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| **Report to:** | **EXECUTIVE** |
| **Relevant Officer:** | Steve Thompson, Director of Resources |
| **Relevant Cabinet Member** | Councillor Lynn Williams, Leader of the Council |
| **Date of Meeting** | 5 February 2024 |

# TREASURY MANAGEMENT STRATEGY 2024/25

**1.0 Purpose of the report:**

1.1 The Council is required by statute to publish an annual Treasury Management Strategy incorporating its Borrowing and Investment Strategies. It is also required to prepare a Capital Strategy incorporating both strategic investments for economic regeneration as well as more detailed capital plans for effective service delivery. The Council's Capital Strategy is the subject of a separate report and will be presented to the Executive and then to Full Council with the Treasury Management Strategy.

1.2 In essence the Treasury Management Strategy is an annual plan of how Blackpool Council will manage its investments and cashflows. It identifies the Council's borrowing needs and shows how it will invest temporary surplus cash balances, and how it will control its banking, money market and capital market transactions.

1.3 The Scale of Operations at Appendix 7a shows the levels of capital expenditure, borrowing and temporary investments and also the impact that spending on new capital schemes, strategic investments and economic regeneration activities have on affordability levels.

**2.0 Recommendation(s):**

2.1 To recommend to the Council:

1. To approve the Treasury Management Strategy 2024/25 including both the Borrowing and Investment Strategies which are set out in Appendix 7c and Appendix 7d to this report;

2. To adops the Treasury Management Policy Statement, three key principles and four clauses taken from the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (2021 Edition) and set out in Appendix 7b to this report;

3. To approve the revised Prudential Indicators and Limits for 2023/24 and the new

Prudential Indicators and Limits for 2024/2025 - 2026/27 which are set out in Appendix 7e to this report; and

4. To approve the Minimum Revenue Provision Policy Statement for 2024/25, which will ensure a prudent Minimum Revenue Provision charge in the annual statement of accounts. The policy is set out within Appendix 7f to this report.

**3.0 Reasons for recommendation(s):**

3.1 The CIPFA Code of Practice on Treasury Management Activities requires the annual approval of strategy and reporting of performance information. This report sets out the Council's Treasury Management Strategy for 2024/25.

3.2 Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.3 Is the recommendation in accordance with the Council's approved budget? Yes

**4.0 Other alternative options to be considered:**

4.1 None.

**5.0 Council priority:**

5.1 The relevant Council priority is: "The economy: Maximising growth and opportunity across Blackpool".

**6.0 Background information**

6.1 The Council is required by statute to publish an annual Treasury Management Strategy incorporating its Borrowing and Investment Strategies. It is also required to prepare a Capital Strategy incorporating both strategic investments for economic regeneration as well as more detailed capital plans for effective service delivery. The Council's Capital Strategy is the subject of a separate report and will be presented to the Executive and then to Full Council with the Treasury Management Strategy.

In essence the Treasury Management Strategy is an annual plan of how Blackpool Council will manage its investments and cashflows. It identifies the Council's borrowing needs and shows how it will invest temporary surplus cash balances, and how it will control its banking, money market and capital market transactions.

The Scale of Operations at Appendix 7a shows the levels of capital expenditure, borrowing and temporary investments and also the impact that spending on new capital schemes, strategic investments and economic regeneration activities have on affordability levels.

6.2 **Definition**

The Chartered Institute of Public Financial and Accountancy (CIPFA) defines Treasury Management as *"The management of the organisation's borrowing, investments and cashflows, 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".*

6.3 **Background**

Blackpool's Capital Programme for 2024/25–2026/27 continues to focus on schemes which will help to improve the economic wellbeing and prosperity of Blackpool and the surrounding area. Capital grants received from central government remain at a low level but the Council is using borrowing to invest in regeneration. Total cash moving annually through the Council's bank account including the re-investment of temporary cash surpluses and re-borrowing of temporary cash shortfalls is expected to once again be over £1.5 billion in the current year.

Large capital regeneration schemes such as the continuing rollout of the Central Business District and the extension of the Tramway to Blackpool North Station are in a mature stage of development, and are anticipated to be completed during the early part of the financial year. Other large schemes are also expected to progress with the Council focusing on those projects which will help grow the economy and prosperity within the town, particularly the Civil service Hub in the centre of the town.

The Treasury Management Panel, which comprises the Director of Resources, Chief Accountant and representatives from Corporate Finance and Blackpool Coastal Housing, has the responsibility for managing the risks associated with treasury management activities on an operational basis. The Panel recognises the need to balance investment risk against achieving an acceptable return on temporary surplus cash balances. The balance sought is to maximise the security and liquidity of the Council's investments, with higher yields being obtained only where they are consistent with those desired levels of security and liquidity.

6.4 **Objectives**

The objectives of the Treasury Management Strategy are as follows:

- To set the framework for the Council's treasury management operations

- To manage the Council's investments and cashflows

- To control banking, money market and capital market transactions

- To plan and secure appropriate borrowing in order to finance the requirements of the Capital Strategy at the lowest overall cost to the Council

- To achieve the best rates of return from the investment of temporary surplus cash balances commensurate with risk, subject to the overriding principle of maintaining an acceptable level of security

- To monitor and control effectively the risks associated with these transactions

- To comply with appropriate codes and regulations including the International Financial Reporting Standards as they apply to Treasury Management.

In delivering the above objectives the Council is required to:

- Determine its own borrowing limits taking into account its financial situation, long-term plans and in particular what it thinks is affordable now and sustainable in the future

- Monitor its borrowing limits using performance measures called Prudential indicators, these are set out in detail in Appendix E to this report

- Consider annual and six-monthly reports on Treasury Management which contain prudential indicators.

6.5 **<u>Economic Outlook</u>**

The significant events that have occurred over recent years continue to have an impact on both the Global and UK economy. The consequences of the pandemic, the effects of Britain's exit from the European Union and the war in Ukraine are continuing to have an effect on a number of factors including the supply chain and prices. As a result, UK inflation continued to rise in early 2023 but has now started to fall. It is hoped that this will continue and interest rates will fall as a result but it is important that the Council's treasury and investment affairs continue to be managed in a cautious and prudent manner.

The Bank of England consequently has increased the base rate numerous times from 3.5% in January 2023 to 5.25% on the 14th December 2023. There is however a market expectation that rates will fall during 24/25 due to lower than expected levels of inflation. For the purpose of this report the information provided by the Office of Budget Responsibility have been used and this forecasts the base rate will reduce to a 4.9% in 2024. Money market investment rates for temporary surplus cash balances have also increased with the base rate with the current rate for a three-month fixed-term deposit with a high street bank being typically 5.1%.

Long-term borrowing rates, influenced by gilt yields, returned to relatively stable levels in 2023 given the extreme volatility in 2022 as a result of the September mini-budget, which caused the Bank of England to announce an emergency bond-buying programme. Following the change in government budget proposals, gilts have largely stabilised and expected to mirror the movements in the base rate.

6.6 **Treasury Management Strategy - Key Principles**

A summary of the key principles upon which the strategy is based is set out below and is expanded in more detail in Appendix 7b

- Temporary investments will be restricted to UK Banks and Building Societies unless non-UK institutions satisfy the stringent requirements set out in the Investment Counterparty and Liquidity Framework (Appendix 7d, paragraph 2.4).

- Short-dated Gilts (UK government securities with a life of less than one year) will continue to form part of the Council's approved list of investments.

- Fixed-term cash deposits are currently restricted to terms of not more than three months (subject to review by the Treasury Management Panel).

- Temporary cash surpluses will continue to be applied to reduce the Council's need to borrow.

- New long-term borrowing to support capital expenditure will only be taken in favourable conditions. The Council is a registered shareholder in the UK Municipal Bond Agency, which entitles the Council to borrow from them if the Treasury Management Panel considers them to be competitive.

- The Treasury Management Panel will remain alert to market intelligence through the financial press, contacts in the financial markets and our communication with other local authorities.

- Treasury management advisers will only be engaged on an ad-hoc basis, responsibility for all treasury management activities being retained in-house.

- Long-term debt will be repaid in advance of redemption date where there is demonstrable financial advantage to the Council.

- The Policy for allocating borrowing costs to the Housing Revenue Account (HRA) for 2024/25 and future years will be the same as in previous years and will be based on the HRA share of the Capital Financing Requirement (HRACFR). The charge will be made up of the interest payable on long-term loans in the Housing Revenue Account pool and an additional charge or credit where the Housing Revenue Account pool of loans is either below or above the HRACFR.

- Prudentially funded capital schemes will be charged a Minimum Revenue Provision (MRP) and interest at the pooled borrowing rate for the General Fund except in exceptional circumstances when the Director of Resources deems it appropriate to use an alternative rate. In cases where the interest rate is lower than the pooled rate there must be clear evidence that the use of the lower rate is affordable. The policy on charging MRP is set out in Appendix 7f. This policy is reviewed annually.

The cost of temporary and long term borrowing has increased significantly over the last 12 months and therefore the Treasury Management Panel will continue to use temporary loans, until the long term rate reduces as expected with the base rate decrease. A switch to long-term borrowing may be made in order to protect the margin and when the interest rate environment is favourable, and to maintain the 50:50 split between long and short term borrowing.

When the Council makes business loans, it takes into account its own cost of borrowing, the likelihood of future interest rate movements, the risks of the venture and any state aid implications in ensuring that it at least covers its own costs.

Capital spending is often financed by using internal balances and by using short-term loans. With interest rates rising once again during 2023 additional pressure is applied to capital schemes.

A revised Treasury Management Code (the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes) and Prudential Codes were issued in December 2021. These apply with immediate effect, however reporting requirements were deferred until the 2023/24 financial year.

6.7 Does the information submitted include any exempt information? No

**7.0 List of Appendices:**

7.1 Appendix 7a – Scale of Operations
Appendix 7b– Treasury Management Policy Statement 2024/25-2026/27
Appendix 7c– Borrowing Strategy
Appendix 7d– Investment Strategy 2024/25-2026/27
Appendix 7e – Prudential Indicators 2024/25-2026/27
Appendix 7f – Minimum Revenue Provision (MRP) Strategy 2024/25-2026/27

**8.0 Financial considerations:**

8.1 As outlined in this report and Appendices 7a to 7f.

**9.0 Legal considerations:**

9.1 None.

**10.0 Risk management considerations:**

10.1
- Liquidity Risk (accessibility and/or running out of cash)
- Market Risk (movements in interest rates – yield)
- Credit Risk (investment counterparties might default – security)
- Legal Risk (transactions and actions legal/within regulatory limits)
- Operational Risk (adequacy of internal processes)

**11.0 Equalities considerations and the impact of this decision for our children and young people:**

11.1 None.

**12.0 Sustainability, climate change and environmental considerations:**

12.1 None

**13.0 Internal/external consultation undertaken:**

13.1 With the Council's Treasury Management Panel

**14.0 Background papers:**

14.1 None.

**15.0 Key decision information**:

15.1 Is this a key decision? Yes

15.2 If so, Forward Plan reference number: 28/2023

15.3 If a key decision, is the decision required in less than five days? N/A

15.4 If **yes**, please describe the reason for urgency:

**16.0 Call-in information:**

16.1 Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process? No

16.2 If **yes**, please give reason:

**TO BE COMPLETED BY THE HEAD OF DEMOCRATIC GOVERNANCE**

**17.0 Scrutiny Committee Chairman (where appropriate):**

Date informed: 26 January 2024 Date approved:

**18.0 Declarations of interest (if applicable):**

18.1

**19.0 Summary of Discussion:**

19.1

**20.0 Executive decision:**

20.1

**21.0 Date of Decision:**

21.1

**22.0 Reason(s) for decision:**

22.1

**23.0 Date Decision published:**

23.1

**24.0 Alternative Options Considered and Rejected:**

24.1

**25.0 Executive Members in attendance:**

25.1

**26.0 Call-in:**

26.1

**27.0 Notes:**

27.1