Agenda Item No:	**11**	Fenland CAMBRIDGESHIRE
Committee:	**Council**	
Date:	**16 December 2024**	
Report Title:	**Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review 2024/25**	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to review the Council's Treasury Management activity for the first six months of 2024/25 and to provide members with an update on matters pertinent to future updates to the Council's Treasury Management Strategy.

2 Key issues

- The attached report has previously been presented to Audit and Risk Management Committee at their meeting on 4 December 2024.
- The Council has operated within its Treasury Management Strategy Statement (TMSS), Annual Investment Strategy, treasury limits and prudential indicators set by Council for the first six months of 2024/25.
- The next reduction in Bank Rate is forecast in Q1 2025 and then a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank of England's Quarterly Monetary Policy Reports.
- Forward projections for PWLB certainty rates are that over the short and medium part of the curve, rates will remain elevated over the course of the next year. Rates in the longer part of the curve will depend on Bank Rate loosening, inflation and geo/political concerns.
- Prudential indicators have been updated to reflect the latest capital programme and borrowing projections.
- No new external borrowing has been taken out to date in 2024/25. The current Medium Term Financial Strategy assumes that some external borrowing will be required over the three-and-a-half-year period to 31 March 2027.
- Investment income received from temporary investments (call accounts and fixed term deposits) for the first six months of 2024/25 was £307k. Projected investment income for 2024/25 is £480k against an original budget of £445k.
- Projected income from property funds for 2024/25 is forecast at £130k against an original budget of £150k.
- Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt rescheduling has been undertaken to date in the current financial year.

3 Recommendations

It is recommended that Members note the report.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Boden, Leader and Portfolio Holder, Finance
Report Originator(s)	Peter Catchpole, Chief Finance Officer and Corporate Director Mark Saunders, Chief Accountant
Contact Officer(s)	Peter Catchpole, Chief Finance Officer and Corporate Director Mark Saunders, Chief Accountant
Background Paper (s)	Link Asset Services template Council Report - 26 February 2024 - General Fund Budget 2024/25 and Capital Programme 2024-27

Report:

1 Context

1.2 The Council's responsibilities in relation to Treasury Management are defined as part of the Local Government Act 2003 ('the Act'). The Act requires the Council to have regard to the Treasury Management Code published by the Chartered Institute of Public Finance and Accountancy, (CIPFA).

1.3 Additionally, there is a statutory requirement for the Council to comply with the Prudential Code. There is a close interaction between the Treasury Management Code and the Prudential Code. The Prudential Code establishes a framework for the Council to self-regulate the affordability, prudence and sustainability of its capital expenditure and borrowing plans whilst the Treasury Management Code is concerned with how the Council uses its Treasury Management function to progress the future plans developed with reference to the Prudential Code.

1.4 In December 2021, CIPFA issued revised Prudential and Treasury Management Codes. These require local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments.

1.5 The Council's Capital Strategy for 2024/25 was approved by Full Council on the 26 February 2024.

Treasury Management

1.6 Treasury management is defined 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."

1.7 The Council complies with the requirements of CIPFA's Code of Practice on Treasury Management (revised 2021).

1.8 The primary requirements of the Code applicable to the 2024/25 financial year are as follows:

- 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 Full Council of an annual Treasury Management Strategy Statement, including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report and an Annual 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.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies (including Mid-year Review Report) to a specific named body. For this Council the delegated body is the Audit and Risk Management Committee.

1.9 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management and covers the following:

- an economic update for the first six months of 2024/25 taking account of expert analysis provided by the Council's Treasury Management Advisors, Link Asset Services;
- a review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- the Council's capital plans;
- a review of the Council's investment portfolio for 2024/25;
- a report of the Council's borrowing strategy for 2024/25;
- a report of debt rescheduling during 2024/25;
- a review of compliance with Treasury and Prudential Limits for 2024/25.

2 Economic Update

2.1 Following the 30 October Budget and the outcome of the US Presidential election on 6 November, at its latest monetary policy meeting on 7 November 2024, the Bank of England cut interest rates by 25bps to 4.75%.

2.2 The Office for Budgetary Responsibility and the Bank of England's view following the budget, is that inflation (measured by CPI) will increase in the short term, staying sticky until at least 2026 before dropping back below 2% in 2027. Policy decisions following the US President election could prove inflationary too.

2.3 The anticipated major investment in the public sector, according to the Bank of England, is expected to lift UK real GDP to 1.7% in 2025 before growth moderates in 2026 and 2027. The debate around whether the Government's policies lead to a material uptick in growth primarily focus on the logistics of fast-tracking planning permissions, identifying sufficient skilled labour to undertake a resurgence in building, and an increase in the employee participation rate within the economy.

3 Interest Rate Forecast

3.1 The Council's treasury advisor, Link Group, provided the following forecasts on 11th November 2024. The PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20bps)

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

3.2 Link's latest forecast is that monetary policy is sufficiently tight at present to cater for some further moderate loosening, the extent of which, however, will continue to be data dependent. The next reduction in Bank Rate is forecast to be made in February and for a pattern to evolve whereby rate cuts are made quarterly and in keeping with the release of the Bank of England's Quarterly Monetary Policy Reports. Any movement below a 4% Bank Rate will, nonetheless, be very much dependent on inflation data in the second half of 2025.

3.3 PWLB Forecast - 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 Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1 The Treasury Management Strategy Statement (TMSS) for 2024/25 was approved by Council on 26 February 2024. There are no policy changes to the TMSS.

4.2 Changes are required to some of the prudential indicators as a result of the forecast 2024/25 capital outturn. The following table compares the previous prudential indicators (agreed on 26th February) against the latest revised indicators.

Prudential Indicators	**2024/25 Previous £000**	**2024/25 Revised £000**
Capital Programme	9,425	16,452
Capital Financing Requirement	18,345	20,795
Gross Debt	19,080	15,575
Operational Boundary	20,080	16,575
Authorised Limit For External Debt	25,080	21,575

5 The Council's Capital Position

5.1 This part of the report is structured to update:

- the Council's capital expenditure plans;
- how these plans are being financed;
- the impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- compliance with limits in place for borrowing activity.

5.2 An updated capital programme and the financing of that programme for 2024/25 is to be presented to Cabinet for approval on 16 December 2024. This revised estimate will address amendments to the programme since February, including re-profiling schemes from 2023/24 and the allocation of further capital funds for the acquisition of Meadow Court, Elm, an additional refuse vehicle and a re-assessment of resources available in the period 2024-27. The tables in this report reflect this updated programme.

5.3 The table below compares the revised estimates with the original capital programme which was incorporated into the 2024/25 Treasury Management Strategy Statement (TMSS).

Capital Programme	2024/25 Original Estimate £000	2024/25 Revised Estimate £000
Current Forecast Expenditure	**9,425**	**16,452**
Financed by:		
Capital Grants	2,754	7,518
Section 106's & Contributions	45	120
Capital Receipts	250	250
Capital Reserves	730	789
Total Financing (before borrowing)	**3,779**	**8,677**
Borrowing Requirement	**5,646**	**7,775**

5.4 The capital expenditure plans set out above provide a summary of future level of spend. 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 service activity and the Council's capital strategy.

5.5 The Council's projections for borrowings in 2024/25 are summarised below. The following table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement – CFR). The revised estimated CFR is higher than the original budget forecast (see paragraphs 5.2 and 5.3 above).

External Debt Projections	2024/25 Original Estimate £000	2024/25 Revised Estimate £000
External Debt at 1 April	13,430	7,800
Prudential Borrowing	5,650	7,775
Gross Debt at 31 March	**19,080**	**15,575**
Capital Financing Requirement at 31 March 2025	**18,354**	**20,795**
Borrowing Less CFR – 31 March 2025	**726**	**(5,220)**

5.6 The Council has made provision to repay all 'borrowing' liabilities through increased Minimum Revenue Provision (MRP) in the General Fund revenue budget.

5.7 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within 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 CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need. The policy permits borrowing in advance of need where it is prudent to do so.

Members should note that the current limits and estimates set out below have been determined with reference to the existing capital programme.

5.8 The operational boundary 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.

Operational Boundary	**2024/25 Original Estimate £000**	**2024/25 Revised Estimate £000**
Debt	16,080	13,575
Plus Other Long Term Liabilities Finance Leases	1,000	1,000
Commercial Activities/ Non Financial Investments	3,000	2,000
Operational Boundary for Year	**20,080**	**16,575**

5.9 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit, which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level for borrowing which, while not desired could be afforded in the short term but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit For External Debt	**2024/25 Original Estimate £000**	**2024/25 Revised Estimate £000**
Debt	21,080	18,575
Plus Other Long Term Liabilities Finance Leases	1,000	1,000
Commercial Activities/ Non Financial Investments	3,000	2,000
Total Borrowing	**25,080**	**21,575**

5.10 The Corporate Director & Chief Finance Officer reports that no difficulties are envisaged for the current year in complying with the above prudential indicators.

6 Investment Portfolio

6.1 In accordance with the Treasury Management Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

6.2 The current forecasts for bank rate are shown in paragraph 3.1 above.

6.3 The Council held £15.087m of investments, including property funds at 30th September 2024 (14.911m at 31st March 2024). The investment portfolio yield from temporary investments (call and fixed term deposits) for the first 6 months of the year was 5.12%, the same rate as the 7 day backward looking average Sonia Rate for the same period.

6.4 The Council has achieved investment income of £307k on its temporary investment portfolio to 30th September 2024. The projected income for 2024/25 is £480k compared with an original budget of £445k.

6.5 £4m of the Council's investments are held in externally managed pooled property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income (from quarterly cash distribution payments) and long-term price stability. The Council views these as a long-term investment that it has entered into for a minimum of five years as this manages the risk of fluctuations in the value of the investment which was £3.238m at 30 September 2024. Since mid-2022 commercial property market has had a difficult time in general as property prices fell sharply in response to high inflation, rising interest rates and increased debt costs which accounts for the fall in value. The distributions payable for the first quarter was £34,420 (second quarter returns are expected in November), which is a 4% revenue income distribution return.

6.6 The 2024/25 projected outturn for property fund income is £130k against a budget of £150k.

6.7 The Corporate Director and Chief Finance Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2024/25.

7 Borrowing Strategy

7.1 The Council's estimated CFR for 2024/25 is £20.795m. 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.

7.2 No new external borrowing has been undertaken during 2024/25 to date. The Council has utilised surplus 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 gilt yield remain elevated, particularly at the longer-end of the yield curve (25 to 50 years).

7.3 The current Medium Term Financial Strategy assumes that some external borrowing will be required over the three-and-a-half-year period to 31 March 2027. Assumptions about the level of external interest payable are included within the budget. Responsibility for deciding when to borrow externally, together with details of the amount to borrow and the term and type of any loan, rests with the Chief Finance Officer. The Chief Finance Officer's decision will be informed by advice from the Council's treasury management advisors and information regarding the progress of schemes set out in the capital programme. Any borrowing decisions will be reported to Cabinet through the annual treasury management report.

8 Debt Rescheduling

8.1 Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt rescheduling has been undertaken to date in the current financial year.