LONDON BOROUGH OF CAMDEN	**WARDS:** All
REPORT TITLE Treasury Management Strategy 2025-26 (CS/2025/03)	
REPORT OF Cabinet Member for Finance and Cost of Living	
FOR SUBMISSION TO Cabinet Council	**DATE** 26 February 2025 3 March 2025

STRATEGIC CONTEXT

We Make Camden is our joint vision for the borough, developed in partnership with our community. The proposals contained within this report ensure a strong Treasury Management Strategy (TMS) is in place to help achieve the ambitious vision of our communities. We Make Camden includes a commitment to “strong financial management”. A robust and effective TMS is crucial to enabling this ambition.

SUMMARY OF REPORT

This report presents the draft Treasury Management Strategy (TMS) for 2025-26 for consideration and approval by the Committee. The CIPFA Prudential and Treasury Management Codes require all Councils to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals. They include 1) prudential and treasury indicators and treasury strategy, 2) a mid-year treasury management report and; 3) an annual treasury outturn report.

This report fulfils the first of those requirements and includes details on the Council’s capital plans and prudential indicators, the minimum revenue provision (MRP) policy and the Treasury Management Strategy, setting out how the Council investments and borrowings will be managed and organised during 2025-26.

It covers the strategy for investments of £490.3m. £297.1m of which relates to Council funds.

£193.2m plus a further €82.7m of Euro Investments are managed on behalf of the North London Waste Authority.

Council debt currently stands at £294.3m.

The following bullet points provide a summary of the key aspects of the report:

- There are no significant changes proposed to the current treasury strategy.
- There is no increase in the risk profile and appetite and the Council continues to operate prudent debt and investment strategies.
- The Council’s strategy for the upcoming year will continue to prioritise security and liquidity over its investment balances whilst seeking to achieve a good rate of return.

- There are no immediate plans for new borrowing at this time. The internal borrowing policy continues to be sensible and appropriate given reducing interest rates on debt and investment and ensures the Council minimises interest paid on debt and uses investment resources efficiently.
- The Council's core funds are projected to provide sufficient cover to enable the continuation of the current internal borrowing approach for the medium term.
- The Council has a strong track record of operating within its approved treasury and prudential indicators set which demonstrates good governance and control.

The final version of the TMS incorporating the views of Cabinet will be presented to Council on 3 March 2025.

The report is coming to Cabinet and Council because it is a Chartered Institute of Public Finance and Accountancy (CIPFA) requirement for the Treasury Management Strategy to be agreed by those committees.

Local Government Act 1972 – Access to Information
There are no documents which are required to be listed.

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RECOMMENDATIONS

The Cabinet is asked to recommend the Council to agree the following:

1) The Borrowing Strategy as set out in section 5 and Appendix 1;
2) The operational boundaries and authorised limits in Appendix 1 (prudential indicators 3 and 4);
3) The prudential and treasury management indicators in Appendix 1 (prudential indicators 1-8)
4) The Investment Strategy as set in section 6 and Appendix 1;
5) The creditworthiness policy and credit rating criteria as set out in Appendix 1 (Table 3);
6) The investment instruments categorised as specified and non-specified in Appendix 1 (Table 4 and 5); and
7) The Minimum Revenue Provision (MRP) Policy as set out in Appendix 1.

The Council is asked to agree the following:

1) The Borrowing Strategy as set out in section 5 and Appendix 1;
2) The operational boundaries and authorised limits in Appendix 1 (prudential indicators 3 and 4);
3) The prudential and treasury management indicators in Appendix 1 (prudential indicators 1-8)

4) The Investment Strategy as set out section 6 and Appendix 1;
5) The creditworthiness policy and credit rating criteria as set out in Appendix 1 (Table 3);
6) The investment instruments categorised as specified and non-specified in Appendix 1 (Table 4 and 5); and
7) The Minimum Revenue Provision (MRP) Policy as set out in Appendix 1.

Signed: Agreed, Daniel Omisore, Director of Finance

Date: 13th February 2025

1. CONTEXT AND BACKGROUND

1.1. In recognition of the importance of treasury, capital, borrowing and investments to Council activities, CIPFA and central government have compiled codes of practice and regulations for Councils to adopt. They ensure that Councils have effective processes in place to control, manage and govern capital investment decisions and set out best practice relating to borrowing and treasury management approaches. The Prudential Code was introduced in 2004 as a framework to support Councils. Before this, capital borrowing levels in local government were regulated. This self-regulated approach has enabled the Council to adopt local borrowing and treasury management strategies that fit with our corporate plans and objectives captured in We Make Camden.

1.2. The framework allows the Council to judge for itself what is affordable and sustainable and sits alongside CIPFA's Treasury Management Code, which sets out the requirements for a professional treasury management function. A key requirement of the code is for the Council to produce an annual treasury management strategy before the start of each financial year. The strategy includes prudential indicators that comprise of a set of limits and ratios that all Council's must calculate and use to demonstrate that capital and investment plans are affordable and sustainable. CIPFA defines treasury management as:

"The management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks."

1.3. This report presents the 2025-26 Treasury Management Strategy, which will guide the Council's treasury management activities for the coming year. The challenging financial landscape in Local Government highlights the need for appropriate scrutiny, disclosure and understanding of treasury management. The Council is required to operate a balanced budget with expenditure being matched by income and effective treasury management contributes to this by ensuring cash is available when required. Surplus funds are invested within the Council's low risk appetite and investments are made with security and liquidity in mind, ensuring that cash is available when required.

1.4. Another key aim of the treasury management strategy is to sustainably fund the Council's capital plans. Capital expenditure gives rise to a borrowing need which is longer-term in nature than the revenue cash flow requirements. In managing this delicate balance, treasury management is critical in balancing debt and investment activities to ensure liquidity is in place for day-to-day revenue expenditure or for larger capital projects.

1.5. The report addresses a number of key aspects of our treasury approach, namely:

- How the Council will fund its past and future capital plans;
- How borrowing and investments will be managed;
- How surplus cash balances will be invested to ensure cash is available when necessary and to prioritise security and liquidity over yield;
- How the Council will use its revenue resources to pay down debt;
- How the Council will manage treasury risk;

2. PROPOSAL AND REASONS

2.1. A snapshot of the current treasury position is outlined in Table 1 which shows that the Council's debt and investment balances are significant in relation to the Council's gross revenue budget for 2024-25 (£1,027.9m) and balance sheet (£4.514bn as at 31 March 2024). It is therefore important that the Council manages the risks associated with its treasury position in order to safeguard the authority's financial robustness.

Investments

2.2. Most of the Council's day to day treasury cash balances (currently £127m) are held in Money Market Funds (MMFs), which offer immediate access. The remaining £363.3m of our investments are invested in deposits with various high-grade counterparties (£250m), UK Treasury bills (£49m), UK Gilts (£50m) and Local Authority lending (£15m), maturing within the next 12 months.

2.3. Out of the £490.3m total cash invested, roughly 39% or £193.2m is managed on behalf of the NLWA. The average return on our investments is 4.84% (2023-24 5.53%). The target return for 2025-26 is 4.6%, reflecting what is forecast to be a declining interest environment during the period.

Borrowing

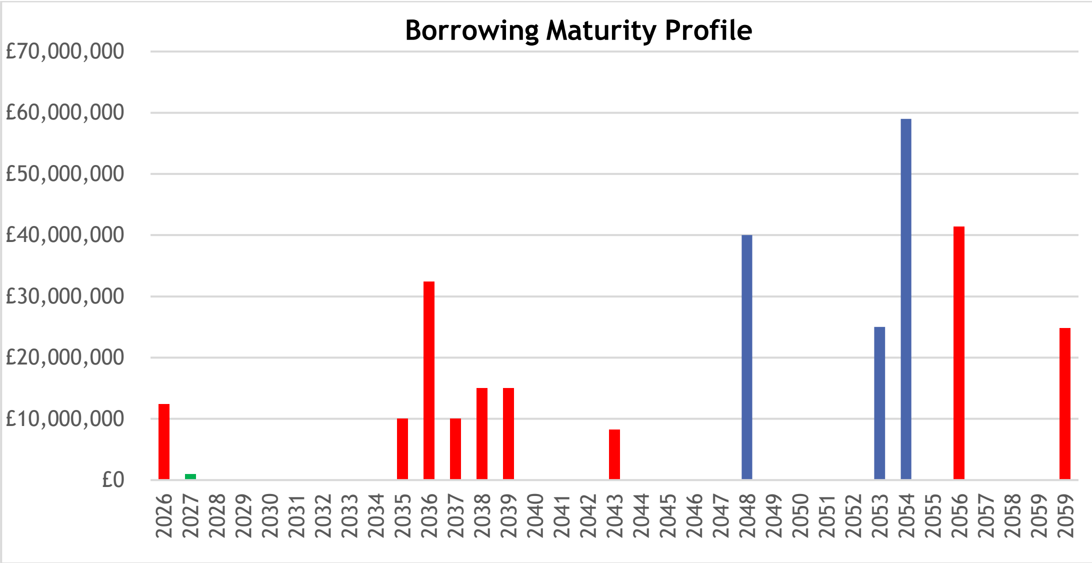
2.4. As at 31 December 2024 the weighted average life of the overall debt portfolio is 24 years, with an average cost of borrowing of 4.93%. (2023-24 4.99%)

Borrowing and Investment Portfolio as at 31.12.24

Table 1

	Camden	NLWA	Total	Average Rate %
	£m	**£m**	**£m**	**£m**
PWLB	£169.3		**£169.3**	**5.26%**
LOBO Loans	£124.0		**£124.0**	**4.63%**
Camden Climate Investment 2027	£1.0		**£1.0**	**1.75%**
Borrowing	**£293.3**		**£293.3**	
Money Market Funds	(£77.1)	(£49.9)	**(£127.0)**	**4.69%**
Banks	(£151.8)	(£98.2)	**(£250.0)**	**4.96%**
Government (Treasury Bills & UK Gilts)	(£59.1)	(£39.2)	**(£98.3)**	**4.56%**
Local Authority Lending	(£9.1)	(£5.9)	**(£15.0)**	**5.20%**
Investments	**(£297.1)**	**(£193.2)**	**(£490.3)**	
Net Investments	**(£2.9)**			

Chart 1



PWLB
Community Municipal Investment
Market

2.5. As noted above, the Council's treasury strategy is underpinned by the Prudential Code, which is adopted to ensure that the Council's capital investment plans are prudent, sustainable and affordable. The Prudential Code requires the Council to set prudential indicators annually for capital, treasury and affordability to help the Council demonstrate that it has fulfilled these objectives.

2.6. The Council continues to follow the principles enshrined in these codes and in year reporting is in place to monitor and report performance against all forward-looking prudential indicators and highlight significant actual or forecast deviations from the approved indicators. These reports do not all have to be reported to Full Council but do need to be adequately scrutinised. CIPFA requires that all Council's nominate the body/committee who will receive reports on its treasury and investment management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close. Section 13 of the Treasury Management Strategy clarifies those roles and delegations.

2.7. The Council use Link Asset Services (Link), now known as MUFG Corporate Markets as its external treasury management advisors and recognises that there is value in employing external providers of treasury management services to acquire access to specialist skills and resources when required.

<u>Economic Background</u>

2.8. The Council's approach to treasury management is driven by its capital plans which determine the size and nature of both the borrowing requirement. Aside from internal drivers, the direction of both the borrowing and the investment strategy will be influenced by the Council's view of the current economic environment and the likely direction of interest rates.

2.9. As widely expected, the Bank of England reduced the Bank Rate to 4.50% following its February 2025 meeting. The MPC voted by a majority of 7–2 reduce Bank Rate by 0.25% to 4.5%. Interestingly, 2 members of the MPC were in favour of reducing the rate by 0.5%, which perhaps signals a higher probability of further rate reductions sooner than expected, although there remains a great deal of economic uncertainty both domestically and globally - the latest growth and inflation forecasts from the Bank reflect this situation.

2.10. UK GDP had risen by 0.1% in 2024 Q3, slightly weaker than the 0.2% that had been expected in the November Monetary Policy Report. Household consumption had been estimated to have grown by 0.5%, and government spending and business investment had each risen by around 1%. Bank staff now expect zero GDP growth in 2024 Q4, weaker than the 0.3% that had been incorporated in the November Monetary Policy Report.

2.11. UK-weighted global GDP was estimated to have grown by 0.5% in 2024 Q3, marginally higher than the projection in the November Monetary Policy Report. Euro-area GDP had grown by 0.4% in the third quarter, higher than the November Report projections and supported by household consumption. US GDP had increased by 0.7% in Q3, in line with the November Report projections, and was expected to cool slightly in Q4. In China, GDP had grown by 0.9% in Q3, a rebound from Q2, owing to stronger exports.

2.12. Twelve-month UK CPI inflation has increased to 2.5% in December from 1.7% in September. This was slightly higher than previous expectations, owing in large part to stronger inflation in core goods and food.

2.13. Monetary policy would need to continue to remain restrictive until the risks to inflation returning sustainably to the 2% target in the medium term.

<u>Interest Rates</u>

2.14. The Council's treasury management adviser (Link) is forecasting a downward trend for bank rate from March 2025 and a downward forecast for Public Works Loan Board (PWLB) borrowing over the coming two years, with a bank rate of 4.50% forecast for March 2025, falling to 3.50% by Dec 2026. Further details are included in Appendix 1 – section 3.

3. OPTIONS APPRAISAL

3.1. The Council has an outstanding borrowing requirement of £364.6m (Appendix 1 – Table 15). It can either enter into new borrowing now or continue to meet this requirement temporarily by offsetting borrowing against investments. Entering into new debt now would reduce 'interest rate risk' (the possibility that future debt will be more expensive than current rates). However, borrowing now would entail additional interest costs and lower investment returns.

3.2. Alternatively, the Council could temporarily use its own resources (reserves and working capital) to avoid borrowing in the medium term.

3.3. The Council has investments of £297.1m which will need to be managed in a way that meets the objectives of security, liquidity and yield (in order of priority). If the Council expands its risk appetite, it will increase the opportunity to earn higher rates of interest. However, there will also be a greater risk of default from investments with weaker financial standings.

3.4. The Council's attitude to risk is low and it has chosen to be more risk averse than standard methodology adopted by Link. There is no increase in our risk exposure in the recommended investment strategy for 2025-26.

4. WHAT ARE THE KEY IMPACTS / RISKS? HOW WILL THEY BE ADDRESSED?

4.1. 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 robust due diligence procedures cover all external investments. Further details of the Council's approach to risk, including mitigations is included in Appendix 1

5. CONSULTATION/ENGAGEMENT

5.1. There is no consultation required for this report.

6. LEGAL IMPLICATIONS

6.1. Under part 1 chapter 1 of the Local Government Act 2003, a local authority may borrow for any purpose relevant to its functions or for "the prudent management of its financial affairs".

6.2. Each authority must set a total borrowing limit for itself in accordance with the principles of the Prudential Code. The borrowing limit is related to the revenue streams available to the local authority, with which it can repay the debt. The total amount that a local authority may borrow is governed by the requirements of CIPFA's Prudential Code for Capital Finance in Local Authorities; and by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), as amended.

6.3. Local Authorities also have the power to invest (s. 12 of the Act) for "any purpose relevant to their functions under any enactment or for the purposes of the prudent management of their financial affairs". This power is subject to restrictions contained in the Local Authorities (Funds) (England) Regulations 1992/2428.

6.4. The Prudential Code for Capital Finance in Local Authorities is a professional code of practice to help Councils govern capital investment and borrowing decisions by providing a framework that includes Indicators to demonstrate affordability and sustainability. In order to carry out their duties under legislation in respect of affordability, local authorities are required to have regard to all those aspects of the Prudential Code that relate to affordability, sustainability and prudence.

7. RESOURCE IMPLICATIONS

7.1. The comments of the Executive Director Corporate Services have been incorporated into this report.

8. ENVIRONMENTAL IMPLICATIONS

8.1. Environmental, Social and Governance considerations are included in section 10 of the Treasury Management Strategy in Appendix 1.

9. TIMETABLE FOR IMPLEMENTATION

9.1. Upon approval of this report is agreed, all limits will be effective from April 2025. During the year the Treasury Management outturn for 2024-25 will be reported to Audit and Corporate Governance Committee in July 2025 and a mid-year review of 2025-26 to the same Committee in November 2025. In accordance with the CIPFA Prudential and Treasury Management Codes, these reports will also be presented to Cabinet and then to Full Council for approval.

10. APPENDICES

Appendix 1 Treasury Management Strategy 2025-26

REPORT ENDS