



**Open Report on behalf of Andrew Crookham,
Deputy Chief Executive & Executive Director - Resources**

Report to:	Overview & Scrutiny Management Board
Date:	29 February 2024
Subject:	Treasury Management Strategy Statement and Annual Investment Strategy for Treasury Investments 2024/25

Summary:

This report invites the Overview and Scrutiny Management Board to consider a report on the Treasury Management Strategy Statement 2024/25, including the Annual Investment Strategy for Treasury Investments 2024/25, which is due to be considered by the Executive Councillor for Resources, Communication and Commissioning between 11th March 2024 and 15th March 2024. The views of the Board will be reported to the Executive Councillor as part of his consideration of this item.

Actions Required:

The Overview and Scrutiny Management Board is invited to:-

- 1) consider the attached report and to determine whether the Board supports the recommendations(s) to the Executive Councillor for Resources, Communications and Commissioning as set out in the report.
- 2) agree any additional comments to be passed to the Executive Councillor in relation to this item.

1. Background

The Executive Councillor for Resources, Communication and Commissioning is due to consider the Treasury Management Strategy Statement and Annual Investment Strategy for Treasury Investments 2024/25 between 11th March 2024 and 15th March 2024. The full report to the Executive Councillor is attached as Appendix A to this report. The key points of the report are highlighted below.

Key Points Summary

- The Treasury Management Strategy and Annual Investment Strategy set the framework for how we manage cash flows, borrowings, treasury investments and risk. The sums involved are significant. Non-treasury investments made for service reasons have a different risk profile and are covered in a separate Capital Strategy that is included along with the County Council Budget 2024/25.
- Performance against these strategies will be reported quarterly to OSMB throughout the forthcoming financial year.
- CIPFA published revised Treasury Management and Prudential Codes in December 2021 and these Strategies fully comply with the new requirements of the 2021 Codes.
- A Knowledge & Skills Framework for those involved in Treasury Management, (officers & members), is a new requirement of the CIPFA Treasury Management Code 2021. This has been developed and will be launched in April 2024. It will involve identifying competencies appropriate for the role, self-assessment against these competencies, tailored learning plans to fill any gaps and monitoring of attendance at training sessions.
- The Council pools the cash of the Pension Fund within the surplus Council cash balances for investment in line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. This cash can include both the day-to-day cash balances of the Pension Fund and also its Strategic Asset Allocation of cash from time to time. Pension Fund cash is forecast to be around £70m at the year end.
- Bank Rate is at 5.25% and this is thought to be the peak of the cycle, as the Monetary Policy Committee (MPC) kept Bank Rate on hold for the fourth time in a row at its February 2024 meeting. The first cut in Bank Rate is expected in August 2024 and the Bank Rate is expected to be 3.75% by the end of 2024/25. This forecast is dependent on inflation which is thought to fall to the 2% target by Spring 2024, however the MPC think it may rebound above this level for the bulk of the next 3 years, so are cautious about cutting rates too quickly. Long term borrowing rates are also forecast to fall moderately in 2024/25, but again this is dependant of the path of inflation. Economic growth is supposed to be tepid at best over 2024/25, although a recession is expected to be avoided.
- The Council has a significant borrowing requirement over the next 3 years to meet its capital expenditure plans. In accordance with the requirements of the new revised CIPFA Code 2021, the Debt Liability Benchmark has been calculated, (shown in Annex D of the Report). This benchmark focuses on what level of borrowing is required in order to keep investments at a level of £100m to meet liquidity needs. The Benchmark indicates that £22.5m of external borrowing is

needed in 2024/25 to maintain the £100m liquidity position set, given the capital expenditure plans.

- In line with the CIPFA Prudential Code, Prudential Indicators, which limit the Council's borrowing and investment activity, are set. These limits ensure the Councils capital expenditure plans, are affordable, prudent and sustainable. (See Annex B).
- The Council's Minimum Revenue Provision (MRP) policy is covered in Annex C and details how the Council will set aside cash resource from Revenue each year to repay borrowing. The level of MRP forms Prudential Indicator Number 6 as shown in Annex B. The MRP Policy has been revised to be compatible with the proposed changes to Statutory Guidance on MRP that is currently under consultation with DLUHC and will become effective on 1st April 2024. There will be no significant financial impact to the level of the Council's MRP as a result of the proposed changes.
- Prudential Indicator Number 6 also shows that the Councils cost of borrowing plans remain well within the limit set of 10% of Net Revenue. (See Annex B) for the forecasting period to 2025/26.
- Prudential Indicator Number 3 is the Council's Authorised Limit for External Borrowing or Affordable Borrowing Limit, which is set to ensure that Council borrowing remains affordable. This limit covers borrowing and other long term liabilities (OLTLs) which are finance lease agreements that are recorded on the balance sheet and are akin to borrowing. The OLTL limit for 2024/25 has been increased by £2.5m, plus £2m headway, to accommodate for any extra finance leases to be recorded on the balance sheet at 31/3/2025 as a result of the IFRS16 Leases accounting standard requirements. This increase in limit is only an estimate at this stage, so may need to be amended mid-year if necessary, once actual figures are known.
- Giving consideration to current borrowing and investment factors highlighted, the key elements of the Councils borrowing and investment strategies for 2024/25 are highlighted in the green sections of the report. (See paras 2.3.6 and 2.4.6).
- The Investment benchmark SONIA, adjusted by -0.10% to make it more appropriate for a market operation benchmark, will continue to be used in 2024/25 to benchmark the Councils investment return.
- Cash balances of the Council are forecast to be around £200m, including Pension Fund cash, for 2024/25. External borrowing taken in line with the debt liability forecast should maintain the £100m of core cash needed for liquidity purposes.
- The Council's risk appetite for treasury investments remains low, its priorities will remain security first; liquidity second then finally yield.

2. Conclusion

Following consideration of the attached report, the Board is requested to consider whether it supports the recommendation(s) in the report and whether it wishes to make any additional comments to the Executive Councillor. The Board's views will be reported to the Executive Councillor.

3. Consultation

a) Risks and Impact Analysis

See report to Executive Councillor attached at Appendix A

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Report to the Executive Councillor for Resources, Communications and Commissioning on the Treasury Management Strategy Statement and Annual Investment Strategy for Treasury Investments 2024/25.

5. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
County Council Budget 2024/25 - 23 rd February 2024	Democratic Services - Agenda for Council on Friday, 23rd February, 2024, 10.00 am (moderngov.co.uk)
LCC Treasury Management Policy Statement and Treasury Management Practices	Lincolnshire County Council, Resources

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