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TREASURY MANAGEMENT STRATEGY 2024/25

Date: 7th February 2024

Agenda Item 13C

Report of: Chief Officer Financial Services

Report to: Executive Board

Will the decision be open for call in? Except recommendations 2.2 to 2.4 ☒Yes ☐No

Does the report contain confidential or exempt information? ☐Yes ☒No

Brief Summary

1.1 This report sets out for Members' approval the Treasury Management Strategy for 2024/25 and provides an update on the implementation of the 2023/24 strategy.

1.2 The Council's level of net external debt is anticipated to be £2,511m by 31/03/2024, £37m below the position reported to November's Executive Board. This is because of £38m forecast slippage in the capital programme for 2023/24, and a reduction of £1m in forecast MRP for 2023/24 following a detailed review of the profile of 2022/23 capital expenditure.

1.3 The period of exceptionally low interest rates seen in recent years has now come to an end. The first rise in the bank base rate occurred on 16th December 2021 when the base rate was increased from 0.10% to 0.25%. Since that point the base rate has increased steadily to now stand at 5.25% with an expectation that this may now represent the peak in this cycle. The cost of debt is forecast to increase by £3.0m in 2024/25. This is principally due to the increasing borrowing requirement to fund the capital programme coupled with elevated long- and short-term interest rates. Within the overall increase in the budget, external interest costs for the General Fund are budgeted to increase by £5.2m. This increase is partially offset by MRP to fund PFI liabilities which is projected to decrease by £2.1m and by projected increases in interest income of £0.1m from investing cash balances and from service loans made. The proposed budget for gross external interest costs for the general fund is £64.4m and the proposed budget for MRP is £64.9m.

1.4 The Authorised Limits for both External Debt and Other Long-Term Liabilities have been reviewed and it is proposed to change them as detailed in Section 8.6.4. The Operational Boundaries have also been reviewed and likewise are proposed to be changed as detailed in Section 8.6.5. The Council's Authorised Limit is set above the Capital Financing Requirement to provide for short term cash flow needs.

1.5 In the medium term the strategy is to take longer term fixed rate funding as market opportunities arise however with the forecast peak in long term and short-term interest rates during 2023/24 and into 2024/25 the strategy will be to keep any borrowing short-term pending opportunities to lock into attractive lower longer-term rates. Against this the Council has a stable long-term loan portfolio forecast at 31/03/2024 of £2.277bn that has an average maturity of just over 34 years and is funded at an average rate of 3.26%. An increase in the short-term funding costs of 0.25% over the base assumptions (Table 5) would add £1.0m to the interest costs in 2024/25.

Recommendations

That Executive Board:

2.1 Approve the treasury strategy for 2024/25 as set out in Section 8.5 and note the review of the 2023/24 strategy and operations set out in Sections 8.3 and 8.4.

That Executive Board recommend to full Council that:

2.2 The borrowing limits for the Authorised Limit and Operational Boundary for 2023/24, 2024/25 and 2025/26 be confirmed as set in February 2023 and new limits for 2026/27 be approved at £3,200m for Borrowing and £490m for Other Long-term Liabilities for the Authorised Limit. For 2026/27 the Operational Boundary is recommended to be approved at £3,000m for Borrowing and £470m for Other Long-term Liabilities. These are explained in detail in Section 8.6 of the report.

2.3 The treasury management indicator for the maturity structure of the Council's borrowing is recommended to be approved as detailed in Section 8.7 and Appendix A.

2.4 The investment limits for periods greater than 364 days for 2023/24, 2024/25, 2025/26 is recommended to be confirmed at £150m and a new limit is recommended to be set for 2026/27 at £150m. These are explained in Section 8.8.9 of the report.

What is this report about?

3.1 This report sets out for approval by Members the Treasury Management Strategy for 2024/25 and the revised affordable borrowing limits under the prudential framework. It also provides Members with a review of strategy and operations in 2023/24.

What impact will this proposal have?

4.1 Borrowing Limits for 2023/24, 2024/25, 2025/26 and 2026/27

4.1.1 The Council is required to set various borrowing limits for 2023/24, 2024/25, 2025/26 and 2026/27 in accordance with the Local Government Act 2003, having regard for CIPFA's prudential code. These limits including prudential indicators are detailed in Appendix A.

4.1.2 It is anticipated that the Council will continue to remain within the existing Authorised Limit for 2023/24. Both the Authorised Limit and Operational Boundary are made up of a limit for borrowing and a limit for other long-term liabilities.

4.1.3 The Chief Officer Financial Services has delegated authority to adjust between the two separate limits for borrowing and other long-term liabilities, provided that the overall limit remains unchanged. No adjustments between the limits have been made, and any such adjustments would be reported to the next available Council meeting following the change.

4.1.4 Borrowing limits for 2023/24, 2024/26 and 2025/26 were approved by Council on 8th February 2023 and remain unchanged.

How Does This Proposal Impact the Three Pillars of the Best City Ambition?

☒Health and Wellbeing ☒Inclusive Growth ☒Zero Carbon

5.1 The Best City Ambition, underpinned by the three pillars, is the council's strategic plan which sets out the ambitions, outcomes, and priorities for the city of Leeds and for the local authority. These, and the internal ambition for the council to be an Efficient, Enterprising, Healthy and Inclusive Organisation, can only be delivered if the council maintains a sustainable financial position both now, and in the longer-term. The Treasury Management Strategy contributes to this financial sustainability, and secures the borrowing required to deliver the authority's Capital Programme (which is itself framed around the council's strategic priorities).

What consultation and engagement has taken place?

Wards Affected:

Have ward members been consulted? ☐Yes ☒No

6.1 This report sets the Treasury Management Strategy and as such there is no need to consult the public. In establishing this strategy, consultation with the Council's treasury advisors has taken place.

6.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the capital programme report elsewhere on this agenda.

What are the resource implications?

7.1 This Treasury Management Strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the General Fund and HRA.

7.2 The updated strategy 2023/24 is forecast to deliver a saving of £3.6m at period 9 (December).

What are the key risks and how are they being managed?

8.1 This report sets out the framework for the Treasury Management Strategy for the year ahead. The execution of the strategy and associated risks are kept under regular review through:

- Monthly reports to the Finance Performance Group,
- Quarterly strategy meetings with the Chief Officer Financial Services and the Council's treasury advisors,
- Quarterly Reporting of the Prudential Indicators as part of the Council's financial health monitoring process, and
- Regular market, economic and financial instrument updates, and access to real time market information.

8.2 The above monitoring mitigates the directorate level risk of "Failure to recover money invested in other financial institutions" and in addition the Treasury Management Strategy is linked to the corporate risk on 'Financial Forecasting'.

8.3 Review of Strategy and Borrowing Limits 2023/24

8.3.1 The Council's level of net external debt is anticipated to be £2,511m by 31/03/2024, £37m below the position reported to Executive Board in November 2023. This is because of £38m forecast slippage in the capital programme 2023/24 offset by £1m lower MRP for 2023/24 than was previously forecast. This is detailed in Table 1 below:

Table 1

ANALYSIS OF BORROWING 2023/24	2023/24 Feb 23 Report £m	2023/24 Nov 23 Report £m	2023/24 This This Report £m
Net Borrowing at 1 April	2,402	2,397	**2,397**
New Borrowing for the Capital Programme – General Fund	134	124	**87**
New Borrowing for the Capital Programme – HRA	40	26	**25**
Debt redemption costs charged to Revenue (Incl HRA)	(65)	(64)	**(63)**
Reduced/(Increased) level of Revenue Balances	65	65	**65**
Net Borrowing at 31 March*	2,576	2,548	**2,511**
Capital Financing Requirement			**2,847**
* Comprised as follows			
Long term borrowing Fixed	2,141	2,214	2,262
Variable (less than 1 Year)	95	15	15
Net New Borrowing in year	174	139	114
Short term Borrowing / Future Long term Borrowing	206	220	160
Total External Borrowing	2,616	2,588	2,551
Less Investments	40	40	40
Net External Borrowing	**2,576**	**2,548**	**2,511**
% gross borrowing exposed to interest rate risk	18%	14%	11%

Note: The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

8.3.2 The Bank of England's Monetary Policy Committee (MPC) has raised rates consistently during 2023/24 and the bank base rate started 2023/24 at 4.25% and has increased to its current level of 5.25%. Following the Bank of England's August meeting it has paused any further rate increases, and financial markets are now anticipating the next move in rates to be downwards. The markets now expect the base rate reductions to begin in late spring and early summer of 2024 and continue into 2025 although rates are not expected to fall to anything like the accommodative levels seen pre COVID. The Council's advisors are now forecasting a 3% base rate as the low point in the longer term.

8.3.3 UK GDP Growth was negative in Q3 202322 at (-0.10%) quarter on quarter for the 3 months to September, and this followed a 0% outcome for the previous quarter. In the labour market, October 2023 figures showed that unemployment remained at 4.2% where it has been since June 2023, highlighting that the labour market remains relatively tight. CPI Inflation for November fell to 3.9%, continuing the downward trend seen during 2023, and is expected to fall back further towards the MPC target of 2.00%. It should however be noted that core inflation, although falling as well, stands at 5.1% and this may indicate that inflation may be more persistent than the MPC hope. The MPC remains concerned about inflation and particularly signs of greater persistence in domestic costs and price pressures and average wage settlements of over 7% currently emphasise this concern. As a result, the MPC has a difficult task in terms of the timing of any rate cuts with GDP growth anaemic but with wage growth elevated and inflation still high despite falling. This can be seen in the split of voting by the MPC which has been 6-3 in maintaining the rate at 5.25% with the dissenters voting for a further increase in rates.

8.3.4 In the Eurozone Q3 growth was slightly negative at (-0.1%). Headline inflation rose to 2.90% from 2.40% in November however the ECB (European Central Bank) are watching wage growth figures which posted a figure of 5.3% in the 3 months to September which was an increase from 4.60%. Unemployment is also higher that in the UK at 6.40%. The Eurozone base rate is currently 4.50% which again could represent a peak for the area but is dependent on improving economic metrics.

8.3.5 In the United States CPI inflation is currently 3.1%. This has fallen back from a peak of 9.1% in June 2022 and is expected to fall further. It is also noted that unemployment has risen to 3.70% but this is considered to indicate a relatively tight labour market. The US rate setting body the Federal Open Market Committee (FOMC) has led the global tightening cycle with US rates now in a target range of 5.50% to 5.75% having been at this level since late July and it is thought by many market commentators that the US may lead the way in reducing policy rates. Over the last year the US has posted some good growth figures with the Quarter ending September 2023 posting a figure of 4.9% year on year.

8.3.6 Like the FOMC the Bank of England are delivering an indication to markets of "higher for longer". In terms of its messaging, the Bank has once again said that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures", citing the rise in global bond yields and the upside risks to inflation from "energy prices given events in the Middle East". So, like the FOMC, the Bank is keeping the door open to the possibility of further interest rate rises. It has also repeated the phrase that policy will be "sufficiently restrictive for sufficiently long" and that the "MPC's projections indicate that monetary policy is likely to need to be restrictive for an extended period of time".

8.3.7 The Council's treasury advisors' latest forecasts for Quarter 1, 2024 are that PWLB rates for 50-year borrowing will be around 5.00%, 10 year borrowing around 4.70% and 5 Year at 4.50%. Rates are expected to fall modestly during 2024 and to continue to fall into 2025. It should be noted that rates are not expected to fall back to the ultra-low levels seen over the previous decade. Please see Table 3 in paragraph 8.4.3 below for the latest rates and forecasts.

8.3.8 During 2023/24 the Council continued the strategy of funding the borrowing requirement from short-term interest rates, balances and reserves whilst taking advantage of longer-term funding opportunities when they arise. At period 9 (December) the debt budget outturn for 2023/24 is projected to deliver a saving of £3.6m. The ability to take longer term funding is discussed in the strategy for 2024/25 however Table 2 below details the new borrowing and repayment of long-term external debt so far during 2023/24. This shows that to date £53.7m has been or is scheduled to be repaid and £50.7m of new borrowing has been undertaken. Of note is the Commerzbank AG LOBO loan repayment in October, which was a repayment at par (without penalty) after the lender exercised the option to change the rate of interest on the loan and the Council exercised its option to repay. This is the first option repayment of a LOBO since before 2010.

8.3.9 Following a dip in interest rates two PWLB loans for £24m each have been taken totalling £48m. These were taken out for the HRA at 4.31% and 3.81% respectively, utilising an advantageous interest rate which is currently available from the PWLB for HRA borrowing, at 40bp below the PWLB certainty rates available generally for the General Fund.

Table 2

Loan repayments and borrowing 2023/24							
Loan Repayments				New Borrowing			
Date	Amount (£m)	Original Rate (%)	Notes	Date	Amount (£m)	Term (Years)	Interest Rate (%)
PWLB Loans				**PWLB**			
03/04/2023	15.000		n/a	14/12/2023	24.000	12 Years	4.31%
31/07/2023	26.436		n/a	29/12/2023	24.000	12 Years	3.81%
Sub Total	**41.436**				**48.000**		
Non PWLB Loans				**Non PWLB Loans**			
17/10/2023	10.000	4.50%	Commerzbank AG	Salix	1.376	8 year	0.00%
03/04/2023	0.315	0.00%	Salix	Salix **	1.376	8 year	0.00%
03/04/2023	0.618	0.00%	Salix				
01/09/2023	0.024	0.00%	Salix				
02/10/2023	0.315	0.00%	Salix				
02/10/2023	0.618	0.00%	Salix				
02/10/2023	0.321	0.00%	Salix				
01/03/2024	0.024	0.00%	Salix *				
Sub Total	**12.235**				**2.752**		
Total	**53.671**			**Total**	**50.752**		

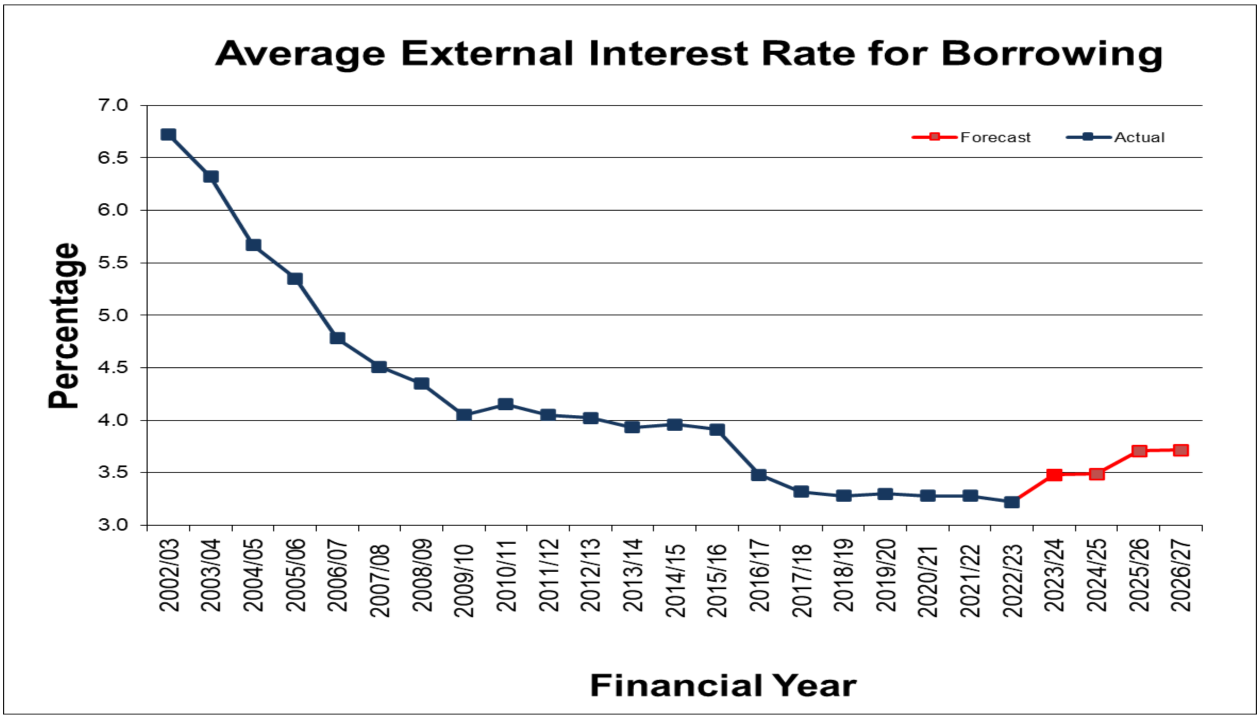
* known maturities that are yet to occur

** Facility Committed not Drawndown at this time

8.4 Interest Rate Review

8.4.1 The average rate of interest paid on the Council's external debt for 2022/23 was 3.22% as reported in the Annual Treasury Management report 2022/23 to Executive Board on 21st June 2023. This rate is forecast to rise to 3.48% for 2023/24, mainly due to the impact of higher interest rates for both long term and short-term borrowing. Chart 1 shows how the average external borrowing rate has fallen from 6.72% in 2002/03. The longer-term expectation is that the Council's average cost of borrowing will begin to rise as the cost of new borrowing increases and short-term funding is potentially switched to longer-term funding. Taking longer term fixed rate borrowing will however reduce the Council's future exposure to potential interest rate increases at the point of switching and as such continues the prudent and sustainable management of the Council's borrowing need.

Chart 1



8.4.2 The projections for the next move in the bank rate are now for a decrease in Q3 2024/25 with further decreases expected in Q4 2024/25 and into 2025/26, with a low point of short-term rates being 3.00%. Table 3 below shows the projected PWLB interest rates over the next two years for a range of maturities.

8.4.3 As agreed with our Treasury advisors the current strategy is to take longer term fixed rate funding at the most opportune time to lock out interest rate exposure. However, given the short to medium term forecast for both short- and long-term interest rates, longer term borrowing will only be taken when rates fall from what is considered to be temporary elevated rates. The low level of existing short-term borrowing means that this can be done without introducing an excessive level of risk into the overall borrowing portfolio. At the point of acquiring longer term funding consideration will be given to:

- Whether the forecast capital borrowing requirement has reduced or slipped into the following year
- The forecast changes to levels of reserves/balances, including the extent to which the Council has received funding in advance of spending for capital schemes.

Table 3

	Bank Rate	**PWLB Borrowing Rates (including certainty rate adjustment)**			
		5 year	**10 Year**	**25 year**	**50 year**
Now	5.25	4.50	4.66	5.20	4.98
March 2024	5.25	4.50	4.70	5.20	5.00
June 2024	5.25	4.40	4.50	5.10	4.90
Sept 2024	4.75	4.30	4.40	4.90	4.70
Dec 2024	4.25	4.20	4.30	4.80	4.60
Mar 2025	3.75	4.10	4.20	4.60	4.40
June 2025	3.25	4.00	4.10	4.40	4.20
Sept 2025	3.00	3.80	4.00	4.30	4.10
Dec 2025	3.00	3.70	3.90	4.20	4.00
Mar 2026	3.00	3.60	3.80	4.20	4.00
June 2026	3.00	3.60	3.70	4.10	3.90
Sept 2026	3.00	3.50	3.70	4.10	3.90
Dec 2026	3.00	3.50	3.70	4.10	3.90
Mar 2027	3.00	3.50	3.70	4.10	3.90

8.5 <u>Strategy for 2024/25</u>

8.5.1 Table 4 below shows that net borrowing is expected to rise by £195m to £2,706m during 2024/25. This is because of new borrowing to fund the capital programme net of MRP and an anticipated fall in internal resources available to fund the capital programme. The Capital Programme report is presented elsewhere on this agenda.

Table 4

ANALYSIS OF BORROWING 2023/24 – 2026/27	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Net Borrowing at 1 April	2,397	2,511	2,706	2,854
New Borrowing for the Capital Programme – GF	87	154	149	100
New Borrowing for the Capital Programme - HRA	25	39	47	19
Debt redemption costs charged to Revenue (Incl HRA)	(63)	(64)	(66)	(70)
Reduced/(Increased) level of Revenue Balances	65	66	18	20
Net Borrowing at 31 March	2,511	2,706	2,854	2,923
* Comprised as follows				
Long term borrowing Existing Fixed	2,262	2,220	2,178	2,162
Existing Variable (Less than 1yr)	15	25	60	45
Net New Borrowing in year	114	195	148	69
Short term Borrowing / Future long term Borrowing	160	306	508	687
Total External Borrowing	2,551	2,746	2,894	2,963
Less Investments	40	40	40	40
Net External Borrowing	2,511	2,706	2,854	2,923
% Exposure after planned LT Borrowing	11%	19%	25%	27%

Note: Borrowing exposed to interest rate risk in any one year is made up of short term borrowing, new long term borrowing and existing variable loans (i.e. LOBOs with an option falling within the year).

8.5.2 Table 4 above shows that over the 4-year time horizon the proportion of the Council's forecast borrowing portfolio which is exposed to interest rate risk is expected to rise to a maximum of 27% in 2026/27. The forecast for short term borrowing / future long-term borrowing is £756m by the end of 2026/27. This comprises current short-term borrowing, new long-term borrowing to 2025/26 and long-term debt maturities. Over the period to 2026/27 long term borrowing will be taken as detailed in 8.4.3 however the exact split between long term and short term by the end of 2026/27 is yet to be determined. The Variable Interest Rate Exposure Indicator previously required under the Code of Practice has been removed from the revised 2021 version of the Code. This was previously set in relation to the net external borrowing position at a level of 40%. It is now expected that a more nuanced discussion will be maintained around the interest rate risk contained within treasury management. This will be achieved within the Council through the setting of the annual strategy (this report) and the periodic review of the strategy by Executive Board, Financial Performance Group, Financial Health monitoring and meetings with the Council's Treasury Advisors as well as ongoing monitoring of the TM operation and markets by senior management. Included within the net external borrowing exposure are two elements that are variable, these are short term loans and Lenders Option Borrowers Option (LOBO) loans with an option which falls within 12 months. Any LOBO options exercised during 2024/25 will be reviewed on the exercise of the option by the lender however repayment of the loan without penalty is usually the preferred option of the Council. This is due to the forecast for borrowing rates indicating that it is likely that the borrowing repaid in such circumstances can be reborrowed at similar or cheaper long-term rates in due course.

8.5.3 Alongside the Prudential Code structure, the Council's current policy of using its balance sheet strength, reserves, provisions etc. to defray external borrowing presents an exposure to a potential increase in external borrowing should the availability of internal balances reduce unexpectedly. The strategy of acquiring long-term borrowing as outlined in 8.4.3 above will mitigate against this risk. The Council has a forecast need to borrow, its borrowing Capital Financing Requirement (CFR) which at 31/03/2024 is expected to be £2,847m and of which net external funding is expected to be £2,511m. The difference of £336m is the use of internal balance sheet strength to finance this borrowing need. The long-term funding element of the external debt is forecast to be £2,277m by 31/03/2024 and therefore, accepting that in current conditions LOBO options are less likely to be exercised, the Council's gross exposure to this risk is the difference between its CFR and its current stock of long-term external funding or £570m.

8.5.4 This potential exposure will be managed by the strategy outlined in 8.4.3 above of taking longer term borrowing when opportunities arise. This exposure should also be viewed against the context of historical capital programme slippage, the continued strength of the Council's balance sheet and the market for supplying short term funds remaining strong.

8.5.5 If the Council continued to fund its borrowing need from short term and internal sources only then this exposure is forecast to be £1,019m by the end of 2026/27. This would present several risks around continued balance sheet strength, the capacity to continue to supply the market with low-cost borrowing at relatively low rates, sharper than anticipated increases in rates and improved economic outlook. However, the strategy which the Council proposes to adopt (see 8.4.3 above) will ensure that longer term borrowing is taken at appropriate points during this period, so that the total exposure to new borrowing risk does not reach these levels.

8.5.6 The strategy outlined in 8.4.3 is to take longer term fixed rate borrowing when opportunities arise in combination with the temporary use of short-term borrowing as required. This strategy is considered prudent as base rate rises are expected to fall back in the 2nd half of 2024 as inflation falls and the economic outlook improves.

8.5.7 The current economic outlook and the structure of market interest rates and government debt yields have several key treasury management implications:

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).
- The possibility that the Bank of England has increased the Base Rate too fast and too far depressing UK growth.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, the Middle East (Including Israel and the Red Sea), China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- Despite the recent tightening to 5.25%, the possibility that the Bank of England responds too slowly or insufficiently in its pace and strength of increases in the Bank Base Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Base Rate staying higher for longer than is currently projected.
- The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term US treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although they have generally been reversed since then.)
- Projected gilt issuance, inclusive of natural maturities and Quantitative Tightening, could be too much for the markets to comfortably digest without higher yields compensating.

8.5.8 The Council's projected long-term debt as at 31/03/2024 of £2.277bn has an average maturity of just over 34 years if all of its debt runs to maturity. Approximately 10% of the Council's long-term debt portfolio has options for the lender to propose interest rate increases which could lead to premature repayment (without penalty). In the unlikely event that all these options were exercised at the next option date then the average maturity would be lowered to a little over 30 years. This compares favourably with the average maturity of the UK Government gross debt portfolio of 14.49 years. The existing profile of the Council's debt provides considerable certainty of funding costs. The Prudential Indicator for the maturity structure of the Council's borrowing in Appendix A shows the maturity profile of the Council's debt both long and short term and highlights that 70% or £1,786m matures in periods greater than 10 years.

8.5.9 The cost of debt is forecast to increase by £3.0m in 2024/25 principally due to the increasing borrowing requirement to fund the capital programme coupled with increasing long- and short-term interest rates. Within the overall increase in the budget, external interest costs for the General Fund are budgeted to increase by £5.2m, this increase is projected to be offset by charges to revenue in respect of PFI liabilities which are projected to decrease by £2.1m and increases in interest income of £0.1m from investing cash balances and from service loans made. Forecasts for the debt budget beyond 2024/25 are dependent upon the interest rate assumptions, the likely level of capital spend, and the Council's cash balances. The debt budget is currently forecast to increase by a further £6.6m in 2025/26 and £8.8m in 2026/27 including MRP costs, based upon the assumptions on funding rates in Table 5. The interest rate assumptions and the borrowing requirement arising from the capital programme will be kept under review throughout 2024/25, before establishing the 2025/26 debt budget.

Table 5

Assumed average funding rates	
Year	**Average Interest Rate**
2024/25	4.50%
2025/26	3.75%
2026/27	3.50%

8.5.10 Table 6 below shows the projected gross MRP, and External Interest Payable by the General Fund included within the projected budgets for 2025/26 and 2026/27 but does not include any interest or voluntary set aside payable by the HRA

Table 6

Heading	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
Gross MRP	64.86	65.75	69.66
External interest – General Fund	64.42	76.04	79.97

8.5.11 These assumptions on borrowing rates have associated risks. For example, in 2024/25, if the cost of borrowing was 0.25% higher than assumed, full year debt costs would increase by circa £1.0m. The debt budget now contains sufficient scope to fully switch from short term to long term as opportunities arise.

8.6 Borrowing Limits for 2023/24, 2024/25, 2025/26 and 2026/27

8.6.1 The authorised limit represents the legislative limit on the Council's external debt under the Local Government Act 2003. It should be set with sufficient headroom above the operational boundary to allow flexibility for planned borrowing to be undertaken, for prudent treasury management decisions to be taken and temporary cash flow fluctuations to be managed. The operational boundary should reflect the maximum anticipated level of external debt consistent with budgets and cash flow forecasts. It should be a management tool for on-going monitoring of external debt and may be breached temporarily due to unusual cash flow movements.

8.6.2 Appendix C shows that the Council has kept within the operational boundary and authorised limit in 2023/24.

8.6.3 The Chief Officer - Financial Services has delegated responsibility to adjust between the two separate limits for borrowing and other long-term liabilities, provided that the overall limit remains unchanged. Any such adjustments will be reported to the next available Council meeting following the change. It is recommended that Council approve the following authorised limits for its gross external debt and other long-term liabilities for the next three years.

8.6.4 After reviewing the forecast debt and borrowing position together with the forecast for revenue balances and MRP, the Limit for borrowing is recommended to remain the same for 2023/24, 2024/25 and 2025/26 as shown in table 7 below. For 2026/27 a new limit should be set at £3,200m. The limit for Other Long-Term Liabilities is recommended to remain the same for the years 2023/24 to 2025/26. This accommodates the introduction by the Council of new lease accounting arrangements which have been optional since 2022/23 and will be mandatory from 2024/25. It is further recommended that a new limit be set for the year 2026/27 of £490m to reflect the forecast amortisation of PFI liabilities and finance leases.

Table 7

Authorised Limit	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
Borrowing	3,200	3,200	3,200	3,200
Other Long-Term Liabilities	600	570	530	490
Total	**3,800**	**3,770**	**3,730**	**3,690**

Recommended: Authorised Limits as above

8.6.5 In line with the review of the authorised limits above it is proposed to amend the Operational Boundaries as shown in Table 8 below. This limit will retain sufficient headroom to accommodate anticipated cash flow variances. The limit for borrowing is recommended to remain the same for the years 2023/24, 2024/25 and 2025/26. For 2026/27, a new limit should be set at £3,000m. The limit for Other Long-Term Liabilities is recommended to remain the same for the years 2023/24 to 2025/26 to accommodate further inclusions because of anticipated lease accounting changes. It is further recommended that a new limit be set for the year 2026/27 of £470m to reflect the forecast amortisation of PFI liabilities and finance leases.

Table 8

Operational Boundary	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Borrowing	2,850	2,900	2,950	3,000
Other Long-Term Liabilities	580	550	510	470
Total	**3,430**	**3,450**	**3,460**	**3,420**

Recommended: Operational Boundaries as above

8.6.6 Table 9 below details separately the borrowing and Other Long-Term Liabilities element of the Authorised limit and compares this to the projected CFR. The revised Authorised limit and the Operational boundary remain in line with the projected CFR. The CFR is the Council's actual need to borrow based on its historic capital programme and forecast future capital programme. The limits reflect the significant level of balances being used internally to fund the borrowing need. These limits therefore leave headroom for future injections into the programme or external investment of Council balances. The full impact of the lease accounting changes has not yet been quantified and therefore the impact of existing operating leases which will be treated as balance sheet liabilities from 2024/25 onwards has not been included within the CFR projection for other long-term liabilities in table 9 below.

Table 9

year	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	
External Borrowing					
CFR Projection.	2,847	2,998	3,151	3,226	
Authorised Limit					
Current	3,200	3,200	3,200	-	
Proposed	3,200	3,200	3,200	3,200	
Increase / (Decrease)	-	-	-	3,200	a
Operational boundary					
Current	2,850	2,900	2,950	-	
Proposed	2,850	2,900	2,950	3,000	
Increase / (Decrease)	-	-	-	3,000	a
Other Long Term Liabilities					
CFR Projection.	486	450	413	372	
Authorised Limit					
Current	600	570	530	-	
Proposed	600	570	530	490	
Increase / (Decrease)	-	-	-	490	a/b
Operational boundary					
Current	580	550	510	-	
Proposed	580	550	510	470	
Increase / (Decrease)	-	-	-	470	a/b

a) Note 2026/27 has not been set previously as these limits are only set for the current +3 year time horizon
b) The limits for Other long term liabilities OLTL includes an allowance for anticiapted lease accounting changes

8.7 Treasury Management Indicators

8.7.1 Appendix A details the borrowing limits and other prudential indicators and provides forecasts and limits based on the current Treasury Management projections.

8.7.2 The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services 2021.

8.7.3 The Council is required to set upper and lower limits for the maturity structure of its borrowings. This is designed to limit the risk of exposure to high interest rates by restricting the level of maturing debt in any given year. The limits represent the amount of projected borrowing that is maturing in each period as a percentage of total projected borrowing. This is detailed in Table 10 below:

Table 10

Maturity structure of borrowing	Lower Limit	Current Upper Limit All Debt	Proposed Upper limit All debt
under 12 months	0%	25%	no change
12 months and within 24 months	0%	20%	no change
24 months and within 5 years	0%	35%	no change
5 years and within 10 years	0%	40%	no change
10 years and within 20 years	25%	90%	no change
20 years and within 30 years			
30 years and within 40 years			
40 years and within 50 years			
50 years and above			

Recommended: Upper and Lower limits on maturity structure to remain unchanged.

8.8 Treasury Management Investment Strategy and Limits

8.8.1 The CIPFA Codes and Guidance require Local Authorities to report on and monitor Non-Treasury Investments, service loans, guarantees and commercial investments. These are outside the scope of the Treasury Management function due to the differing risk profile and complexity of these transactions. Strategic considerations and reporting requirements for non-treasury investments are therefore included within the Capital and Investment Strategy, which is attached as an appendix to the Capital Programme Report which is elsewhere on this Executive Board agenda.

8.8.2 The Council's actual external borrowing need is reduced by the availability of revenue balances. The Treasury policy allows for the external investment of these balances at advantageous rates but with due regard for security of capital invested. Investment of surplus balances in general will be limited to cash flow and liquidity management although the interest rate outlook will be kept under review to identify any opportunities for longer term investment.

8.8.3 The approved lending list is based upon the assessment of the financial standing of counterparties as determined by international credit rating agencies and further refined and updated by the Council's advisors on a continual basis. The lending list is often further restricted based upon the Council's own view of the credit worthiness of counterparties.

8.8.4 The investment strategy allows for the Council to invest in the most highly rated financial institutions around the world. The Council will only lend up to a maximum of £15m to financial institutions that are rated as excellent. There is also a limit of £5m for financial institutions that are rated as very good.

8.8.5 Any changes in the investment environment are being monitored closely as is the effect on the credit list supplied by the Council's treasury advisors. Other factors are also used in determining potential counterparties for the investment of funds over and above credit ratings.

8.8.6 The Council under its existing Treasury Management Policy Statement has the authorisation to use Money Market Funds, although it has not utilised these to date. The rates offered on notice accounts by both the Council's bankers and by other banks offering similar products continues to be at low levels. As a result, the levels on offer are at or below rates available from Money Market Funds which carry a higher credit worthiness rating**.** A review of the possible benefits of these funds is being undertaken for depositing short term cash balances and any decision to utilise these accounts will be made under delegations already in place to the Chief Officer Financial Services.

8.8.7 The Prudential code requires that Councils set limits on Treasury Management investments for periods longer than 364 days. It is proposed to maintain the limits as outlined below in Table 11 and roll the limit forward into 2026/27

Table 11

Total principal sum invested for a period longer than 364 days	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
Upper limit	150	150	150	150

Recommended: Upper limit on sums invested for periods longer than 364 days to remain unchanged and a new limit for 2026/27 to be approved of £150m

8.8.8 Currently the Council has several limits in place for Treasury management investments which can be summarised as £15m for excellent rated counterparties including Local Authorities and governmental bodies, £5m for counterparties rated as good and no limit for non-investment grade counterparties. Further a Group limit of £30m exists as a maximum that can be lent to one group comprising several banking licenses such as the Lloyds or RBS groups. The Council has no limit for deposits with its bankers as part of its banking arrangements.

8.8.9 These limits have been in place for several years and Table 12 below details the Treasury Management investments limits.

Table 12

Investment Class	**Maximum Period**	**Current limit £m**	**New limit £m**
Banking Arrangements with NatWest	Call Account	Unlimited	Unlimited
DMADF	6 months maximum	Unlimited	Unlimited
Excellent Rated Counterparties			
Red			
Blue (UK Part nationalised banks)	6 Months	15	15
Orange	1 Year	15	15
Purple	1 Year	15	15
Yellow (Includes Local Authorities)	2 Years	15	15
	5 years	15	15
Good Rated Counterparties			
Green	100 Days	5	5

Recommended: The period limits remain the same for each class of Counterparty.

8.9 Non-Treasury Management Investments

8.9.1 As noted above, the revised CIPFA Codes include new limits and prudential indicators in relation to non-Treasury Management investments. These are addressed within the Capital and Investment Strategy, which is included elsewhere on this agenda. However, the proposed limits and indicators are included within Appendix A of this report for completeness.

What are the legal implications?

9.1 In accordance with the Council's Budget and Policy Framework, decisions on borrowing limits, treasury management indicators, investment limits and the Treasury Management Policy Statement are approved by Council. As such, recommendations 2.2 to 2.4 are not subject to call in.

9.2 There are no legal, or access to information issues arising from this report. The report is subject to call in, with the exception of recommendations 2.2 to 2.4 as referenced above.

9.3 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) made pursuant to the Local Government Act 2003 require the Council to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities ("The Prudential Code"). Regulations 23 and 24 provide respectively that capital receipts may only be used for specified purposes and that in carrying out its capital finance functions, a local authority must have regard to the code of practice in "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("The Treasury Code") issued by CIPFA.

9.4 In relation to the Annual Investment Strategy, the Council is required to have regard to the Guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003 entitled "Statutory guidance on Local Government Investments 3rd Edition" which is applicable from and effective for financial years commencing on or after 1 April 2018.

In addition, the Prudential Code and the Treasury Management Code contain investment guidance which complements the Statutory Guidance mentioned above.

9.5 Local authorities are required to have regard to the current editions of the CIPFA codes by regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended.

9.6 Under the provisions of Section 3(1) and (8) of the Local Government Act 2003, the Council must determine and keep under review how much money it can afford to borrow, and the function of determining and keeping these levels under review is a full Council, rather than an executive function.

9.7 The Council must also have regard to the Guidance issued by the Secretary of State under Section 21(1A) of the Local Government Act 2003 entitled "Statutory guidance on minimum revenue provision."

9.8 The Prudential Code requires authorities to prepare a capital strategy.

Options, timescales and measuring success

a) What other options were considered?

This report provides an update to the 2023/24 strategy and outlines the proposed strategy for 2024/25. This update and strategy are provided to Executive Board and Full Council regarding Treasury Management operation and activity. As such other options are not considered in this report.

b) How will success be measured?

Treasury Management continues to adhere to its governance framework including the CIPFA Code of Practice, the Prudential Codes 2021 and revised CIPFA guidance notes issued in 2022. In accordance with the Treasury Management Code, the Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Council and any financial instruments entered into to manage these risks. All borrowing and investments undertaken to date during 2023/24 have been compliant with the governance framework.

Progress against this 2024/25 strategy will be reported to Executive Board via an update report during the year and a final outturn report. The revenue cost of debt will continue to be monitored within Council's the overall monthly budget monitoring process. In addition, an update on the prudential indicators will be included within financial health reports to Executive Board.

Other measures of success will include remaining within any limits set as part of the Prudential Indicators such as the Authorised limit, Operational Boundary, the Limit on Treasury management Investments greater than 364 days and the Maturity Structure of External borrowing. A further measure of success will be remaining within the revenue budget for Debt approved by Full Council as part of the budget setting process.

Benchmarking of Treasury Management activity is only undertaken on an ad-hoc basis as the structure of debt portfolios and balance sheets of similar authorities often reflect the timing of past spending and financing decisions and therefore can lead to anomalies. The CIPFA Prudential Code makes it clear that prudential indicators should not be used for benchmarking purposes for this reason

c) What is the timetable for implementation?

This report is to confirm the successful operation of the Treasury Management strategy within the established legal and operational framework and is a continuous and on-going process.

Appendices

1.	Appendix A	Prudential indicators 2023/24 to 2026/27
2.	Appendix B	Liability benchmark 2022/23 to 2032/33
3.	Appendix C	Prudential Code Monitoring 2023/24 – Debt

Background papers

None

Appendix A - TMSS PI's

DM10a

	Notes		Current year 2023.24	Year+1 2024.25	Year+2 2025.26	Year+3 2026.27
PRUDENTIAL CODE INDICATORS						
CAPITAL EXPENDITURE						
Estimate of Capital Expenditure	a					
General Fund		£k	267,980	347,560	348,356	193,589
Housing Revenue Account		£k	129,392	138,292	151,046	105,559
Total		£k	397,372	485,852	499,402	299,148
Capital Financing Requirement	b					
Borrowing - General Fund		£k	2,064,583	2,175,873	2,281,713	2,338,513
Borrowing - Housing Revenue Account		£k	782,673	821,905	869,265	887,881
Sub Total Borrowing		£k	2,847,256	2,997,778	3,150,978	3,226,394
Other Long Term Liabilities - GF		£k	386,110	359,397	330,375	297,142
Other Long Term Liabilities - HRA		£k	99,376	90,579	82,336	74,680
Sub Total Other Long Term Liabilities		£k	485,486	449,976	412,711	371,822
Total Capital Financing Requirement		£k	3,332,742	3,447,754	3,563,689	3,598,216
EXTERNAL DEBT						
Operational Boundary	c					
External Borrowing		£k	2,850,000	2,900,000	2,950,000	3,000,000
Other Long Term Liabilities		£k	580,000	550,000	510,000	470,000
Total			3,430,000	3,450,000	3,460,000	3,470,000
Authorised Limit	c					
External Borrowing		£k	3,200,000	3,200,000	3,200,000	3,200,000
Other Long Term Liabilities		£k	600,000	570,000	530,000	490,000
Total		£k	3,800,000	3,770,000	3,730,000	3,690,000
Actual External Debt (year end Forecast)	d					
PWLB		£k	1,811,737	1,782,737	1,778,737	1,755,925
Market (Inc LOBO)		£k	464,836	462,108	459,209	450,681
Short term (Actual)		£k	0	0	0	0
Short term (Forecast)		£k	274,919	501,646	656,545	756,884
Total Gross External Debt		£k	2,551,492	2,746,491	2,894,491	2,963,490
Other Long Term Liabilities		£k	485,486	449,976	412,711	371,822
Total Including OLTL		£k	3,036,978	3,196,467	3,307,202	3,335,312
Gross Debt and the CFR	e					
External Borrowing			ok	ok	ok	ok
Other Long term Liabilities			ok	ok	ok	ok
Total Gross Debt and the CFR			ok	ok	ok	ok
AFFORDABILITY						
Estimate of Financing Cost to Net revenue Stream	f					
External Borrowing Only - General Fund						
Financing Cost		£k	120,667	128,195	139,394	146,141
Net Revenue Stream		£k	573,360	621,960	641,380	659,440
Ratio		%	21.05%	20.61%	21.73%	22.16%
Including Other Long Term Liabilities - GF	f					
Financing Cost		£k	168,899	176,150	187,797	196,780
Net Revenue Stream		£k	573,360	621,960	641,380	659,440
Ratio		%	29.46%	28.32%	29.28%	29.84%
External Borrowing Only - Housing Revenue Account	f					
Financing Cost		£k	29,744	30,979	32,185	33,039
Net Revenue Stream		£k	16,390	16,221	14,992	13,779
Ratio		%	11.21%	11.00%	11.28%	11.40%
Including Other Long Term Liabilities - HRA	f					
Financing Cost		£k	46,134	47,200	47,177	46,818
Net Revenue Stream		£k	16,527	16,527	16,527	16,527
Ratio		%	17.39%	16.75%	16.53%	16.16%

INVESTMENTS

Non Treasury Financial investments			80,000	80,000	80,000	80,000
Non Treasury Property investments			200,000	200,000	200,000	200,000
Limit on non-Treasury Investments and loans	g		280,000	280,000	280,000	280,000
Estimate of Net Income from Investments for Commercial and Service Purposes	g					
Income		£k	6,710	7,030	6,992	6,992
Ratio of Income from Commerical and Service Puposes to Net revenue Stream		%	1.19%	1.14%	1.13%	1.10%

TREASURY MANAGEMENT CODE INDICATORS

Liability Benchmark for Borrowing — See attached

Maturity Structure of Borrowing 2023/24	h	Lower	Upper	Projected 31/03/2024	%
under 12 mths		0%	25%	349,628	14%
12 mths and within 24 mths		0%	20%	66,900	3%
24 mths and within 5 years		0%	35%	225,043	9%
5 years and within 10 years		0%	40%	126,477	5%
10 years and within 20 years				93,000	
20 years and within 30 years				223,469	
30 years and within 40 years		25%	90%	679,955	70%
40 years and within 50 years				665,000	
50 years and above				125,000	
				2,554,473	100%

Upper limit for long term Teasury Investments to mature in following years	i	
Year +1		150,000
Year +2		150,000
Year +3		150,000

Notes

a Forecast of capital expenditure for year at period end, actual at year end outturn

b Forecast of CFR for year end at period end, actual at year end outturn

c Authorised limit and Operational Boudary as set at the Budget setting time should only change in exceptional circumstances

d This is the year end forecast for DEBT and OLTL with Short term being the balancing figure

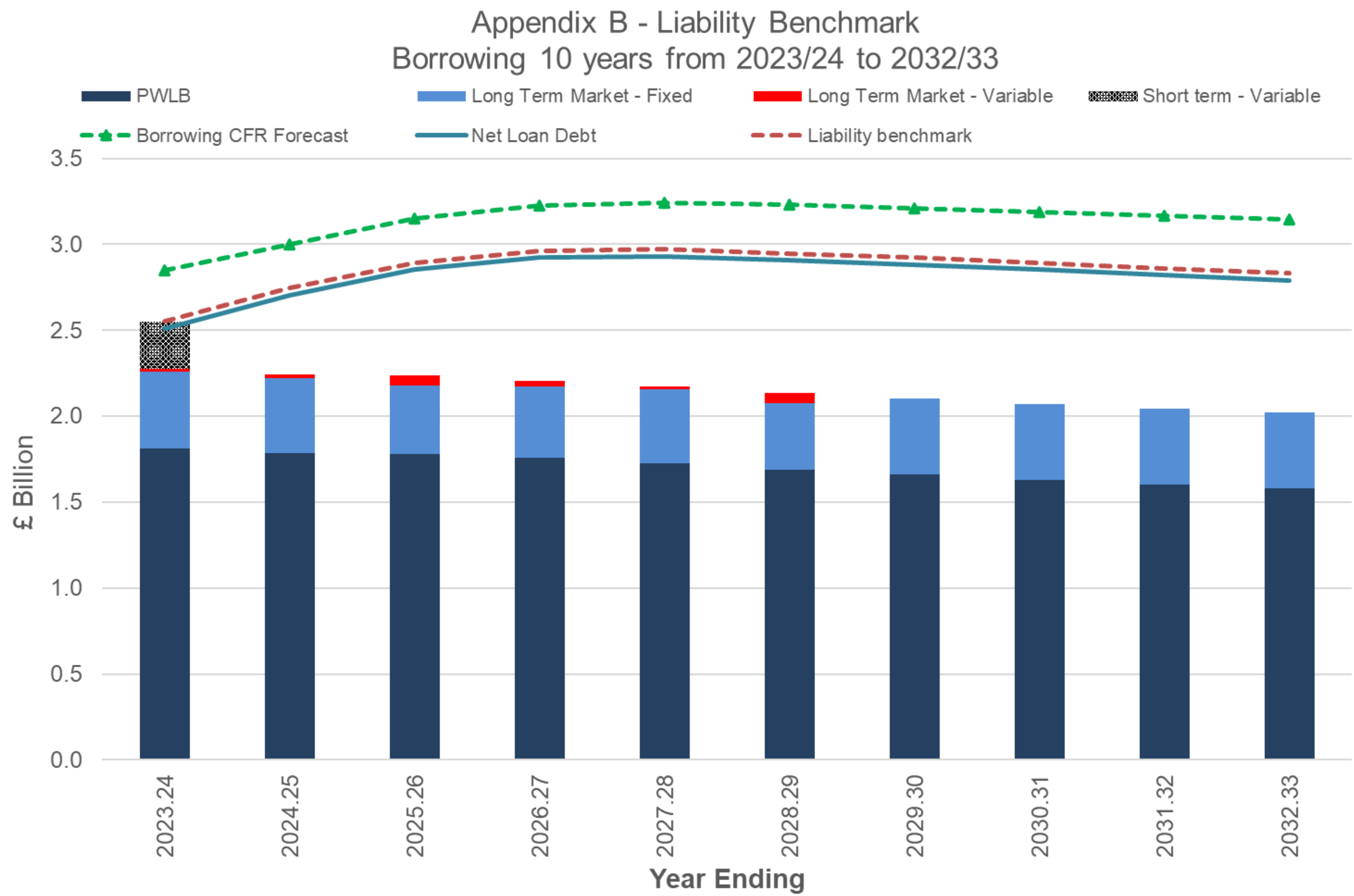
e In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that total gross debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement, which is used for comparison with gross external debt. This is a key indicator of prudence. (This

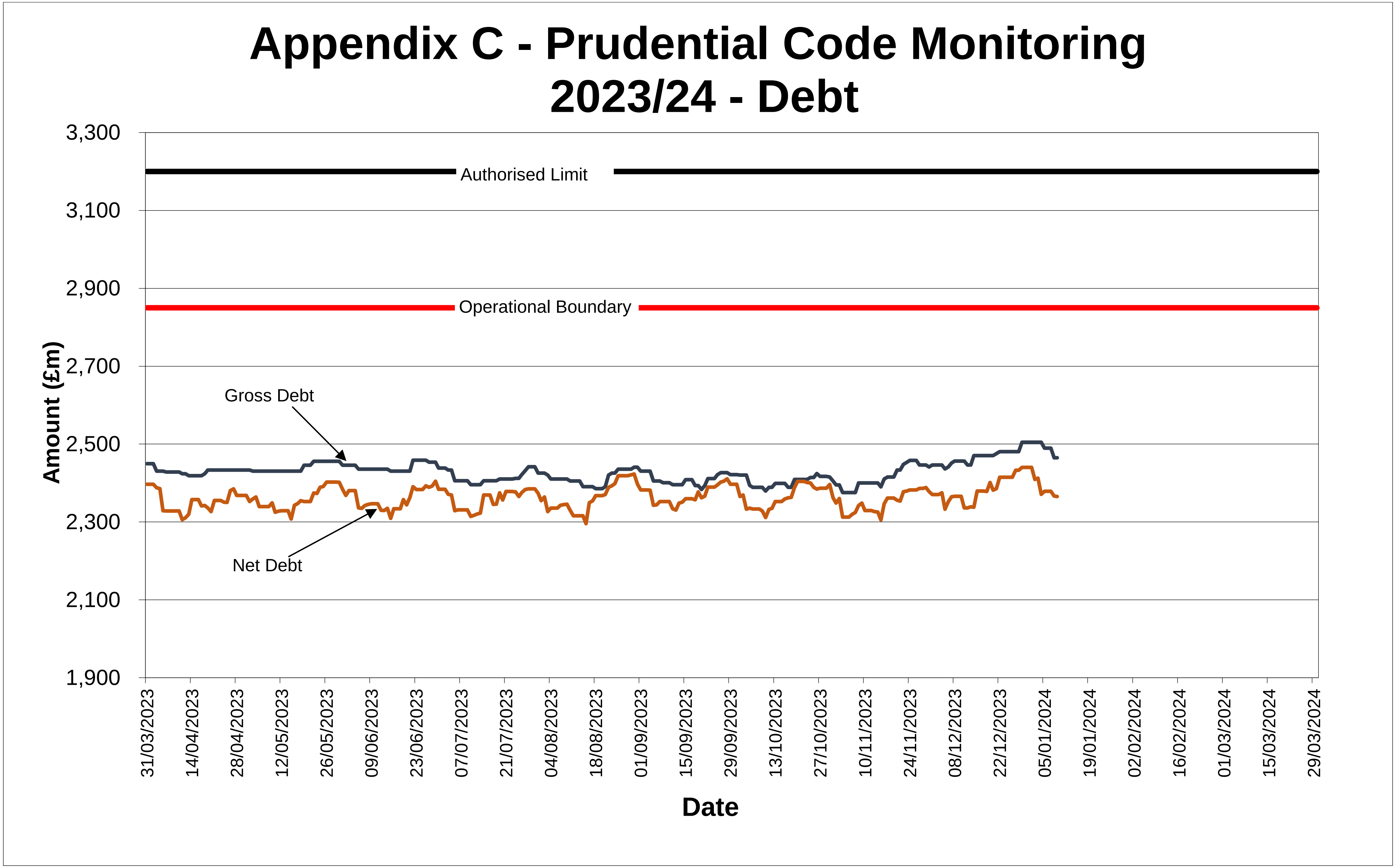
f Code only requires full comparison of debt costs including OLTL to Net revenue Streams however the Council have always reported the external borrowing metrics which are more informative.

g This is all investments under the code for Service or Commercial purposes and excludes Investments for Treasury Management purposes

h This now includes all external debt including variable and short term external debt

i This is non specified Treasury Management investments typically with a duration of greater than 364 days


Appendix B - Liability Benchmark
Borrowing 10 years from 2023/24 to 2032/33
PWLB
Long Term Market - Fixed
Long Term Market - Variable
Short term - Variable
Borrowing CFR Forecast
Net Loan Debt
Liability benchmark
£ Billion
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
2023.24
2024.25
2025.26
2026.27
2027.28
2028.29
2029.30
2030.31
2031.32
2032.33
Year Ending


Appendix C - Prudential Code Monitoring
2023/24 - Debt
Authorised Limit
Operational Boundary
Gross Debt
Net Debt
Amount (£m)
3,300
3,100
2,900
2,700
2,500
2,300
2,100
1,900
31/03/2023
14/04/2023
28/04/2023
12/05/2023
26/05/2023
09/06/2023
23/06/2023
07/07/2023
21/07/2023
04/08/2023
18/08/2023
01/09/2023
15/09/2023
29/09/2023
13/10/2023
27/10/2023
10/11/2023
24/11/2023
08/12/2023
22/12/2023
05/01/2024
19/01/2024
02/02/2024
16/02/2024
01/03/2024
15/03/2024
29/03/2024
Date