Aberdeenshire Council 2024/25 Budget – Appendix 5

TREASURY MANAGEMENT STRATEGY

1. What is Treasury Management?

1.1. Treasury Management is an over-arching strategy which supports the council to deliver its priorities by ensuring proper governance in this area. The purpose of this report is to approve the Treasury Management Strategy (TMS) and Annual Investment Strategy for 2024/25, and to approve the indicators which will be used to measure the Council's performance in capital investment decisions.

1.2. The Local Government (Scotland) Act 2003 (the Act) and supporting regulations requires the Council to adhere to the CIPFA Treasury Management Code of Practice.

1.3. The Act and subsequent Local Government Investments (Scotland) Regulations 2010 require the Council to set out its Treasury Strategy for borrowing and to prepare an annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.4. The Act also requires the Council to adhere to the CIPFA Prudential Code and to set prudential and treasury indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The prudential system, underpinned by legislation and regulation, provides a self-regulatory framework.

1.5. Treasury Management is fundamental to the operation of all Council services as it ensures that appropriate financial resources are considered, secured and available when required.

1.6. In practical terms, treasury management is the management of the Council's cash. This in turn relates to banking, investments, borrowing, cash flow and all financial transactions.

1.7. The TMS also sets out the governance arrangements under which all treasury activities are carried out to ensure, where possible, that all risks are known, identified and managed. The mitigation of risk is imperative for the safeguarding of public funds and for the pursuit of optimum performance commensurate with an acceptable level of risk for Aberdeenshire Council.

1.8. Broadly, there are two connected activities under treasury management: short-term and long-term requirements

- Short-term - the day-to-day monitoring and management of the Council's cashflows through short-term investment and borrowing;
- Long-term – managing the requirement of the Capital Plan through long-term borrowing decisions and consideration of debt maturity and repayments.

1.9. The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in the Public Services also requires the Council to set out its treasury management strategy for borrowing and investment.

1.10. The CIPFA Treasury Management Code and Prudential Code were updated on 20th December 2021. Under the Code, Aberdeenshire Council sets its own borrowing limits but must demonstrate, via a set of Prudential Indicators, that any borrowing is affordable, prudent and sustainable. Aberdeenshire Council will periodically review the portfolio of loans held to ensure that these are being managed as effectively as possible.

2. Aberdeenshire Council's Treasury Management Strategy

2.1. The Treasury Management Strategy Statement and Annual Investment Strategy is detailed in **Appendix 5A**.

Borrowing Strategy

2.2. The Council's main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

2.3. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer stability of the debt portfolio.

2.4. A review of the Council's Capital Plan was undertaken during 2023/24 with a view to ensuring that the Plan was prudent, affordable, and sustainable in consideration of the current economic climate. The outcome of that review demonstrated that the Capital plan was no longer affordable in its existing format and changes were required.

2.5. In order to ensure the continued affordability of borrowing over a 15-year period, various methods for constraining borrowing were considered.

2.6. The cost of borrowing is primarily influenced by prevailing interest rates, making a fixed limit on the quantity of loans seem overly simplistic for long-term borrowing models that don't accommodate interest rate fluctuations.

2.7. Therefore, we have adopted a more nuanced approach by setting a cap of 8.5% on the maximum borrowing cost as a percentage of our net revenue streams. While some councils include PFI/PPP payments within this threshold, we have chosen to exclude them, as Aberdeenshire Council's PFI/PPP payments account for approximately 1% to 1.5% of net revenue streams.

2.8. By implementing this cap, the council can effectively align its borrowing requirements with forecasted interest rates and anticipated increases in income streams. This approach allows for necessary adjustments to the capital plan while maintaining financial flexibility.

2.9. Those changes have been incorporated into the borrowing strategy presented here. The Capital Plan is still an ambitious one and will necessitate an increase in borrowing over the next few financial years, almost £56 million will be required in 2024/25 with a further £180 million required to support the Capital Plan over the following 4 financial years.

2.10. This increase in borrowing will result in greater revenue resources required to support the higher borrowing costs. With increasing demands for revenue resources in future years, the potential future costs of borrowing have been quantified and limits agreed to ensure that the impact on the revenue budget is contained within the Medium-Term Financial Strategy.

2.11. The estimated borrowing costs for the next 5 years are.

	Capital Financing Charges £m
2024/25	40.827
2025/26	46.549
2026/27	50.646
2027/28	54.380
2028/29	57.022

Investment Strategy

2.12. The Council's investment priorities will be security first, portfolio liquidity second and then yield (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

Risks

2.13. The following areas of risk have been identified:

- Long-term borrowing interest rates are largely dependent on the strength of the UK and global economy.
- The Council is currently maintaining an under-borrowed position. This means that the financing required to fund the Council's capital projects (the Capital Financing Requirement) has not been fully funded by borrowing but is also funded from the Council's reserves, cash balances and cash flow surpluses on a temporary basis.
- The stringent criteria applied in relation to investment counterparties will continue to limit investment income generation in 2024/25.

These risks will continue to be monitored closely during 2024/25 and reported through Business Service Committee as part of the quarterly monitoring of treasury management and prudential indicators.