



# Borough of Telford and Wrekin

## Audit Committee

29 January 2025

### 2024/25 Treasury Management Update Report and 2025/26 Treasury Management Strategy

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<b>Cabinet Member:</b>	Cllr Zona Hannington - Cabinet Member: Finance, Governance & Customer Services
<b>Lead Director:</b>	Michelle Brockway - Director: Finance, People & IDT
<b>Service Area:</b>	Finance, People & IDT
<b>Report Author:</b>	Edward Rushton - Group Accountant
<b>Officer Contact Details:</b>	<b>Tel:</b> 01952 383750 <b>Email:</b> edward.rushton@telford.gov.uk
<b>Wards Affected:</b>	All wards
<b>Key Decision:</b>	Not Key Decision
<b>Forward Plan:</b>	20 <sup>th</sup> November 2023
<b>Report considered by:</b>	SMT – 14 January 2025 Business Briefing – 23 January 2025 Audit Committee – 29 January 2025

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#### 1.0 Recommendations for decision/noting:

Audit Committee Members are asked to recommend that Full Council:

- 1.1 Note the treasury management activities to 31 December 2024 (Appendix A);
- 1.2 By way of vote, recommend that Full Council approves the Treasury Strategy 2025/26 (Appendix B), including the Annual Investment Strategy, together with the Minimum Revenue Provision Statement (Appendix B para 3.0, which will apply from 2024/25 onwards and Treasury Management Prudential Indicators (Appendix Bii); and
- 1.3 Note the Treasury Management Policy Statement (Appendix B para 4.0).

## **2.0 Purpose of Report**

2.1 During the financial year the minimum reporting requirements, as required by regulations issued under the Local Government Act 2003, are that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year,
- a mid-year, (minimum), treasury update report and
- an annual review following the end of the year describing the activity compared to the strategy.

This report updates members on Treasury Management activities during 2024/25 (mid year treasury update report) and details the Treasury Management Strategy recommended to be adopted for 2025/26 (annual treasury strategy). The report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

## **3.0 Background**

3.1 The strategy in 2024/25 and recent years has been to limit investments in third parties, which reduces the Council's exposure to counterparty risk, and where possible and appropriate to take advantage of lowest interest rates for borrowing. Maintaining high levels of very cheap temporary financing has generated surplus treasury management returns of more than £30m since 2015/16 which has reduced the impact of Government cuts to the Council's grants and therefore helped to protect front line services.

3.2 The Council's Medium Term Financial Strategy for 2024/25 and the Cabinet's proposals issued for consultation in January 2025 for 2025/26 to 2028/29 include an allowance for interest rates based on advice from the Council's independent treasury management advisors which ensures that the Council's budget in relation to Treasury Management is as robust as possible. The Council will continue to receive regular advice from independent expert advisors specialising in all aspects of local government treasury management and we will act in accordance with the advice received.

3.3 The report also sets out expected external financing requirements. We have an excellent track record of complying with all the treasury management and prudential indicators and limits agreed by Council and are operating well within the overall approved credit ceiling.

3.4 The proportion of the Council's net revenue budget used to service loan repayment at the time of the MTFs Strategy 2024/25 was 9.9% in the current financial year. This compares to 9.5% for the average unitary authority, and a reduction of 0.8% on prior year. At the 31 December 2024 the projected figure for 2024/25 had fallen to 8.23% which reflects capital programme reprofiling during the year.

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- 3.5 The Council has increased its external financing requirements in recent years to include investment in NuPlace which provides high quality homes for rent from a reliable landlord, mainly at market rent levels and has enabled brownfield sites to be brought back in to use. The council has also expanded the Property Investment Portfolio (the PIP) to attract and retain jobs for local people and to provide other regeneration benefits for our residents. An ancillary consequence of these investments is that it is anticipated they will bring long term capital growth which will strengthen the Council's balance sheet as well as generating revenue returns well in excess of the associated loan repayment charges. They will also bring other direct and indirect financial and other benefits to the residents of the Borough including additional income from council tax, business rates and new homes bonus which will be used to help support front line services such as Adult Social Care, as well as protecting and creating jobs for local people. The Council's solar farm generates an index linked surplus after covering all associated costs including debt charges each year which is also used to help support front line services. The net surplus in the current year is expected to be around £0.75m.
- 3.6 This report, and the Prudential Indicators report which will be considered by Cabinet on 13 February 2025 and Full Council on 27 February 2025, sets out our overall approach to treasury management and the controls that are put in place to ensure that council taxpayers' interests are protected and risks are managed as effectively as possible.

### 4.0 Summary of main proposals

#### 4.1 Treasury Management Update 2024/25

The full report is included an Appendix A.

#### Treasury Management Portfolio at 31 December 2024

	31.03.24 Actual £m	31.12.24 Actual £m	Movement Actual £m	31.03.25 Estimate £m
Capital Expenditure	83.485	57.634	-	93.151
Loans Capital Financing Requirement	511.154	551.307	40.153	551.307
Borrowing (excl. PFI)	371.324	422.667	51.343	420.312
Investments (excl. NuPlace)	17.868	31.200	13.332	15.000
<b>Net indebtedness</b>	<b>353.456</b>	<b>391.467</b>	<b>38.011</b>	<b>405.312</b>

The strategy for 2024/25 remains consistent with that outlined in the 2024/25 Treasury Strategy which was agreed for approval at Full Council on 29 February 2024 and by this committee on 31 January 2024. The Strategy is also a continuation of that used in recent years which has provided considerable benefits to the Council, i.e. to:-

- take new borrowing within shorter maturities before gradually lengthening maturities, and

- take advantage of longer term loans when opportunities arise.

Latest financial monitoring projections indicate a benefit of £1.7m from treasury management during 2024/25 which is supporting the provision of front line services and the Council's overall financial position.

### Borrowing

DEBT PORTFOLIO	31.12.24 Principal £m	Average Interest Rate %
PWLB	239.426	2.87
LOBO and Fixed Rate Loans	35.000	4.15
Municipal Investment	0.212	2.10
Temporary Loans (Local to Local)	148.029	5.22
<b>Total debt</b>	<b>422.667</b>	<b>3.77</b>

To date in 2024/25 £20.1m of our PWLB loans have matured and a further £27.7m are due to mature before the end of the financial year. Two new PWLB loans totalling £15m have been taken (see Appendix A para. 3.1). Alongside this, short term borrowing has been used to fund short term cash flow requirements.

As referred to in para. 3.1 above, a large part of the Council's total existing borrowing and planned further borrowings relates to funding projects which will deliver important and significant housing and regeneration benefits as well as generating some income. These are budgeted to generate returns in excess of the annual loan repayment charges and other operating costs.

The lender of one Lenders Option Borrowers Option (LOBO) loan has exercised their rights under the terms of the loan and the loan, £5m, has been repaid.

### Investments

INVESTMENT PORTFOLIO	31.12.24 Actual £m	Average Interest Rate %	Weighted Credit Score
Treasury investments	31.200	5.07	1.69

The overall investment strategy for 2024/25 is to gain maximum benefit but with security of the principal sum invested being the primary consideration. Overall the weighted average return on all internal investments for the year to date was 5.01%; with the paramount aim being to maintain security of principal investments have generally been placed with the Government's Debt Management Office. This return compares to a benchmark return for the period of 5.02% based on the average overnight rate with the Debt Management Office (DMO).

A schedule of short-term investments as at 31 December 2024 is shown at Appendix A, Section 4.0.

The Markets in Financial Instruments Directive II (MIFID II) came into place on 3 January 2018 and the Council has opted to be categorised as a professional client which allows access to financial services and advice it may otherwise be unable to obtain (such as advice from our treasury advisors). As part of the regulations, the authority must hold a minimum investment balance which is currently set at £10m.

### **Treasury Management Advisor**

The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors. Link currently provide treasury advisory services to over 400 public sector clients in the UK and are experienced and well-resourced to support our treasury function.

### **Economic Data (provided by Link)**

The third quarter of 2024 (July to September) saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

## **4.2 Treasury Management Strategy 2025/26**

The full report is included an Appendix B.

The Council's Treasury Management Strategy is set within the parameters of the relevant statute, guidance and accounting standards which include the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in Public Services (2021) and the Prudential Code (2021). The Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

### **4.2.1 Borrowing Strategy 2025/26**

The Council is currently expected to need to borrow an additional £82.6m in 2025/26 based on the current capital programme plans and will adopt a flexible approach to borrowing. Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

With the forecast for interest rates expected to continue falling through the forecast horizon, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow through the use of short-term loans of up to 1 year. By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. Whilst such a strategy is most likely to be beneficial over the next year given to current downward trajectory in the interest rate forecast, over the medium-term we will make gradual moves into longer term borrowing as and when attractive opportunities arise. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years.

External advisors will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2025/26 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

In consultation with its treasury management advisors consideration will be given to affordability, maturity profile of existing external financing, interest rate and refinancing risk as well as borrowing source, which is usually expected to be either Local Authorities or the Public Works Loan Board, but may also include Municipal Investment Loans, the LGA Municipal Bonds Agency, European Investment Bank or commercial sources, and any new opportunities which may arise, in accordance with the approved sources of borrowing.

This Strategy for 2025/26 is a continuation of the current Strategy approved by Full Council 29<sup>th</sup> February 2024.

#### **4.2.2 Investment Strategy 2025/26**

The strategy for any investments will generally be to minimise investments in order to reduce counter-party risk and to reduce net interest costs as longer-term borrowing rates will tend to be greater than we are able to earn on new investments, but we will look to lengthen investment periods, where cash flow permits, to achieve higher interest rates within acceptable risk parameters.

For its cash flow generated balances, the Authority will seek to utilise its business reserve instant access and notice accounts, Money Market Funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

We would generally anticipate holding investments equal to the requirements set out under MIFID II, currently £10m. Maximum investment levels with counterparties will be set to ensure prudent diversification is achieved whilst recognising that the strict investment criteria that the Council applies severely reduces the number of suitable available counterparties and therefore sums with individual counterparties may be up to £15m at any one time.

#### **4.2.3 MRP Statement 2025/26**

The Council will calculate MRP by the following methods –

Historic MRP (re pre 2007/08 borrowing). This will be calculated by dividing the balance at 31/3/07 (calculated in accordance with regulations) by 50 for an annual charge that charges over a finite period rather than a 4% reducing balance. This methodology is broadly in line with Option 3.

MRP in respect of prudential borrowing (subject to the 5.1.2 and 5.1.3 below), government supported allocations since 2007/08 and PFI will be charged over the life of the asset on an annuity basis - Option 3 in the regulations.

Regulation 27(3) allows a local authority to charge MRP in the financial year following the one in which capital expenditure financed by debt was incurred. Therefore, capital expenditure financed by borrowing in 2024/25 will not be subject to an MRP charge until 2025/26, or in the financial year following the one which the asset first becomes available for use.

The Authority will apply the asset life method for any expenditure capitalised under a Capitalisation Direction.

### **Capital loans**

Regulation 27(4) allows a local authority to exclude capital loans that are financed by debt from the requirement to make MRP, provided the loan is not a commercial loan.

The Authority has issued capital loans that are categorised non-commercial loans and has chosen to not apply MRP in accordance with the statutory guidance.

### **Share Capital**

Where an Authority incurs expenditure that is capitalised on or after April 2008, which is financed by borrowing for the acquisition of share capital, Regulation 25(1)(d) Acquisition of share capital sets out the maximum period for an authority to provide MRP of 20 years.

The Authority has incurred expenditure that has been capitalised which is financed from borrowing for the acquisition of share capital. This expenditure relates solely to share capital in NuPlace Ltd, the Council's wholly owned subsidiary. MRP relating to such expenditure has been calculated in accordance with the statutory guidance, in line with Option 3 however the asset life has been included as 20 years.

## **4.2.4 Treasury Management Prudential Indicators**

### **Capital Expenditure and Financing:**

This prudential indicator is a summary of the Authority's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

Members are asked to approve the capital expenditure forecasts: -

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Capital expenditure (£m)	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Total	83.485	93.151	151.563	80.381	45.926

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure (£m)	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Capital receipts	1.852	4.613	5.136	6.000	0.000
Capital grants	35.114	39.252	56.477	0.104	0.000
Revenue	1.435	0.343	0.992	0.000	0.000
External	6.717	7.087	6.393	0.130	0.000
Net financing need for the year	38.367	41.856	82.565	74.147	45.926
<b>Total Financing</b>	<b>83.485</b>	<b>93.151</b>	<b>151.563</b>	<b>80.381</b>	<b>45.926</b>

### The Authority's Borrowing Need (the Capital Financing Requirement)

The second prudential indicator is the Authority's Capital Financing Requirement (CFR). See Table 2 – Capital Financing Requirement (CFR) in Section 1.7 above.

Members are asked to approve the CFR projections below:

Capital Financing Requirement (£m)	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Total CFR	555.727	592.477	670.577	742.583	782.840
Movement in CFR		36.750	78.100	72.006	40.257

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. The CFR Table above shows that the Authority expects to fully comply with this recommendation.

### Limits to Borrowing Activity:

**The Operational Boundary** - this 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 and the ability to fund under-borrowing by other cash resources.

Members are asked to approve the following Operational Boundary Limits:

Operational Boundary (£m)	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	635.0	645.0	725.0	765.0
Other long-term liabilities	50.0	50.0	50.0	40.0
<b>Total</b>	<b>685.0</b>	<b>695.0</b>	<b>775.0</b>	<b>805.0</b>



**The Authorised Limit for external debt** - this is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short-term, but is not sustainable in the longer-term.

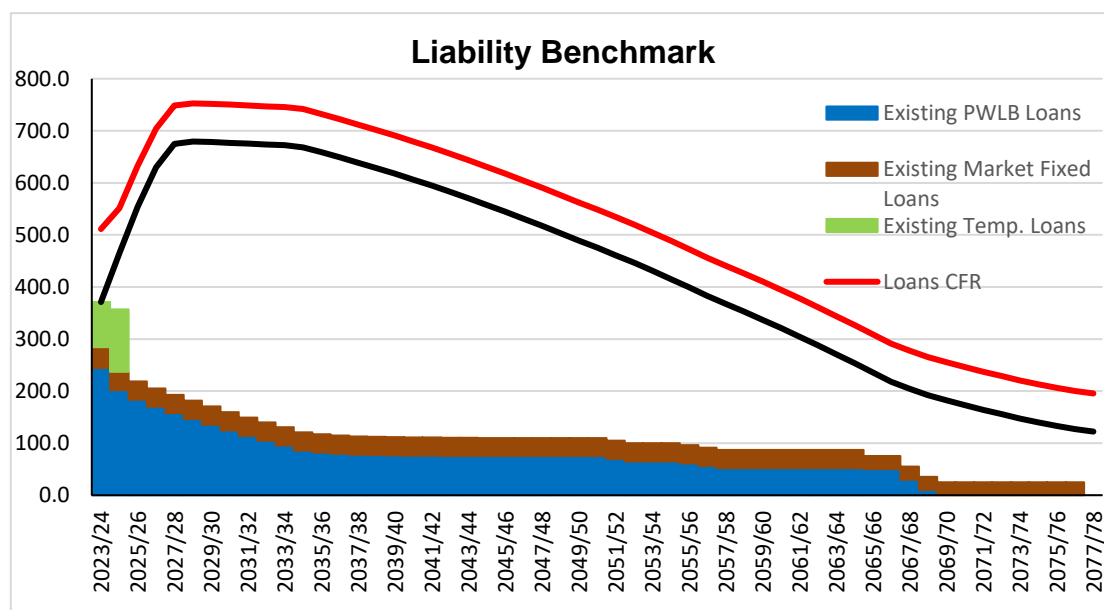
The Authority is asked to approve the following Authorised Limit:

Authorised Limit (£m)	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt	655.0	665.0	745.0	785.0
Other long-term liabilities	54.0	54.0	54.0	44.0
<b>Total</b>	<b>709.0</b>	<b>719.0</b>	<b>799.0</b>	<b>829.0</b>

**Liability benchmark:**

To compare the Council’s actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as the Capital Financing Requirement (CFR), but that cash and investment balances are kept to a minimum level of £15m at each year-end to maintain sufficient liquidity but minimise credit risk.

Liability Benchmark (£m)	31.3.24 Actual	31.3.25 Estimate	31.3.26 Forecast	31.3.27 Forecast	31.3.28 Forecast
CFR	555.727	592.477	670.577	742.583	782.840
Less: PFI & leases	44.573	41.170	38.457	38.138	34.317
<b>Loans CFR</b>	<b>511.154</b>	<b>551.307</b>	<b>632.120</b>	<b>704.445</b>	<b>748.523</b>
Less: Balance Sheet Resources	157.699	101.529	93.131	89.482	88.550
<b>Net Loans Requirement</b>	<b>353.455</b>	<b>449.778</b>	<b>538.989</b>	<b>614.963</b>	<b>659.973</b>
Plus: Liquidity Allowance	17.868	15.000	15.000	15.000	15.000
<b>Liability Benchmark</b>	<b>371.323</b>	<b>464.778</b>	<b>553.989</b>	<b>629.963</b>	<b>674.973</b>



**Maturity Structure of Fixed Rate borrowing:**

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

Maturity structure of fixed rate borrowing	Lower Limit for 2025/26 %	Upper Limit for 2025/26 %	Existing level 31.12.24 %
under 12 months	0	70	14
12 months and within 24 months	0	30	33
24 months and within 5 years	0	50	9
5 years and within 10 years	0	75	13
10 years and within 20 years	0	75	5
20 years and within 30 years	0	75	2
30 years and within 40 years	0	100	3
40 years and within 50 years	0	100	15
50 years and above	0	100	6

**Security of Investments:**

The Council considers security, liquidity and yield, in that order, when making investment decisions.

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments would be assigned a score based on their perceived risk.

Credit Risk Indicator	Target	Current (31.12.24)
Portfolio average credit score	6 or lower, (which is equivalent to a credit rating of 'A' or higher)	1.69

**Principal sums invested for periods longer than a year:**

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Limit on principal sums invested for periods longer than a year	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
Limit on total investments	95	95	95

The full Treasury Management Strategy 2025/26 is contained at Appenix B.

## **5.0 Alternative Options**

5.1 The Council must ensure that it manages its finance in accordance with Legislation and the CIPFA code of practice. The recommendations in this report support that aim and are based on consideration of a range of factors.

## **6.0 Key Risks**

6.1 The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.

## **7.0 Council Priorities**

7.1 Effective management of the Council's Treasury portfolio helps support the Council's overall financial position through minimising borrowing costs and optimising investment income whilst following the principles of Security, Liquidity and Yield; and therefore supports the delivery of all Council priorities.

## **8.0 Financial Implications**

8.1 These are detailed in the body of the report and the appendices.

## **9.0 Legal and HR Implications**

9.1 The Council's Treasury Strategy has to comply with the relevant statute, codes and guidance which are set out both in the main body of this report and its appendices. This reports demonstrates that the Council has had regard to the CIPFA guidance as required by the Local Government Act 2003.

9.2 The Director: Finance, People & IDT (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Director: Finance, People & IDT is meeting one of the responsibilities of the post contained within the Council's Constitution at Part 2, Article 12, paragraph 12.04(f) which states "The Chief Financial Officer will contribute to the promotion and maintenance of high standards of governance, audit, probity and propriety, risk management and the approval of the statement of accounts through provision of support to the Audit Committee." This requirement within the Constitution reflects the requirements of the Local Government Finance act 1988 to appoint an officer who is responsible for the good financial administration of an authority.

9.3 The Local Government Finance Act 1992 requires authorities to set a balanced budget; the proposals in this report, together with other budget-related reports, demonstrates that the Council meets this requirement.

## **10.0 Ward Implications**

10.1 There are no impacts on specific wards in this report.

## 11.0 Health, Social and Economic Implications

11.1 The Economic Climate has direct relevance to Treasury Management and is covered in detail in the report and accompanying appendices.

## 12.0 Equality and Diversity Implications

12.1 The Council will not knowingly directly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the Council. At the same time the Council will take full responsibility for proper management of risk and safeguarding its investments by ensuring that they are diversified and made with organisations that are suitably credit assessed.

## 13.0 Climate Change and Environmental Implications

13.1 Part of the Councils Treasury portfolio includes a Municipal Investment Loan on the Abundance Platform: the Telford & Wrekin Climate Action Investment which supports the Councils climate change agenda.

## 14.0 Background Papers

- 1 CIPFA Treasury Management in the Public Services – Code of Practice and cross-sectional guidance notes (2021 edition)
- 2 CIPFA The Prudential Code for Capital Finance in Local Authorities (2021 edition)
- 3 Local Government Act 2003
- 4 Treasury Management Strategy Statement (TMSS) Template provided by Link Treasury Services

## 15.0 Appendices

- A 2024/25 Treasury Management update Report
- B 2025/26 Treasury Management Strategy

## 16.0 Report Sign Off

<b>Signed off by</b>	<b>Date sent</b>	<b>Date signed off</b>	<b>Initials</b>
Finance	08/01/2025	08/01/2025	ER
Legal	15/01/2025	21/01/2025	RP
Director	08/01/2025	08/01/2025	MLB