Northumberland
County Council

Audit Committee

Wednesday, 31 January 2024

Treasury Management Strategy Statement 2024-25

Report of Councillor(s) Richard Wearmouth, Deputy Leader and Cabinet Member for Corporate Resources

Responsible Officer(s): Jan Willis, Executive Director for Resources & Transformation (S151)

1. Link to Key Priorities of the Corporate Plan

This report is aligned to the priorities outlined in the Corporate Plan 2023-26 being 'Achieving Value for Money', 'Tackling Inequalities' and 'Driving Economic Growth'.

2. Purpose of report

The Local Government Act 2003 requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy, which sets out the policies for managing investments and for giving priority to the security and liquidity of those investments. The Council nominates the Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policy.

This report sets out the Treasury Management Strategy, Treasury Management Policy Statement, the Annual Investment Strategy for the Financial Year 2024-25, Prudential Indicators 2024-25 to 2027-28 and the Minimum Revenue Provision Policy 2024-25.

3. Recommendations

3.1 Members consider the report and recommend that County Council approves the Treasury Management Strategy Statement, including the Treasury Management Policy Statement, the Annual Investment Strategy, and the Borrowing Strategy for the Financial Year 2024-25.

3.2 Members recommend that County Council approves the Prudential Indicators (Appendix 4) for four years 2024-25 to 2027-28 to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

3.3 Members recommend that County Council approves the Minimum Revenue Provision Policy (Appendix 5) 2024-25.

4. Forward plan date and reason for urgency if applicable

This report was added to the forward plan on 12 January 2024.

5. Key issues

5.1 The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice (which were adopted by Northumberland County Council in February 2010), to set Prudential and Treasury Indicators for the next four years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

5.2 The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by Investment Guidance issued subsequent to the Act).

5.3 The Treasury Management Strategy Statement details the proposed activities of the Treasury Management function for the financial year 2024-25 and is based upon the treasury management officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury management advisors, Link Asset Services.

Introduction

6. Background

6.1 This Treasury Management Strategy Statement details the expected activities of the Treasury Management function for the financial year 2024-25. Its production and submission to full Council is a requirement of the CIPFA Code of Practice on Treasury Management.

6.2 Part of the treasury management operation is to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low/medium risk counterparties or instruments commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return.

6.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council; essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

6.4 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue expenditure or for larger capital projects. The financial cost of these activities - i.e. the balance between the interest cost of debt and the investment income arising from cash deposits - has a significant impact on the overall revenue budget. In addition, since cash balances are mostly generated from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will result in a loss to the General Fund Balance.

6.5 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

6.6 CIPFA defines treasury management 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."

7. Statutory and Regulatory Requirements

7.1 The Local Government Act 2003 (the Act) and supporting Regulations requires the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code 2021, and the CIPFA Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2021.

7.2 The code defines the manner in which capital spending plans are to be considered and approved. They require the Council to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. In conjunction with this, they also require the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy, as required by the (revised) Investment Guidance issued by the former Ministry of Housing, Communities and Local Government (MHCLG) which came into effect 1 April 2018.

7.3 With effect from 2019-20 there was a requirement that the report included a Capital Strategy, to provide a longer-term focus to the capital plans, and an extension of the meaning of 'investments' to include both financial and non-financial investments or commercial activity undertaken under the Localism Act 2011. The Capital Strategy is reported to County Council for approval with the annual budget report and Medium-Term Financial Plan in February each year.

7.4 Treasury management investments represent the placement of cash in relation to the s12 Local Government Act 2003 Act investment powers: namely residual cash resulting from the authority's day to day activities.

7.5 Service delivery or non-treasury investments tend to relate to s1 expenditure powers under the Act and in the Council's case relate to policy type investments, whereby capital or revenue cash is advanced for a specific Council objective. This may be an advance to a third party for economic regeneration, or to enable care facilities etc.

7.6 This report deals solely with financial investments. Non-financial investments, which from the Council's perspective relate to the loans provided to third parties, are covered in the Capital Strategy report. However, section 5.8 does provide a summary of the Council's "service delivery investments" or non- treasury managements investments.

8. Basis and Content of Treasury Management Strategy for 2024-25

8.1 The proposed strategy for 2024-25 in respect of the following aspects of the treasury management function is based upon officers' views on interest rates, supplemented by leading market forecasts provided by the Council's treasury advisors, Link Asset Services. The strategy covers:

a) Current portfolio position;
b) Economic outlook and prospects for interest rates;
c) Borrowing Strategy for 2024-25;
d) Annual Investment Strategy for 2024-25;
e) Housing Revenue Account (HRA) treasury costs;
f) Treasury management limits and Prudential Indicators;
g) Minimum Revenue Provision Policy Statement;
h) Policy on use of external service providers; and,
i) Implementation of the Treasury Management Strategy, scheme of delegation, reporting and training requirements.

9. Balanced Budget Requirement

9.1 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, revised under Section 31 of the Localism Bill 2011, for the Council to produce a balanced budget. In particular, Section 31 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This means that the impact of increases in capital expenditure, such as interest charges associated with any new borrowing, and any increases in running costs from these capital projects, must be limited to a level which is affordable within the projected income of the Council for the foreseeable future.

9.2 The Council also has a statutory duty under S.3 of the Local Government Act 2003, and supporting regulations, to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". The Council must have regard to the Prudential Code when setting its Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits.

9.3 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principle of achieving best value in treasury management within the context of effective risk management, and to employing suitable performance measurement techniques, for example comparison with other members of the CIPFA and Link benchmarking clubs.

The Portfolio Position at 30 November 2023

10. Current borrowing

10.1 The Council's borrowing at 30 November 2023 is shown below:

	General Fund £m	HRA £m	Total Principal 30 Nov 2023 £m	Weighted Average Rate %
Public Works Loan Board Loans	408.522	39.704	448.226	2.65
LOBOs	131.500	21.000	152.500	3.89
Market / Local Authority (>1 year)*	71.000	8.100	79.100	3.79
Salix	0.025	-	0.025	-
Short Term loans* (<1 year)	40.000	-	40.000	4.00
TOTAL EXTERNAL BORROWING	**651.047**	**68.804**	**719.851**	**3.10**

Note: above figures are based on the term of loans at their inception

10.2 Total external borrowing has decreased by £25.527 million from £745.378 million at the start of year to £719.851 million at 30 November 2023. Following further repayments of £90.025 million and £182.000 million new borrowing scheduled to take place between December 2023 and March 2024, the year-end figure is expected to be around £811.826 million.

11. Current Investments

11.1 The table below summarises the investment position at 30 November 2023:

	Total Principal 30 Nov 2023 £m	Weighted Average Rate %
Money Market Funds and Call Accounts	88.550	5.34
Fixed Term Investments – Short Term (<1 year)*	16.000	5.54
Fixed Term Investments – Long Term (>1 year)*	-	-
TOTAL EXTERNAL INVESTMENTS	**104.550**	**5.37**

* Note: above figures are based on the term of investments at their inception

Forecast for Interest Rates and Economic Outlook

11.2 The Council has appointed Link Asset Services (Link) as its treasury advisor and part of its service is to assist the Council to formulate a view on interest rates. The following table gives Link's central view of rates for 2024-25 (at 7 November 2023). A longer view and more detailed forecast are included at Appendix 1.

	Quarter 1 (Q/E Jun 2024)	**Quarter 2 (Q/E Sep 2024)**	**Quarter 3 (Q/E Dec 2024)**	**Quarter 4 (Q/E Mar 2025)**
Bank Rate	5.25	5.00	4.50	4.00
5-year PWLB	4.80	4.70	4.40	4.20
10-year PWLB	4.80	4.70	4.40	4.20
25-year PWLB	5.10	4.90	4.70	4.50
50-year PWLB	4.90	4.70	4.50	4.30

12. Economic Outlook (early December 2023)

12.1 During the first half of 2023-24 the Bank Rate rose from 4.25% to 5.25% due to persistent inflation. CPI inflation fell from 8.70% in April to 6.70% in September, however the bank rate remained at 5.25%. The Bank of England is concerned about inflation and needs to see further evidence that inflation is coming down. According to Link's central forecast the bank rate will fall 0.25 basis points in September 2024 to 5.00% and will subsequently continue to fall until December 2025 where it will remain constant at 3.00%. A rebound in services inflation, another surge in wage growth or a further leap in oil prices could result in a further increase in the bank rate.

12.2 The Bank of England is forecasting that inflation will continue to fall quite sharply over the next year. CPI inflation has already dropped from an average of 6.70% in September 2023 to 4.60% in October 2023. According to the Bank of England's Monetary Policy (published in November 2023) CPI inflation will decrease to 3.75% by June 2024.

12.3 One of the biggest concerns for the Bank of England with regard to inflation is wage growth. The UK wage growth remains much faster than in the US and in the Euro-zone. The regular annual average total pay growth in June to August 2023 for the private sector was 7.10% and for the public sector was 12.50%. The public sector pay growth is affected by the NHS and Civil Service one-off non-consolidated payments made in June, July and August 2023.

12.4 However, the tightness of the labour market continued to ease, with a decline in the number of job vacancies from 1.017 million in July 2023 to 0.989 million in August. That is the first time it has fallen below 1 million since July 2021. The job vacancy rate was at 3.00% in July 2023 and is likely to have fallen to 2.90% in August. The job vacancy rate is getting closer to 2.50%, which would be consistent with slower wage growth. The cooling in the labour market conditions has not fed through to an easing in wage growth yet but the Bank of England's prediction was for private sector wage growth to fall from 7.10% in August 2023 to 6.90% in September 2023.

12.5 Link have predicted that as the drag from higher interest rates intensifies over the next six months, the economy will continue to lose momentum and fall into a mild recession. 0% real GDP growth was registered in Q3 September 2023 and Link anticipate a contraction to follow in the next couple of quarters.

12.6 The Bank of England anticipate GDP growth to remain broadly flat with calendar-year GDP growth expected to be marginally positive in 2024. The calendar-year GDP growth is expected to increase by 0.25% in 2025 and 0.75% in 2026.

13. Forecast for Treasury / Guilt Yields and PWLB Rates

13.1 Public Works Loans Board (PWLB) 5 to 50 years Certainty Rates are, generally, in the range of 4.27% to 5.45%. The medium to longer part of the yield curve is currently inverted (yields are lower at the longer end of the yield curve compared to the short to medium end).

13.2 In September 2023 the medium to longer term PWLB rates peaked. This was due to continuing high UK inflation, concerns that gilt issuance may be too much for the market to absorb comfortably, and unfavourable movements in US Treasuries.

14. Significant Risks to the Forecasts

14.1 Downside risks:

a) 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).

b) The Bank of England has increased the Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession.

c) 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.

d) Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

14.2 Upside risks:

a) Despite the recent tightening to 5.25% the Bank of England proves too timid in its pace and strength of increases in Bank Rate, and therefore allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates the Bank Rate staying higher for longer than currently projected.

b) 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.

c) Longer-term UK treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher.

d) Projected gilt issuance, inclusive of natural maturities and quantitative tightening, could be too much for the market to comfortably digest without higher yields compensating.

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

The Borrowing Strategy 2024-25

15. Introduction

15.1 The Council borrows to fund the Capital Programme, including loans to third parties for service / policy reasons (such as those to Advance Northumberland and Northumbria Healthcare NHS Foundation Trust etc.). The Council's capital expenditure plans are therefore the key driver of treasury management activity.

15.2 The output of capital expenditure plans is reflected in the Prudential Indicators, as set out in Appendix 4.

16. Borrowing Need – Capital Financing Requirement

16.1 The Council's long-term borrowing requirement is measured by the Capital Financing Requirement ("CFR"). The CFR represents total historic outstanding capital expenditure which has not yet been paid for from either revenue or cash-backed capital resources (such as grants and capital receipts). The CFR is repaid over time by an annual charge to revenue, known as the Minimum Revenue Provision (MRP). This charge, which is equivalent to depreciation, effectively spreads the cost of debt associated with capital expenditure over the useful economic life of the underlying assets.

16.2 At the same time the Council has significant levels of 'cash-backed' balances that are available for investment. Accordingly, the capital financing requirement (or borrowing requirement) need not always be met or funded externally from physical loans: At least in the short term, investment balances can be 'used' in lieu of borrowing externally; by withdrawing investments (in turn foregoing investment income) and instead using the cash to fund part of the borrowing requirement. This is often referred to as 'internal' or 'under' borrowing. Such an approach also has the added benefit of reducing 'counterparty' credit risk in terms of investments; because it reduces the need to place investments with external institutions.

16.3 The following tables summarise the forecast CFR movements for the next three financial years (based on the latest capital expenditure plans) along with the anticipated external borrowing over this period; assuming a significant degree of internal borrowing as proposed below:

CFR Forecast (exc. PFI)	**2024-25 £m**	**2025-26 £m**	**2026-27 £m**	**2027-28 £m**
Opening CFR (exc. PFI)	1,081.950	1,172.616	1,229.559	1,249.187
Increase / (Decrease) in CFR (exc. PFI)	90.666	56.943	19.628	(17.456)
Closing CFR (exc. PFI) [Need to Borrow]	**1,172.616**	**1,229.559**	**1,249.187**	**1,231.731**
External Borrowing Forecast (exc. PFI)				
Opening External Borrowing (exc. PFI)	811.826	969.524	1,053.468	1,092.407
Increase / (Decrease) in External Borrowing (exc. PFI)	157.698	83.944	38.939	(20.058)
Closing External Borrowing (exc. PFI)	**969.524**	**1,053.468**	**1,092.407**	**1,072.349**
Under / (Over) Borrowing	203.092	176,091	156.780	159.382

17. Proposed Borrowing Strategy

17.1 Given the current volatility in financial markets and the elevated interest rates that are forecast over the next year or two, it is proposed to maximise the use of internal / under borrowing (see paragraph 4.2) and keep any external borrowing to a minimum.

17.2 As identified in the table at 4.2, by the end of 2024-25, 17.32% (£203.092 million) of the Council's borrowing requirement is proposed to be covered by internal borrowing. The effective cost of this 'borrowing' is the foregone investment income. For 2024-25 this is estimated at 4.70% or around £11.121 million (based on the average mid-year internal borrowing position). Taking into consideration the forecast average cost for new external borrowing (i.e. average interest rate on actual loans) for 2024-25 of 4.72%, this equates to a notional saving of 0.02% or around £0.04 7 million (or alternatively the notional cost of externalisation).

17.3 Maintaining an under-borrowing position will minimise short term net revenue costs, but it is important to point out that this element of the borrowing requirement is subject to interest rate movements and therefore not without risk. Clearly if investment returns were to increase, or the borrowing had to instead be externalised (and funded by actual loans), the costs associated with this would increase accordingly. In order to identify and quantify this risk a local indicator is included in the Council's Prudential Indicators (see Appendix 4), identifying the level of internal borrowing and the impact of interest rate movements on this proportion of the borrowing requirement.

17.4 Despite utilising investments balances to support the borrowing need, as identified above a significant amount of external borrowing will still be required during 2024-25 (estimated at around £300.000 million, after taking into consideration maturing loans of £142.302 million) and going forward to fund the proposed Capital Programme.

17.5 Considering that interest rates are anticipated to remain high over the next year or two before gradually easing back to more normal levels, and the risks within the economic forecast, it is envisaged better value will generally be obtained at the shorter end of the interest rate curve. The external borrowing requirement is therefore expected to be met primarily from shorter term / temporary borrowing (up to 2 years); although medium to longer term borrowing may also be considered to provide a degree of longer-term certainty, if for example there was a sudden dip in rates.

17.6 The Section 151 Officer will continue to monitor the interest rate market and scrutinise all lending opportunities to ensure borrowing is taken at the most advantageous time and limit the risk of exposure to increased borrowing costs in the future.

17.7 In line with the scheme of delegation set out in the Treasury Management Practices (TMP's, section 10), The Section 151 Officer will continue to approve all borrowing.

18. Policy on Borrowing in Advance of Need

18.1 While not expected to happen due to the internal/under borrowing policy, the Council does have flexibility to borrow funds this year for use in future years. Where there is a clear business case for doing so, borrowing may be undertaken to fund the approved Capital Programme or to fund future debt maturities. The Section 151 Officer may do this under delegated powers where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial. Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism.

19. Debt Rescheduling

19.1 As short-term borrowing rates are forecast to be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment and in particular the premiums incurred.

a) The reasons for any rescheduling to take place will include:

b) the generation of cash savings and / or discounted cash flow savings,

c) helping to fulfil the treasury strategy; and,

d) enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

19.2 The Council will monitor the situation and seek advice from Link Asset Services before any rescheduling of debt. All rescheduling will be reported to the Council as part of the in-year treasury management updates.

20. UK Municipal Bond Agency and European Investment Bank

20.1 The UK Municipal Bond Agency may be in a position to offer loans to local authorities, perhaps at rates lower than those offered by the PWLB. Consideration may therefore be given to making use of this new source of borrowing as and when appropriate.

20.2 Consideration will also be given to borrowing from the European Investment Bank (EIB), where rates can be forward fixed, if this represents better value of money.

21. Compliance with Prudential Code – Borrowing

21.1 The Prudential Code 2021 specifies that it is not prudent for local authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.

21.2 The Section 151 Officer confirms that any new borrowing directly and primarily in relation to the functions of the Council, and no borrowing will be taken to invest primarily for financial return.

Annual Investment Strategy 2024-25

22. Introduction – Investment Policy

22.1 The Council has significant levels of 'cash-backed' balances that are available for investment, in the form of General Fund and HRA balances, and the numerous earmarked reserves and provisions.

23. Investment Returns Expectations

23.1 As outlined in section 3 above and Appendix 1, investment returns are expected to decrease in 2024-25. Link Asset Services first forecast a decrease in Bank Rate in September 2024. However, stubborn inflation may result in the Bank Rate remaining higher for longer or potentially further increases which will keep investment returns high.

23.2 Against this background, Link Asset Services suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

	2024-25	2025-26	2026-27	2027-28	2028-29
Budgeted Rate	4.70%	3.20%	3.00%	3.25%	3.25%

24. Investment Strategy

24.1 As proposed in section 4 above, it is expected that during 2024-25 a significant proportion of available investment balances will be used as 'internal borrowing' to support the financing of the CFR. As a result, external investments will be limited and may decrease further during the year.

24.2 All remaining funds will be invested in-line with the following Investment Policy, which has regard to the former MHCLG's Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

24.3 Investments will be made whilst considering the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate reducing by September 2024 so an agile investment strategy would be appropriate to optimise returns.

24.4 Accordingly, while most cash balances are required in order to manage cash flow volatility; where surplus cash sums can be identified, longer term investments will be considered where there is value.

24.5 The overall aim of the Investment Strategy is to provide security of capital and minimise risk while ensuring the Council has sufficient liquidity.

24.6 The Council will also aim to achieve the optimum return on its investments commensurate with desired levels of security and liquidity. The risk appetite of the Council is low/medium, therefore specified and unspecified investments (see below) will be considered. However, security and liquidity will continue to take precedence over yield. All investments will be placed only with organisations which meet the criteria and will always be scrutinised and approved in line with approved Treasury Management Practices (Appendix 3).

25. Investment objectives

25.1 The general policy objective for this Council is the prudent investment of its surplus cash balances, which includes monies borrowed for the purpose of expenditure in the reasonably near future (i.e. over the 4-year medium term planning cycle). The Council's investment priorities are:

a) the security of capital,

b) the liquidity of its investments; and,

c) the achievement of optimum yield.

25.2 Security and liquidity of principal have always been the priority and will continue to be so. In CIPFA's view "The priority is to protect capital rather than maximise return. However, the avoidance of all risk is neither appropriate nor possible and a balance must be struck with a keen responsibility for public money." In times of budget constraints, making the Council's funds work and generating increased returns is becoming increasingly important. CIPFA encourages local authorities to look carefully at their Counterparty Lists to ensure return on investments is achieved.

25.3 CIPFA recommends that "Responsibility for local authorities investment decisions lies and must continue to lie with the local authorities themselves". The best authorities:

a) explicitly balance risk and reward,

b) review and scrutinise policies and procedures regularly,

c) have well trained staff and engaged elected members; and,

d) use a wide variety of information.

25.4 The Credit and Counterparty Criteria List (Appendix 2), which now includes the North East Mayoral Combined Authority, offers diverse counterparties and takes into account country, sector and group limits.

25.5 This list clearly sets out the minimum acceptable credit criteria for organisations with which the Council will place funds.

25.6 All investments will be placed only with organisations which meet the criteria and will always be scrutinised and approved in line with approved Treasury Management Practices (Appendix 3).

25.7 The borrowing of monies purely to invest or lend-on and make a return is unlawful and this Council will not engage in such activity.

26. Security of Capital and Creditworthiness (Credit and Counterparty Policy)

26.1 In accordance with the above guidance from the former MHCLG and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria when determining which organisations it can place investments with. The criteria are set out in Credit and Counterparty Policy which is attached at Appendix 2.

26.2 The Council regards a key objective of its treasury management activities to be the security of the principal sums it invests. Accordingly, it will ensure that its counterparty policy and limits reflect a prudent attitude towards organisations with which funds may be deposited.

26.3 The Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from Fitch and Moody's. The credit ratings of counterparties are supplemented with the following overlays:

a) credit watches and credit outlooks from credit rating agencies,

b) CDS* spreads to give early warning of likely changes in credit ratings; and,

c) sovereign ratings to select counterparties from only the most creditworthy countries.

26.4 *Credit default swaps (CDS) are a type of insurance against default risk by a particular company/financial institution. In the event of a default, the buyer receives the face value of the bond or loan from the insurer.

26.5 The Council is alerted daily of changes to ratings of both agencies. If a downgrade results in the counterparty no longer meeting the Council's minimum criteria, no new investment will be made. Consideration will also be given to whether or not existing investments will be withdrawn, which is dependent on whether the bank concerned is agreeable.

26.6 As with previous practice, ratings and the use of this external service will not be the sole determinant of the quality of an institution. It is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. In addition, the Council will also use market data and market information, information on government support for banks and the credit ratings of that government support.

26.7 The assessment will also take account of information that reflects the opinion of the markets. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

27. Types of investments the Council may use

27.1 The Council may use various financial instruments for the prudent management of its treasury balances (as listed in the Credit and Counterparty Policy in Appendix 2).

27.2 The Credit and Counterparty Policy does not identify individual counterparty names in order to ensure that the Section 151 Officer has the flexibility to place investments with the most suitable organisations, which meet the agreed criteria, in a timely manner.

27.3 Treasury staff investigate various products and instruments as they become available to see if they meet the Council's investment priorities and criteria list.

27.4 In line with the former MHCLG Guidance, the Credit and Counterparty Policy categorises investments instruments between 'Specified' and 'Non-Specified' investments:

27.5 Specified Investments offer high security and high liquidity. All such investments are:

a) in pounds sterling,

b) due to be repaid within 12 months or which may be required to be repaid within 12 months,

c) not capital expenditure,

d) made with high credit quality organisations, (for the purpose of this strategy high credit ratings are "A-" and above for long term and "F2/P-2" and above for short term investments); or,

e) made with the United Kingdom Government or local authority (including the North East Combined Authority, North of Tyne Combined Authority, and North East Mayoral Combined Authority once incorporated in May 2024), parish council or community council.

27.6 Non-Specified Investments are those which do not meet the criteria for specified investments and give greater potential risk. The former MHCLG does not discourage the use of non-specified investments but states that there is a need for these to be dealt with in more detail.

27.7 As in previous years, it is anticipated that the majority of investments will be specified but it is proposed to maintain a maximum of 25% of total Council investments being held in non-specified investments at any one time during the year. This is primarily to allow the use of large, non-rated, building societies as well investments beyond 1 year with other local authorities.

27.8 Investments will only be placed with organisations which meet the criteria set out in the approved Credit and Counterparty Policy. Individual investments or aggregate of investments to one organisation should comply with the monetary limits set out in Credit and Counterparty Criteria List.

27.9 Nationalised/part-nationalised banks in the UK have credit ratings which do not comply with the credit criteria used by the Council. However, due to significant Government ownership the Council feels more comfortable applying higher limits for investments.

27.10 Investments are to be arranged in line with Treasury Management Practices (Appendix 3) and all investments with new counterparties must be approved by the Section 151 Officer or the Deputy Section 151 Officer or in their absence the Finance Managers. There is currently no proposed change to this practice.

28. Forecast Investment Balances and Liquidity

28.1 Based on current reserves and balances forecast and allowing for the proposed strategy of using some of the investable balances as 'internal borrowing' to support the financing of the CFR (see Section 4), it is anticipated that in 2024-25 the Council's external investment balances will fluctuate throughout the year within a range between £34.733 million and £84.829 million.

28.2 To ensure liquidity a minimum of 20.00% of overall investments, or £5.000 million, whichever is lower, will be held in liquid accounts. For cash flow generated balances, the Council will seek to utilise its money market funds, call accounts and short-dated deposits (overnight to six months).

28.3 As investment rates are forecast to remain below borrowing rates, and there is a requirement for liquid funds to support the under-borrowing position, it is envisaged the Council will generally avoid locking into longer term deals. However, if exceptionally attractive rates are available then they will be considered. Close contact will be maintained with the money market to ascertain the most favourable interest rates on offer to achieve best value from the return on surplus monies available in line with the Counterparty Policy in Appendix 2.

28.4 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates.

29. Service Delivery / Non-Treasury Management Investments Defined as Capital Expenditure

29.1 In addition to the above standard treasury management activity, the Council also receives interest from two other 'service delivery' / 'non-treasury' activities; namely the investment shares NIAL Holdings (Newcastle Airport) [valued at £13.490 million as 31 March 2023], Advance Northumberland [£4.338 million], Northumberland Enterprise Holdings Ltd [£0.300 million], and the loans to Newcastle Airport, Northumbria Healthcare NHS Foundation Trust, Advance Northumberland and other organisations.

29.2 These non-core treasury activities are deemed by Statutory Regulations as capital expenditure and are provided to support Council service objectives and corporate priorities. They are not made or regarded as part of the 'core' treasury management activity - i.e. the investment of surplus cash flow balances, as made under the power to invest inferred by s12 of the Local Government Act 2003. As a result, these activities were previously outside of the scope of the Investment Strategy.

29.3 CIPFA's Treasury Management Code's definition of 'Investments' covers all the financial assets of the organisation, as well as other non-financial assets that the organisation holds primarily for financial returns, such as commercial property portfolios. Similarly, the former MHCLG's investment guidance recommends that these non-financial or non-core investments should be included within the Annual Investment Strategy.

29.4 Whilst it is entirely appropriate to highlight the scope of these activities, there is a view amongst some practitioners that it may be misleading to refer to items of expenditure in the context of an investment strategy, and that a more suitable mechanism to explain and cover these activities would be within the newly re-introduced Capital Strategy.

29.5 Due to their nature, it is difficult to assess and consider non-financial or non-core investments in the context of liquidity and security, which arguably does not apply to these activities, at least not in the same way as it does for standard cash investments. Beyond the terms of the underlying agreement, loans to third parties are not liquid and have no need to be. The expenditure is incurred in the support of service objectives and funded from capital resources, which is different to the requirements and policies surrounding management of the Council's investments and cash flows. Similarly, whilst the return of the funds advanced is key, security for third party loans may need to be considered differently to the credit ratings modelling approach utilised for core-treasury investments.

29.6 For these reasons, the Council's policy on non-financial or non-core investments, specifically the loans to third parties, is covered separately within the Capital Strategy document which is considered and approved by Council at its budget setting meeting in February and is attached at Appendix 6 for information.

29.7 A summary of value of loans to third parties and the interest expected to be received is shown below:

Borrower	**Estimated Balance at 1 Apr 2024 £m**	**Weighted Average Interest Rate**	**Forecast Interest Income 2024-25* £m**
Active Northumberland	0.087	3.25%	0.002
Advance Northumberland Group*	279.682	5.17%	14.340
Alexa's Animal Charity	0.108	2.40%	0.003
Alnwick Juniors	0.139	0.00%	-
Alnwick Youth Hostel	0.079	2.10%	0.002
Arts Groups (The Maltings, Alnwick Playhouse)	0.014	3.87%	0.001
Calvert Trust	0.079	2.10%	0.002
Cramlington Town Council	0.282	4.00%	0.011
Haltwhistle Pool	0.031	2.10%	0.001
Newcastle Airport	11.916	8.60%	1.027
Newcastle City Council	0.155	5.00%	0.008
North East Local Enterprise Partnership	10.507	2.29%	0.437
Northumberland Aged Miners	1.326	3.50%	0.046
Northumberland College	5.605	2.28%	0.250
Northumberland Community Bank	0.100	3.55%	0.004
Northumbria Healthcare NHS Foundation Trust	84.520	3.57%	3.685
Other Parish/Town Councils and Housing Associations	0.068	16.50%	0.008
Total	**394.698**	**4.13%**	**19.827**

*Note: the above includes forecast advances to be made.

29.8 The Medium-Term Capital Programme for 2024-25 to 2027-28 includes a provision of £52.000 million for further loans to Advance Northumberland and other third parties, plus an additional £1.335 million for loans to the North East Local Enterprise Partnership in respect of Enterprise Zone investments (which will ultimately be repaid by future business rate income).

29.9 Whilst the income from these advances is significant, the intention is largely only to cover the associated underlying borrowing costs to the Council. The loans are considered and approved to support the Council's service and policy objectives not to generate a financial return for the Council.

30. Provision for credit related losses

30.1 If any of the Council's investments appear at risk of loss due to default (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

31. HOUSING REVENUE ACCOUNT (HRA) TREASURY MANAGEMENT COSTS

31.1 Following implementation of the HRA self-financing reforms in April 2012, a separate pool of specific loans is now maintained for the HRA. The interest costs associated with these loans are charged direct to the HRA. This arguably negates the need for the former HRA Item 8 charge, which allocated a share of the Authority's overall borrowing costs to the HRA.

31.2 For the most part, the HRA will aim to ensure that new loans are taken out (or repaid) to match any anticipated movement in its borrowing requirement - known as the HRA Capital Financing Requirement (HRA CFR). There will however be instances during the year when the balance of the HRA loan pool - i.e. actual external borrowing charged to the HRA does not equate exactly to the HRA CFR. In such circumstances the HRA is borrowing from (or lending to) the General Fund and an additional charge (or credit) is necessary in order to reflect the notional cost of this imbalance. The Council's proposed policy for this arrangement is as follows, the policy remains unchanged from the previous year:

32. HRA Under-Borrowing

32.1 Where the weighted average balance of the HRA (external) loans pool is less than the weighted average HRA CFR for the same period, notional interest will be charged to the HRA at the average rate of interest for 30-year PWLB borrowing for the period.

33. HRA Over-Borrowing

33.1 Where the weighted average balance of the HRA (external) loans pool is greater than the weighted average HRA CFR for the same period, notional interest will be paid to the HRA at the average 3-month SONIA (Sterling Overnight Index Average) rate for the period.

34. Other Treasury Management Charges to HRA

34.1 As under the former Item 8 arrangements, the HRA will continue to receive interest (or investment income) on its weighted average balances for the year, based on the Council's overall average investment rate.

34.2 The HRA will also continue to be charged a proportion of the authority's overall debt management expenses (based on the CFR proportions), as well its share of any historic premiums or discounts associated with the premature repayment of borrowing. Any future/new premiums or discounts will be met fully by the relevant fund of the underlying loan – i.e. premiums or discounts related to loans within the HRA loan pool will be charged fully to the HRA, and vice versa.

35. PRUDENTIAL INDICATORS and TREASURY LIMITS 2024-25 to 2027-28

35.1 The Council's capital expenditure plans are the key driver for treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

35.2 Councils are required to approve a set of Prudential Indicators for the new financial year and adhere to these indicators during the course of that year. The indicators are to be set on a rolling basis, for the forthcoming financial year and three successive financial years. Prudential Indicators for 2024-25 to 2027-28 are set out in Appendix 4.

36. THE ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT

36.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision (MRP)), although it is also allowed to make additional voluntary payments if required.

36.2 Former MHCLG Regulations have been issued which requires Full Council to approve an MRP policy in advance of each year. A variety of options are provided to councils, with an overarching requirement there is a prudent provision.

36.3 Former MHCLG revised their MRP guidance in 2018. However, none of the amendments impact on the Council's current or proposed policy.

36.4 The 2024-25 policy has been updated from the policy in 2023-24. The changes surround the Long-Term Capital Debtors policy and include a new policy for equity investments. These changes have been implemented due to changes in the Minimum Revenue Provision Statutory Guidance. These changes are currently under consultation and are expected to be implemented from 1 April 2024. These changes will have a minimal impact on the MRP value that is calculated due to the Council already providing prudent MRP on maturity loans and the fact that all of the Long-Term Capital Debtors being for service reasons. Further details are provided below:

a) for commercial loans where loan repayments are received in year then the loan repayments will be used in lieu of MRP and applied to write down the CFR. In years where no Capital Receipt is received, even if a capital receipt is anticipated, the MRP will be provided over a prudent period.

b) for service loans where loan repayments are received in year then the loan repayments will be used in lieu of MRP and applied to write down the CFR. In years where no Capital Receipt is received, then MRP will not be provided until the loan repayment is received, at which point the repayment will be applied to write down the CFR. The Council can however choose to provide MRP if it considers this to be a more prudent approach.

c) for commercial and service loans – where an actual or expected credit loss has been recognised then the MRP amount in the year will be equal to the amount of the credit loss. This amount can be reduced by any historic MRP made with respect to that loan.

d) for equity investments in the Council's subsidiary companies the MRP policy will be on an asset life basis over a period of 20 years.

36.5 The Council is recommended to approve the Annual Minimum Revenue Provision Policy Statement including Additional Voluntary Provision as detailed within Appendix 5.

37. POLICY ON USE OF EXTERNAL SERVICE PROVIDERS

37.1 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of its external service providers. All decisions will be undertaken with regard to all available information, including, but not solely, the Council's treasury advisers.

37.2 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of the appointment and the methods by which their value will be assessed are properly agreed and documented, and subject to regular review.

37.3 The Council uses Link Asset Services Ltd as its treasury management consultant. The company provides a range of services which include:

a) technical support on treasury matters, capital finance issues and templates of Member reports;

b) economic and interest rate analysis;

c) debt services which include advice on the timing of borrowing;

d) debt rescheduling advice surrounding the existing portfolio;

e) generic investment advice on interest rates, timing and investment instruments;

f) online up to date credit ratings; and,

g) Member and Officer training.

IMPLEMENTATION OF THE TREASURY MANAGEMENT STRATEGY,SCHEME OF DELEGATION, TRAINING AND REPORTING REQUIREMENTS

38. Implementation of the Treasury Management Strategy

38.1 The continued implementation of the above strategy and procedures is the responsibility of the Section 151 Officer, who is authorised to arrange the necessary borrowings within the limits set out in the Prudential Indicators, and necessary investments as set out in the investment strategy.

38.2 Northumberland County Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to Cabinet.

38.3 The Council nominates Audit Committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies.

38.4 There are no proposed changes to this methodology.

39. Treasury Management Practices (TMPs)

39.1 Treasury Management Practices (Appendix 3) set out the manner in which the Council will seek to achieve the treasury management policies and objectives. The Council has adopted the recommended form of words defining the Council's treasury management practices (TMPs), in compliance with CIPFA's Treasury Management in the Public Services: Code of Practice and the Prudential Code for Capital Finance in Local Authorities. These set out the specific details of the systems to be employed and the records to be maintained.

39.2 These practices are as follows:

a) TMP1 Risk Management
b) TMP2 Best value and performance measurement
c) TMP3 Decision-making and analysis
d) TMP4 Approved instruments, methods and techniques
e) TMP5 Organisation, clarity and segregation of responsibilities, and dealing arrangements
f) TMP6 Reporting requirements and management information
g) TMP7 Budgeting, accounting and audit arrangements
h) TMP8 Cash and cash flow management
i) TMP9 Money laundering
j) TMP10 Training and qualifications
k) TMP11 Use of external service providers; and,
l) TMP12 Corporate governance.

39.3 The following minor changes have been made to the 2024-25 practices:

a) Inflation and interest rate references (TMP1, para 1.5.1).
b) Updated the settlement transmission procedures to include the automated workflow (TMP5, para 5.11)

40. Responsible Officers

40.1 Daily treasury management activities will be undertaken by a Senior Accountant within the Corporate Finance team, as set out in TMP5. If they are absent a Principal Accountant within the Corporate Finance team will undertake these activities.

40.2 The three annual Treasury Management reports submitted to Audit Committee, and then Council, and quarterly updates submitted to Cabinet, will be produced by the Technical Accountant .

40.3 The Finance Manager will ensure all treasury management activities are made in accordance with agreed policies and practices.

41. Training

41.1 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Members received training in June 2022 and further training will be arranged as required.

41.2 The training needs of treasury management officers are periodically reviewed. Each officer concerned will receive appropriate training and guidance on their duties and the constraints within which they operate.

42. Reports and Monitoring

42.1 To ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities, reports need to be submitted to full Council which need to be reviewed by Cabinet.

42.2 The adequacy of the strategy statement will be monitored and reports requesting amendments to the statement will be produced when changes are thought to be necessary. The changes will be made in consultation with the Cabinet Portfolio holder for Corporate Services, whose role relates to the strategy and associated risks. Any strategy changes will be reported to the Audit Committee.

42.3 The Council is required to receive and approve three main reports each year, which incorporate a variety of polices, estimates and actuals. The following reports are required to be adequately scrutinised by Audit Committee before being recommended to the Council:

43. Treasury Management Strategy Statement

43.1 The first, and most important report covers:

a) the capital plans (including prudential indicators),

b) a Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time),

c) the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and,

d) an investment strategy (the parameters on how investments are to be managed).

44. A Mid-Year Treasury Management Report

44.1 This will update members with the progress of the capital position, reporting on and amending prudential indicators as necessary, and whether the treasury activity is meeting the strategy or whether any policies require revision.

45. An Annual Treasury Report

45.1 This provides details of prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

46. Quarterly Reports

46.1 Quarterly reports on the performance of the Council's treasury management activity including forward looking Prudential Indicators are provided to Cabinet as part of the revenue and capital budget monitoring.

46.2 It is proposed that the Council follow reporting arrangements in accordance with the requirements of the revised Treasury Management Code of Practice.

Area of Responsibility	**Council/ Committee/ Officer**	**Frequency**
Scrutiny of treasury management strategy	Audit Committee	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy and Treasury Management Practices	Cabinet / Full Council	Annually before the start of the year
Annual Treasury Outturn Report	Audit Committee / Full Council	Annually by 31 July to Audit Committee and 30 September to Full Council
Treasury Management Budget Monitoring Reports	Incorporated within the Budget Monitoring report and reported separately to Cabinet	Quarterly
Mid-Year Review Report	Audit Committee / Full Council	Annually by 30 November to Audit Committee and 31 January to Full Council
Updates or revisions to Treasury Management Strategy / Annual Investment Strategy / MRP policy	Audit Committee / Cabinet / Full Council	Ad- hoc

46.3 The policies and strategies set out in this document will ensure that the management and administration of treasury management will be robust, rigorous, disciplined and help minimise risk.

46.4 The procedures for monitoring treasury management activities through audit, scrutiny and inspection will be applied with an openness of access to information and provide well-defined arrangements for review and implementation of changes.

47. Implications

Policy	The report sets out the Treasury Management Policy Statement for 2024-25 and is consistent with all of the priorities within the Corporate Plan 2023-26.
Finance and value for money	The financial implications of the 2024-25 investment and borrowing transactions have been taken into account within the revenue budget for 2024-25 and Medium-Term Financial Plan 2024-28. Northumberland County Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving best value in treasury management within the context of effective risk management, and to employing suitable performance measurement techniques, for example comparison with other members of the CIPFA and Link benchmarking clubs.
Legal	The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice 2021. The Treasury Management Strategy Statement is approved by Council because it forms part of the Budget Framework.
Procurement	There are no direct procurement implications for the County Council.
Human resources	There are no direct staffing implications for the County Council.
Property	There are no direct property implications for the County Council.
The Equalities Act: is a full impact assessment required and attached?	No - no equalities issues identified There are no equalities issues.
Risk assessment	The report highlights the principal financial risks within the Treasury Management function. The identification, monitoring and control of risk are the prime criteria by which the effectiveness of the County Council's Treasury Management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their

	risk implications for the Council. The investment priority is security and liquidity rather than yield, which is a secondary aim.
Crime and disorder	There are no Crime and Disorder implications contained within this report.
Customer considerations	There are no Customer Consideration implications contained within this report.
Carbon reduction	There are no specific Carbon Reduction implications within this report.
Health and wellbeing	There are no Health and Wellbeing implications for the County Council.
Wards	(All Wards);

48. Background papers

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance notes 2021.

CIPFA Prudential Code for Capital Finance in Local Authorities 2021.

Guidance on Local Government Investments The Local Government Act 2003,

Local Authorities (Capital Finance and Accounting) Regulations 2012 (S.I.2012/265)

49. Links to other key reports already published

Not applicable

50. Author and Contact Details

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