SURREY
COUNTY COUNCIL

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Audit & Governance Committee
22 January 2025

Treasury Management Strategy Statement 2025/26

Purpose of the report:

This report sets out the Council's Treasury Management Strategy for 2025/26, which is required to ensure compliance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code).

Recommendations:

It is recommended that:

The Audit and Governance Committee comment on and note the Treasury Management Strategy Statement (TMSS) – Part 4 of the Capital, Investment and Treasury Strategy for 2025/26 including the Prudential Indicators (attached), in advance of being considered by Cabinet and Full Council, as part of the Final Budget Setting papers.

Introduction:

1. The Audit and Governance Committee is asked to comment on and note the Treasury Management Strategy Statement (TMSS) for 2025/26 including the Prudential Indicators.

2. The TMSS is a key part of the Council's overall financial strategy and has been developed alongside the 2025/26 Revenue Budget, the Medium-Term Financial Strategy and Capital Programme, with advice from the Council's Treasury Management Advisor, Arlingclose.

3. The TMSS sets out the approach taken by the Council to managing cash flows and associated risks, particularly our borrowing strategy and the safeguarding of our investments. The TMSS ensures that the full costs of funding the capital programme are prudent, sustainable and affordable and that our cash balances are safeguarded whilst delivering an investment return.

4. The Final TMSS is due to be approved by Council on the 4 February 2025.

Overview of Treasury Management:

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Summary

5. Treasury Management covers two main areas; borrowing and investment. Together, these manage the Council's overall cash position. The Council's cash position is dictated by three factors:

   - Past and projected borrowing;
   - The level of reserves; and
   - The timing of income and expenditure.

6. The Council works proactively with Arlingclose to set the strategy and ensure that the best balance is struck between minimising cost, safeguarding investments and managing risk.

7. The Council's approach to treasury management is supported by key prudential and treasury indicators, which are set out in Annex 1 to the TMSS.

Borrowing

8. Managing the cost of the Council's borrowing is at the heart of the strategy.

9. The Council only borrows to fund capital expenditure after the application of grants, contributions and capital receipts. However, the level of external debt has historically been substantially less than the underlying borrowing requirement. This is because the Council is able to use its internal resources (reserves and cash surpluses) to minimise the need to borrow externally.

10. Where external borrowing is required, a balance must be struck between taking advantage of historically lower interest rates for short-term borrowing and the certainty that comes with long-term fixed rate loans. The Council continually monitors prevailing economic conditions against its borrowing requirement and seeks regular advice from Arlingclose on the best balance between short and long-term debt.

11. At present, a continued focus on short-term borrowing has been determined to represent the best balance between cost minimisation and risk management. This is kept under constant review, with a view to converting some short term borrowing to long term borrowing where appropriate and rates are favourable.

12. The TMSS sets limits on the level of overall external debt – an operational boundary. This sets an indication of the expected maximum

debt at any given time and an authorised limit which is an absolute legal cap on our total debt, set according to statute.

13. The TMSS includes the Minimum Revenue Provision (MRP) Policy, which sets out arrangements for ensuring that debt can be repaid when it falls due. The Council is required by statute to make a prudent provision for the repayment of its debt and 'have regard' to Government guidance on how this is calculated. The full MRP Policy Statement can be found in on the final page of the TMSS. 6

Investment

14. The Council usually receives income (for example from Council Tax, Business Rates and Government Grant) in advance of incurring expenditure, leading to surplus cash balances. These are used in the first instance to minimise external borrowing, as in the prevailing external environment the cost of borrowing exceeds available returns from investment. However, the Council needs to maintain a prudent level of liquidity (ability to access cash) and so a level of investment activity is required.

15. The Council maintains relatively low levels of cash balances, as it has the ability to access cash via borrowing from other local authorities. As such the focus for investment is on security and liquidity, rather than high interest rate returns. Security is of paramount concern, particularly given uncertain economic conditions.

16. The TMSS sets out the approach to investment, including approved limits for investment counterparties, set according to their credit limit, and maximum amounts to be invested with any one counterparty.

Conclusion:

17. The TMSS sets out the Council's strategy for managing its borrowing and investments to deliver best value for money and a balanced approach to managing risk. The TMSS has been set out according to the legal framework and best practice and supports the delivery of the Council's budget, Capital Programme and Medium-Term Financial Strategy.

Financial and value for money implications

18. The impact of this strategy on the interest paid and interest receivable budgets are included within Annex 1 and have also been factored into the 2025/26 Budget and Medium-Term Financial Strategy to 2029/30.

Equalities and Diversity Implications

19. There are no direct equalities implications of this report.

Risk Management Implications

20. The Council measures and manages its exposures to treasury management risks using indicators outlined in Annex 1.

Legal Implications – Monitoring Officer:

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21. The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for management of risk.

22. In addition, the Council within its Annual Treasury Management Strategy has agreed to comply with the CIPFA Code of Practice on Treasury Management. This report sets out the work that Treasury Management is undertaking to ensure that it is meeting these requirements and adapting to changes as they arise.

23. There are no immediate legal implications arising from the report.

Next steps:

24. The Treasury Management Team will monitor borrowing and cash investments and will continue to update this Committee as appropriate.

25. A full-year outturn report for 2024/25 and a half-year monitoring report for 2025/26 will be presented to this committee during 2025.

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Sources/background papers:
- CIPFA Code of Practice for Treasury Management in the Public Services (2021 Edition)
- 2025/26 Final Budget and Medium-Term Financial Strategy, Council, 4 February 2025 [To be published]

Annexes/Appendices:
Annex 1 - Capital, Investment and Treasury Management Strategy 2025/26
