Report to Audit & Governance Committee

Date:	15th January 2025
Title:	**Treasury Management Strategy 2025-26 to 2027-28**
Cabinet Member(s):	Cllr John Chilver - Cabinet Member for Accessible Housing and Resources
Contact officer:	Fiona Jump (fiona.jump@buckinghamshire.gov.uk)
Ward(s) affected:	All
Recommendations:	**The Audit and Governance Committee is asked to recommend to Full Council the approval of:**

1. The Treasury Management Strategy Statement (TMSS).
2. The Borrowing Strategy as set out in Section 4.
3. The Prudential Indicators (PI) set out in Sections 3, 4 and 5.
4. The Annual Investment Strategy set out in Appendix 1.
5. The Minimum Revenue Provision Policy set out in Appendix 2.

Reason for recommendation: To ensure that the Council's borrowing and investment plans are prudent, affordable and sustainable and comply with statutory requirements.

1. Executive summary

1.1 The Local Government Act 2003 ("the Act") and the Regulations made under the Act require the Council to have regard to the Prudential Code for Capital Finance in Local Authorities and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

1.2 The Act also requires the Council to set out a statement of its treasury management strategy for borrowing and to prepare an Annual Investment Strategy (AIS) (as shown in Appendix 1). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. The Treasury Management Strategy Statement and Annual Investment Strategy must both have regard to guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and must be agreed by Full Council.

1.3 Treasury 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.

1.4 The Investment Strategy is considered separately within the Capital Investment Strategy. The TMSS and AIS form part of the Council's overall budget setting and financial framework.

2. Background Information

2.1 The Council is required to operate a balanced budget, which broadly means that monies received during the year will meet payments/expenditure. The function of treasury management is to ensure that the Council's capital programme and corporate investment plans are adequately funded, and the cashflow is adequately planned, with cash being available when it is needed to discharge the Council's legal obligations and deliver Council services. Surplus monies are invested to obtain an optimal return, while ensuring security of capital and liquidity.

2.2 The CIPFA code defines treasury management as "the management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2.3 The primary requirements of the Treasury Management Code are summarised below:-

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an annual **TMS** (this report) - including the AIS and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and

administration of treasury management decisions. At Buckinghamshire, this responsibility is delegated to the Service Director of Finance (S151 Officer).

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. In Buckinghamshire, the delegated body is the Audit and Governance Committee.
- Day to day treasury investment and borrowing activity in undertaken by the Treasury Team in accordance with strategy, policy, practices and procedures.
- **Training** - The S151 officer has the responsibility to ensure that Officers executing the treasury function and Members with responsibility for making treasury management decisions and for scrutinising treasury functions receive adequate training. These training needs are met through: -
  - Annual training session delivered by Link (advisor) for both Members and Officers; and
  - Officers training needs are reviewed periodically as part of the Learning and Development programme and attend various seminars, training sessions and conferences organised by CIPFA and Local Authority Treasurers Investment Forum.

2.4 The TMSS covers three main areas summarised below:-

Capital

- Capital spending plans
- Capital Finance Requirement (CFR)
- Affordability
- Minimum Revenue Provision (MRP)

Borrowing

- Borrowing strategy
- Sources of Borrowing
- Liability benchmark
- Limits on Borrowing Activity
- Maturity structure of borrowing
- Policy on borrowing in advance of need
- Debt rescheduling
- Investing primarily for yield

Managing cash balances

- The current cash position and cash flow forecast
- Prospects for investment returns
- Balancing short and long-term investments

2.5 The AIS at Appendix 1 provides more detail on how the Council's surplus cash investments are to be managed in 2025/26.

2.6 The prudential indicators are summarised below with further details provided in appropriate sections.

Prudential Indicator	Revised Forecast 2024/25	Estimate 2025/26	Estimate 2026/27	Estimate 2027/28	Paragraph reference
PI 1 - Capital Expenditure Net Financing need	3.38	27.32	15.25	4.62	3.1
PI 2 - Capital Financing Requirement	636.96	651.14	652.86	643.58	3.4
PI 3 - Debt Vs Capital Financing Requirement	355.87	376.29	369.35	346.51	3.5
PI 4 - Affordability	2.98%	4.04%	4.78%	3.90%	3.6
PI 5 - Borrowing Limits Authorised Limit	638.00	652.00	654.00	645.00	4.12
PI 5 - Borrowing Limits Operational Boundary	281.00	275.00	284.00	297.00	4.12
PI 6 - Medium Term Cash Flow Forecast closing balance	£80.99m	£76.41m	£87.75m	£127.65m	5.3
PI 7 - Investment Limits, invested over 364 days	£25.00m	£25.00m	£25.00m	£25.00m	5.8
PI 8 - Maturity Structure of Borrowing	Next LOBO option/call date is July 2026				4.13
PI 9 - Liability Benchmark	Exceeds outstanding loans in 2026/27				4.15

3. Capital

Capital Spending Plans (Prudential Indicator 1)

3.1 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. Table 1 summarises the Council's capital expenditure plans, both in terms of those projects agreed previously, and those forming part of the current budget cycle.

Table 1 - PI 1 Capital Expenditure £m	2023/24 Actual	2024/25 Reprofiled	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Total Capital Expenditure	**110.35**	**181.84**	**207.03**	**149.82**	**161.00**
Funding £m					
Capital receipts	15.04	0.00	14.43	33.58	19.29
Capital grants	67.44	138.92	135.41	88.11	130.75
RCCR & Reserves	24.33	39.54	29.87	12.88	6.34
Net financing need	**3.54**	**3.38**	**27.32**	**15.25**	**4.62**

Capital Financing Requirements (CFR) (Prudential Indicator 2 & 3)

3.2 The CFR measures the extent to which capital expenditure has not yet been financed from either Revenue or Capital resources. This indicator is essentially a measure of indebtedness and therefore a guide as to the Council's underlying borrowing needs. Any capital expenditure which has not been immediately financed or paid for will increase the CFR.

3.3 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.

3.4 **Table 2** shows that the CFR will increase when the borrowing increases to fund the capital programme. Consequently, the capital financing charge to revenue will increase, reflecting the capital spending plans.

Table 2 - PI 2 - CFR £m	2023/24 Actual	2024/25 Forecast	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
CFR as at 01 April	657.36	646.46	636.96	651.14	652.86
Net financing need	1.62	3.38	27.32	15.25	4.62
Less MRP	-12.52	-12.88	-13.14	-13.53	-13.90
CFR as at 31 March	**646.46**	**636.96**	**651.14**	**652.86**	**643.58**

3.5 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its highest forecast CFR over the next three years. **Table 3** shows that the Council expects to comply with this recommendation during 2024/25 and the next two years.

Table 3 - PI 3 - Debt Vs CFR £m	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Forecast	Estimate	Estimate	Estimate
Debt as at April	292.73	287.24	281.09	274.85	283.51
Net borrowing/repayment	-3.98	-7.1	-7.19	7.71	12.61
Finance Lease	1.51	0.95	0.95	0.95	0.95
Total Borrowing	287.24	281.09	274.85	283.51	297.07
Capital Financing Requirement	646.46	636.96	651.14	652.86	643.58
Under/(Over) borrowing	**359.22**	**355.87**	**376.29**	**369.35**	**346.51**

Affordability (Prudential Indicator 4)

3.6 The objective of the affordability indicator is to ensure that the level of investment in capital assets remains within sustainable limits and to ensure the impact on the Council's "bottom line" is manageable. This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream. The estimates of financing costs include current commitments and the proposals in the Council's budget report. Table 4 on the next page sets out the expected ratio of capital financing costs to income. The primary reasons for the projected increase in the ratio in future years are twofold: a decrease in investment income, which aligns with the forecasted bank base rate, and an increase in revenue funding for capital projects

Table 4 - PI 4 - Affordability	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Forecast	Estimate	Estimate	Estimate
Ratio of capital financing cost to income	3.39%	2.98%	4.04%	4.78%	3.90%

Minimum Revenue Provision (MRP) Policy Statement

3.7 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

3.8 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. The MRP policy statement for the Council is specified at Appendix 2.

4. Borrowing

Borrowing Strategy

4.1 One of the main functions 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 and help 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 medium-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.

4.2 The Council's main objective when borrowing money is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required. Given the significant cuts to public expenditure and particularly, to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the long-term stability of the debt portfolio. The key factors influencing the 2025/26 strategy are:

- forecast borrowing requirements
- the current economic and market environment
- interest rate forecasts.

4.3 The Council's treasury advisor Link group has provided the following forecasts on 11 November 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates (gilt yields plus 80 bps).

Table 5

Link Group Interest Rate View	11.11.24												
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27	Jun-27	Sep-27	Dec-27
BANK RATE	4.75	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.50	3.50	3.50	3.50	3.50
3 month ave earnings	4.70	4.50	4.30	4.00	4.00	4.00	3.80	3.80	3.80	3.50	3.50	3.50	3.50
6 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
12 month ave earnings	4.70	4.40	4.20	3.90	3.90	3.90	3.80	3.80	3.80	3.50	3.50	3.50	3.50
5 yr PWLB	5.00	4.90	4.80	4.60	4.50	4.50	4.40	4.30	4.20	4.10	4.00	4.00	3.90
10 yr PWLB	5.30	5.10	5.00	4.80	4.80	4.70	4.50	4.50	4.40	4.30	4.20	4.20	4.10
25 yr PWLB	5.60	5.50	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.50
50 yr PWLB	5.40	5.30	5.20	5.10	5.00	4.90	4.80	4.70	4.60	4.50	4.40	4.30	4.30

4.4 The Council will continue with internal borrowing strategy to fund the capital programme where appropriate for the financial year 2025/26 which has facilitated in keeping the financing cost affordable as demonstrated in paragraph 3.6. The cash balances are forecast to reduce to £75m by the end of March 26, therefore the council will consider external borrowing from 2026/27 onwards.. This strategy aligns with the interest rates forecast (in the table above) which shows longer dated borrowing rates are expected to fall from their current levels once.

4.5 Against this background and the risks within the economic forecast, continued caution will be adopted with the 2025/26 treasury operations. The Service Director of Finance will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.
- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, fixed rate funding may be drawn whilst interest rates are lower than they are projected to be in the next few years.

4.6 Any decisions will be reported to the Treasury Management Group and Audit & Governance Committee at the next available opportunity.

Sources of Borrowing

4.7 All new loans are subject to the relevant gilt yields +0.8% (known as the PWLB certainty rate). A prohibition is in place to deny access to borrowing to any local authority which plans to purchase assets primarily for yield in its capital programme.

4.8 Consideration will be given to other sources of funding as summarised below:-

- Local authorities (primarily shorter dated maturities out to 3 years or so – generally still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks).
- UK Municipal Bond Agency Plc and any other special purpose companies created to enable Local Authority bonds issues.

4.9 Our advisors will keep us informed as to the relative merits of each of these approved alternative funding sources detailed below.

- HM Treasury's PWLB lending facility
- UK Municipal Bonds Agency
- Local Authorities
- Market - Any bank or building society authorised to operate in the UK
- UK public and private sector pension funds
- Insurance companies
- UK Infrastructure Bank
- Stock issues
- Negotiable Bonds
- Other special purpose companies created to enable local authority bond issues
- Finance Leases
- Commercial Paper
- Overdraft
- Local Authority Bills

Limits on Borrowing Activity (Prudential Indicator 5)

4.10 The Prudential Code requires the Council to set two limits on its total external debt, as set out in **Table 6** on the next page:

- **Authorised Limit for External Debt (Prudential Indicator 5a)** – This is the limit prescribed by section 3(1) of the Local Government Act 2003 representing the maximum level of borrowing which the Council may incur. It reflects the level of external debt which, while not desired, could be afforded in the short term, but may not be sustainable in the longer term.
- **Operational Boundary (Prudential Indicator 5b)** – This is the limit which external debt and other long-term liabilities, is not normally expected to exceed. The boundary is based on current debt plus anticipated net financing need for future years.

4.11 The Service Director of Finance reports that the Council complied with these prudential indicators in the current year and does not envisage difficulties for the future. This view considers current commitments, existing plans and the proposals in this report.

Table 6 - PI 5 - Borrowing Limits £m	2023/24 Actual	2024/25 Forecast	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Authorised Limit	**646**	**638**	**652**	**654**	**645**
Borrowing	287	280	274	283	296
Finance Lease	2	1	1	1	1
Operational Boundary	**289**	**281**	**275**	**284**	**297**

Maturity structure of borrowing (Prudential Indicator 8)

4.12 Managing the maturity profile of debt is essential for reducing the Council's exposure to large, fixed rate sums falling due for refinancing within a short period, and thus potentially exposing the Council to additional cost. The upper and lower limits on the maturity structure of borrowing is set in the table below. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

PI 8 - Maturity Structure of Borrowing At Year-End	Lower Limit	Upper Limit	Forecast as at March 26
Under 12 Months	0%	10%	8%
12 Months to 2 Years	0%	30%	3%
2 Years to 5 Years	0%	40%	29%
5 Years to 10 Years	0%	30%	13%
10 Years to 20 Years	0%	30%	20%
20 Years to 30 Years	0%	20%	8%
30 years and above	10%	30%	19%

Liability Benchmark (Prudential Indicator 9)

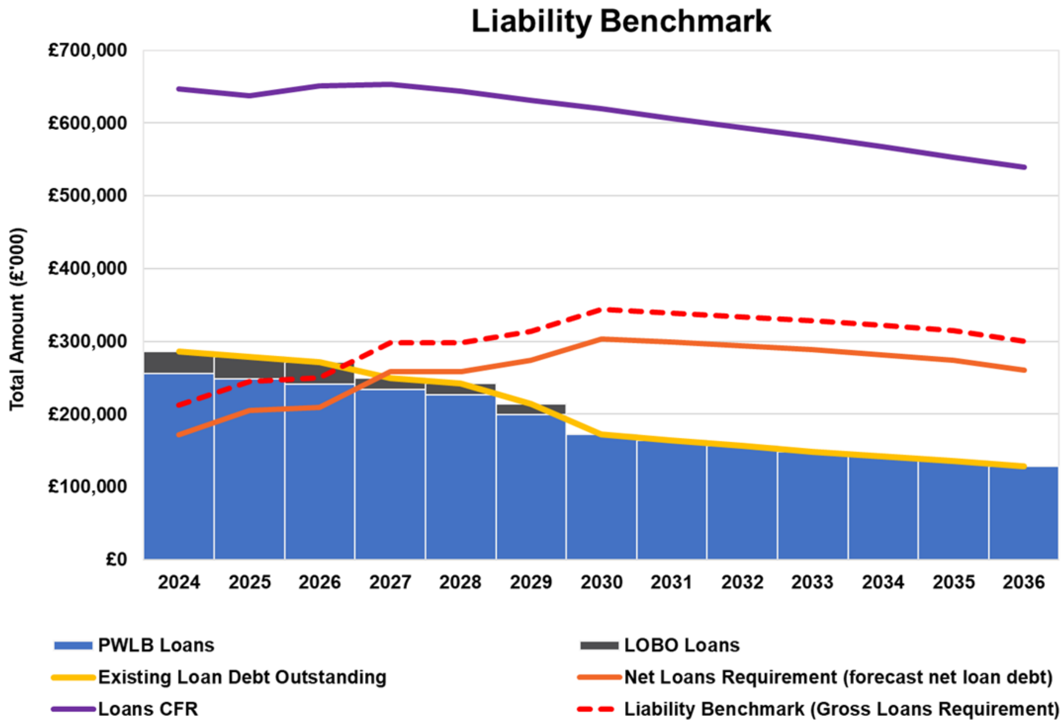
4.13 The Council is required to estimate and measure the Liability Benchmark (LB) of at least 10 years as recommended by CIPFA's Prudential Code. Liability benchmark looks at net management of treasury position and aims to minimise refinancing, interest rate and credit risk.

4.14 The Liability Benchmark is calculated by deducting the amount of cash available from external debt and then adding minimum level of working capital required to manage day-to-day cash flows. This shows the minimum level of external borrowing necessary based on available internal borrowing.

4.15 The Liability Benchmark aids in evaluating the amount, timing and maturities structure of new borrowing and avoids borrowing too much, too little, too long or too short. Both the Net Loans Requirement and the Liability Benchmark are projected to exceed the outstanding loans from 2029 as significant amount of debt is maturing as demonstrated in Prudential Indicator 8 in paragraph 4.13.

4.16 The borrowing strategy has used the Liability Benchmark for the planned borrowing requirement in 2027 and 2028, by which time the cost of borrowing is projected to reduce to levels approaching 4.3%.

4.17 The Council is currently in an under borrowed position, where it is financing current capital schemes through the temporary use of its own cash reserves. The use of these reserves is expected to remain part of the Council's balance sheet throughout 2025/26.



There are four components to the Liability Benchmark:

- **Existing loan debt outstanding (Yellow)**: the Council's existing loans portfolio based on current borrowing and repayment terms of the loans, split by loan type.
- **Loans CFR (Purple)**: this measures the extent to which the capital expenditure is financed from borrowing and a guide to the Council's underlying borrowing needs. This is reduced by an annual revenue (MRP) charge which represents the economic consumption of capital assets as they are used. For the Council, comparing this line graph with the existing loan debt outstanding line graph demonstrates we have not borrowed in advance of need through the under borrowed position of approximately £350m as demonstrated in prudential indicator 3 in paragraph 3.5 above.
- **Net loans requirement (Orange)**: This is an overview of Council's forecast cashflow position, which shows the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future mainly impacted by the cashflows (timing of income and expenditure). Comparing this line graph with the existing loan debt outstanding line graph demonstrates the cash balance position over the medium term is an average balance of £80m as demonstrated in prudential indicator 6 in paragraph 5.3. For the Council this means we have not borrowed in advance of need and evidence

that our strategy of using internal borrowing to fund the capital programme has worked.

- **Liability benchmark (or gross loans requirement) (Red)**: this equals net loans requirement plus short-term working cash balance allowance.

Policy on borrowing in advance of need

4.18 The Council has the power to borrow in advance of need in line with its future borrowing requirements under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended.

4.19 The Council will not 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. This will be considered carefully to ensure that value for money and security of funds can be demonstrated.

Debt Rescheduling

4.20 The Council can repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. 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, helping to fulfil the treasury strategy or enhancing the balance of the portfolio by amending the maturity profile and/or the balance of volatility.

International Financial Reporting Standard 16 (IFRS16)

4.21 Although not classed as borrowing, the Council has capital finance liabilities (i.e. commitments to make payments) in the form of finance leases. With effect from 1 April 2024, local authorities are required to implement a new accounting standard known as IFRS 16. This standard requires that assets previously recognised as operating leases will, in many cases, need to be accounted for on the balance sheet. Authorities will need to recognise an asset corresponding to their ‘right to use’ assets held under operating leases and a liability corresponding to the payments due under the relevant leases to secure use of the leased assets.

4.22 The application of IFRS16 will impact on statutory reporting requirements, however there will be net nil impact on the Council’s revenue budget. Work is progressing on the identification of all current arrangements covered by the Codes new definition of a lease. This analysis will be completed over the coming months and the detailed impact on the Council’s balance sheet, CFR and Prudential Indicators will be reported in the treasury management report at a future date.

Investing primarily for yield

4.23 PWLB loans are not available to local authorities planning to buy investment assets primarily for yield. The Council has not undertaken such borrowing and has no plans to in the future, which ensures continuing access to PWLB borrowing facilities.

4.24 On transacting a PWLB loan, the S151 officer is required to confirm that the Council is not borrowing in advance of need and does not intend to buy investment assets primarily for yield.

5. Managing Cash Balances

The current cash position and cash flow forecast (Prudential Indicator 6)

5.1 Investments will be made with reference to the core balance, cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months).

5.2 **Table 8** below shows that cash balances have increased by £80m since 31 March 2024 to 30th November 2024 which is mainly due to the forecast pattern of the Council's cashflows and is mainly dependant on the timing of precept payments, receipt of grants, council tax and business rates, and progress on the capital expenditure programme.

Table 8 Cash Position as at November 24 £m	30 Nov 2024	31 March 2024
Borrowing		
PWLB	-249.88	-255.73
LOBO	-30.00	-30.00
Total Borrowing	**-279.88**	**-285.73**
Investments		
Specified Investments (up to one year)	175.49	95.48
Non-Specified Investments CCLA Property Pooled Fund	18.51	18.44
Total Investments	**194.00**	**113.92**
Net Position	**-85.88**	**-171.81**

5.3 The medium-term cash flow forecast below demonstrates that the Council currently has a positive cash flow position with the average cash position expected to decrease each subsequent year with a projected requirement to take borrowing in 2026/27. The main reasons for decreasing cash-balances is due to planned use of reserves and the deficit on the Dedicated Schools Grant.

Table 9 - PI 6 - Medium-term Cashflow forecast £m	2024/25	2025/26	2026/27	2027/28
	Forecast	Estimate	Estimate	Estimate
Balance as at 1 April	**113.92**	**80.99**	**76.41**	**87.76**
Movement in Cash				
Capital Receipt	0.00	14.43	33.58	19.29
Grants & Contributions	138.92	135.41	85.90	131.75
Cash In	**138.92**	**149.84**	**119.48**	**151.04**
Capital Programme	-145.47	-134.57	-97.38	-104.65
Other Cash Movement	-32.16	-25.80	-32.00	-33.00
Cash Out	**-177.63**	**-160.37**	**-129.38**	**-137.65**
Net repayment of Debt (MRP & Borrowing)	5.78	5.95	-8.76	6.51
Borrowing	0	0	30	20
Forecast balance 31 March	**80.99**	**76.41**	**87.75**	**127.65**

Prospects for investment returns

5.4 The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year as shown in the table below.

Table 10 - Average earnings in each year	
2024/25 (residual)	4.60%
2025/26	4.10%
2026/27	3.70%
2027/28	3.50%
2028/29	3.50%
Years 5 to 10	3.50%
Years 10+	3.50%

5.5 **Country Ratings –** The Council has aligned its counterparty investment strategy with the suggested ratings advised by Link Treasury Services Ltd. This methodology permits investments in countries with a sovereign rating from AAA to AA- and allows investments with financial entities domiciled in the following countries:

- AAA : Australia, Denmark, Germany, Netherlands, Norway, Singapore, Sweden, Switzerland;
- AA+ : Canada, Finland, USA
- AA : Abu Dhabi (UAE)
- AA- : Belgium, France, Qatar, UK

5.6 **Country Limits** - The current aggregate investment limit for treasury deposits placed across all non-UK domiciled banks is £80m. The investment exposure per country (excluding the UK) is limited to £20m.

Balancing short and long-term investments (Prudential Indicator 7)

5.7 Greater returns are usually obtainable by investing for longer periods. While most cash balances are required to manage the ups and downs of cash flow where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

Table 11 - PI 7 - Investment Limits £m	2023/24	2024/25	2025/26	2026/27	2027/28
	Actual	Estimate	Estimate	Estimate	Estimate
Upper Limit for principal sums invested for more than 364 days	0	25	25	25	25

6. Other Matters

6.1 **International Financial Reporting Standards (IFRS) 9** – The change in accounting standards for 2023/24 under IFRS 9 and the statutory override to delay implementation with further extension to 31st March 2025 and its impact of investment instruments, such as the pooled Local Authority Property Fund administered by CCLA, which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. A £1m investment risk reserve has been approved by Cabinet on 18th June 2024 to mitigate against valuation movements in the CCLA fund from 1st April 2025 when the override is expected to be removed.

- The Council has invested £20m in this fund and in the past the fund has provided a good return compared to the cash portfolio, along with investment diversification and the portfolio is managed actively with the aim of providing a high income and long-term capital appreciation.
- As at the end of November 24 the value of the Council's investment was £18.51m and the dividend yield on the fund was 5.16%. As the Bank of England moves forward with its policy of fiscal loosening and the headline interest base

rate falls as its forecast to, it is expected this will have a positive impact on investor activity within the commercial property market with the greater activity and competition pushing property valuations higher.

6.2 **Treasury Management Consultants** - The Council uses Link Group, Link Treasury Services Limited as its external treasury management advisors. The Council recognises that the responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of the external service providers.

7. Economic update (position as at 22.11.2024)

7.1 The impact on the UK economy from the global political climate, including wars in Ukraine and the Middle East plus the uncertainty of US policy following the change in political leadership, will be major influences on the Council's treasury management strategy and performance throughout 2025/26.

7.2 The Bank of England (BoE) decreased the Base Rate to 4.75% in November 2024. Members of the BoE's Monetary Policy Committee voted 8-1 in favour of the change with just one dissenter voting for 'no change'. General financial markets sentiment is forecasting further staggered reductions through 2025/26 to a target headline rate of between 3.75% and 4.00% by the end of the financial year.

7.3 UK Gross Domestic Product (GDP) was estimated to have increased by 0.1% in the third quarter (July to Sept.) of 2024, following growth of 0.5% in quarter 2. Overall GDP is estimated to have increased by 1.0% in quarter 3 2024 compared to the same quarter in 2023. The Treasury's November survey of independent forecasts showed a predicted average increase of 1.3% for 2025.

7.4 The Consumer Prices Index (CPI inflation rate) rose by 2.3 % in the twelve months to October, up from the 1.7% seen in September and the 2.2% in August. The Bank of England's long-term target inflation rate is 2%, however, the Bank expects this to rise back to around 2.5% by the end of 2024 as direct energy price contributions become less negative.

7.5 Further information on the economic background is provided by our Treasury advisor Link Group which is attached at appendix 3. This will be updated with the latest commentary for the full Council.

8. Other options considered

8.1 Not applicable

9. Legal and financial implications

9.1 **Finance** : Financial Implications are contained in the body of this report.

9.2 **Legal** : The Local Government Act 2003 (“the Act”) provides that a local authority has the power both to borrow and invest money for any purpose relevant to its functions and for the prudent management of its financial affairs. The Act requires the Council to determine and to keep under review how much money it can afford to borrow. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, provide that, in complying with this duty, the Council must have regard to the Prudential Code for Capital Finance in Local Authorities published by CIPFA. The Council is also required to have regard to the CIPFA Treasury Management Code of Practice.

10. Director of Legal & Democratic Services and Section 151 Officer Comment

10.1 **Director of Legal & Democratic Services Comment** – No further comments.

10.2 **Section 151 Officer Comment** – No further comments.

11. Corporate implications

11.1 Treasury Management activities play a significant role in supporting the delivery of the Council’s Capital Programme and Corporate Priorities

12. Communication, engagement & further consultation

12.1 Not applicable

13. Next steps and review

13.1 Full Council to approve the Treasury Management Strategy Statement.

14. Background papers

14.1 Section 3 Local Government Act 2003.

14.2 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended.

14.3 MHCLG Guidance on Minimum Revenue Provision (fifth edition).

14.4 MHCLG Capital Finance Guidance on Local Government Investments February 2018.

14.5 CIPFA Prudential Code for Capital Finance in Local Authorities and Treasury Management Code of Practice, 2021.

15. Appendices

15.1 Appendix 1 – Annual Investment Strategy

15.2 Appendix 2 – Minimum Revenue Provision Policy

15.3 Appendix 3 – Economic Background