

Audit Committee – 14 February 2025

Title of paper:	Treasury Management and Capital Strategy 2025/26	
Director(s)/ Corporate Director(s):	Stuart Fair, Corporate Director of Finance and Resources and Section 151 Officer	Wards affected: All
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Does this report contain any information that is exempt from publication? No		
Brief Summary		
<p>The Audit Committee is responsible for scrutinising, reviewing and monitoring the Council's Treasury Management Strategy. The Committee is also responsible for considering the governance of the capital programme and projects.</p> <p>This report provides an opportunity for the Committee to scrutinise, review and provide any comments on the proposed Treasury Management Strategy 2025/26 and Capital Strategy 2025/26 ahead of it being considered for approval by City Council in March as part of the wider Budget decisions.</p>		
Recommendation(s):		
1.	To consider the Treasury Management Strategy for 2025/26, attached as Appendix 1, and in particular: <ul style="list-style-type: none"> a) the strategy in relation to debt repayment i.e. Annual Minimum Revenue Provision Statement 2025/26 (section 5.2); b) the Borrowing Strategy (section 3.4); c) the Annual Treasury Investment Strategy (section 4); d) the Prudential Indicators and Limits (section 5.1); e) the Treasury Management Policy Statement (section 5.3). 	
2.	To consider the Capital Strategy 2025/26 (Appendix 2) and in particular: <ul style="list-style-type: none"> a) the Flexible Use of Capital Receipt policy (Annex A); b) Voluntary Debt Reduction policy (Annex B); c) Non-Treasury Investment Strategy (Annex C). 	

1. Reasons for recommendations

1.1 The Audit Committee's terms of reference include to:

- (a) consider assurance of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment including emphasis on:
 - i. governance risks around high level financial strategy and reserves
 - ii. governance risks connected to asset realisation
 - iii. governance of Capital Programme and projects
 - iv. value for Money and Delivering Objectives
 - v. governance of linked incorporated bodies

Finance and Governance Reporting

- (a) effectively scrutinise, review and monitor treasury management strategies and policies including compliance with CIPFA Codes

1.3 Approval of a Treasury Management Strategy is a legal requirement, to comply with:

- Financial Regulations and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management by submitting a policy and strategy statement for the ensuing financial year;
- Guidance issued by the Secretary of State under section 15(1) (a) of the Local Government Act 2003 in approving, at Council, an Annual Investment Strategy before 1 April;
- Guidance issued by the Secretary of State under section 21 (1A) of the Local Government Act 2003 which requires the preparation of an annual statement of the Council's policy on making a Minimum Revenue Provision (MRP) for the repayment of debt.

1.4 The Capital Strategy is a requirement to comply with:

- The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the Code of Practice on Treasury Management;
- Regulations requiring the Council to have regard to the Code are issued under section 1 of the Local Government Act 2003.
- Guidance issued by the Secretary of State under section 15(1) (a) of the Local Government Act 2003 in approving, at Council, an Annual Investment Strategy before 1 April.

2. Background

2.1 Treasury Management Strategy

2.2 Treasury management is a term used to describe the management of an organisation's borrowing, investments and other financial instruments, their associated risks and the pursuit of optimum performance or return consistent with those risks.

2.3 The Treasury Management Strategy (TMS) sets the strategic context, within the Council's planning cycle, for how treasury management activity will take place. The various aspects of the strategy require approval by Full Council these include the Treasury Management and Treasury Investment strategies for 2025/26, the Debt Repayment Strategy, the Prudential Indicators and the associated treasury policies.

2.4 The CIPFA Treasury Management Code introduces the framework which for governing local authority investments for 2025/26 which are required to be incorporated into the Council's policies and strategies going forward. These are set out in the Treasury Management Strategy and have the effect of tightening regulation and restriction applicable to authorities making investments for commercial return. There is particular focus in relation to local authorities needing to ensure that investments are proportionate to the Council's financial capacity and critically that local authorities must not borrow to invest primarily for financial return.

2.5 The proposed Treasury Management Strategy 2025/26 is included at Appendix 1 to this report.

2.6 Capital Strategy

2.7 The Capital Strategy provides the Council with a framework in which capital investment and financing decisions can be aligned with the Council's corporate priorities over the medium term and includes the Voluntary Debt Reduction Policy Statement. This strategy requires approval by Full Council. The Capital Strategy continues to reflect the impact of the Exceptional Financial Support on the Council; as well as capital priorities and availability of funding.

2.8 The Strategic Council Plan acknowledges that a well-managed capital programme is a critical contributor to the overall financial recovery of the City Council and the Capital Programme has been reviewed to ensure it is in a fully funded and on a sustainable footing for the longer term. Development of an effective Capital Strategy and a strengthened governance and control framework supports the Council in achieving this. Implementation of the Plan is a key priority of the Council and the Capital Strategy forms a key component part.

Key continuing activities include: -

- A full review of the capital programme to remove de-prioritised schemes and add in future liabilities.
- Compliance with the Council's Debt Reduction Policy to reduce Council debt to a sustainable level.
- A maturing of the capital prioritisation process and the separation of spending and funding decisions.
- Providing a strengthened Governance and Control Framework and ensuring that this is put into practice across the Council.

2.9 The treasury management and capital functions are governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the Council must have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The Council formally adopts the requirements of these codes as part of its Treasury Management Policy Statement and its Capital Strategy.

2.10 The Treasury Management Strategy and the Capital Strategy have been considered by Executive Board on 11 February 2025. As part of the scrutiny process set out in by the CIPFA Code of Practice Audit Committee are required to provide any comments that require a change to the various strategies. These comments will be reflected in the reports to be considered by Full Council on the 3 March 2025.

2.11 The proposed Capital Strategy 2025/26 is included at Appendix 2 to this report.

3. Risk Assessment

- 3.1 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is maintained for the treasury function.
- 3.2 Risk inherent in the capital programme are mitigated through the strict implementation of the Capital Strategy, the Voluntary Debt Reduction Policy and the governance from the Capital Board. A key example of this is the capital principle that the Council will not commit to schemes until the resources such as capital receipt have been secured.

4. Background papers other than published works or those disclosing exempt or confidential information

- 4.1 PWLB records, working papers
- 4.2 Nottingham City Council Project Management Handbook

5. Published documents referred to in compiling this report

- 5.1 Money Market and PWLB loan rates
- 5.2 Treasury Management in the Public Services Code of Practice – CIPFA
- 5.3 Prudential Code – CIPFA
- 5.4 Treasury Management in the Public Services Guidance Notes – CIPFA
- 5.5 Statutory guidance on local government investments
- 5.6 Statutory guidance on Minimum Revenue Provision (MRP)