the Council entered into a 37-year agreement with Aviva to facilitate the regeneration of Queensway in the town centre. A separate legal entity, Queensway Properties (Stevenage) LLP, was incorporated to manage the rental streams and costs associated with the scheme.

5 IMPLICATIONS

5.1 Financial Implications

5.1.1 This report is of a financial nature and reviews the treasury management function for 2024/25 to date. Any consequential financial impacts identified in the Capital strategy and Revenue budget monitoring reports have been incorporated into this report.

5.1.2 During the financial year Officers operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury management practices.

5.2 Legal Implications

5.2.1 Approval of the Prudential Code Indicators and the Treasury Management Strategy are intended to ensure that the Council complies with relevant legislation and best practice.

5.2.2 There have been no changes to PWLB borrowing arrangements or changes to the Prudential and Treasury Management codes since the last Treasury report.

5.3 Risk Implications

5.3.1 The current policy of minimising external borrowing only remains financially viable while cash balances are high and the differentials between investment income and borrowing rates remain. As these conditions change the Council may need to take borrowing at higher rates which would increase revenue costs.

5.3.2 The Council's Treasury Management Strategy is based on limits for counterparties to reduce risk of investing with only a small number of institutions.

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5.3.3 The thresholds and time limits set for investments in the Strategy are based on the relative ratings of investment vehicles and counter parties. These are designed to consider the relative risk of investments and to preclude certain grades of investments and counterparties to prevent loss of income to the Council.

5.3.4 There is a risk to the HRA BP's ability to fund the approved 30-year spending plans if interest rates rise above planned rates - this will be included in future revisions to the BP.

5.4 Equalities and Diversity Implications

5.4.1 This report is technical in nature and there are no implications associated with equalities and diversity within this report. In addition to remaining within agreed counterparty rules, the council retains the discretion not to invest in countries that meet the minimum rating but where there are concerns over human rights issues. Counterparty rules will also be overlaid by any other ethical considerations from time to time as appropriate.

5.4.2 The Treasury Management Policy does not have the potential to discriminate against people on grounds of age; disability; gender; ethnicity; sexual orientation; religion/belief; or by way of financial exclusion. As such a detailed Equality Impact Assessment has not been undertaken.

5.5 Climate Change Implications

5.5.1 The council's investment portfolio is invested in sterling investments and not directly in companies. These investments are short term and mainly used for working capital purposes. The council uses mainstream rating agencies to assess counterparty creditworthiness – they now incorporate ESG risks alongside more traditional financial risk metrics when assessing counterparty ratings. In this way the TM team aligns with the Councils ambition to attempt to be carbon neutral by 2030.

BACKGROUND PAPERS

- BD1 Treasury Management Strategy including Prudential Code Indicators 2024/25 (Council February 2024)

APPENDICES

- Appendix A Treasury Management Strategy (TMS)
- Appendix B Minimum Revenue Provision Policy
- Appendix C Prudential Indicators
- Appendix D Specified and Non-Specified Investment Criteria
- Appendix E Approved Countries for investment
- Appendix F Approved Sources of Long and Short-term Borrowing