

# **BUDGET AND PERFORMANCE PANEL**

## **Treasury Management Strategy 2022/23 02 February 2022**

### **Report of Chief Finance Officer**

#### **PURPOSE OF REPORT**

To present to Budget and Performance Panel the draft Treasury Management Strategy and associated documents for 2022/23 and to provide an opportunity for consideration and comment ahead of formal presentation to Council in accordance with the Council's constitution.

**This report is public**

#### **OFFICER RECOMMENDATIONS**

That Budget and Performance Panel considers the

- (1) **Treasury Management framework documents and strategy for 2022/23 and makes comments or recommendations as appropriate.**

#### **1.0 INTRODUCTION**

- 1.1 The strategy and supporting documents attached at **Appendix A** are to be presented to Cabinet on 08 February 2021
- 1.2 The Panel are asked to limit their consideration to the Treasury Management strategy and associated attachments in line with their Terms of Reference within the Constitution.

#### **2.0 TREASURY MANAGEMENT FRAMEWORK 2022/23**

- 2.1 The Council's Treasury Management Activities are regulated the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) issued under the Local Government Act 2003.
- 2.2 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. During 2022/23 the minimum reporting requirements are that the Full Council should receive the following reports:
  - an annual treasury strategy in advance of the year
  - a mid-year (minimum) treasury update report

- an annual review following the end of the year describing the activity compared to the strategy

### **3.0 TREASURY MANAGEMENT STRATEGY**

- 3.1 Treasury management activities represent the placement of residual cash held in the bank resulting from the authority's day to day activities in relation to s12 Local Government Act investment powers. The Treasury Management Strategy, therefore, deals principally with investments and borrowing which are considered below.
- 3.2 CIPFA published an updated Treasury Management (the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes) and Prudential Code on 20 December 2021. These apply with immediate effect, however, CIPFA has stated that there will be a soft introduction of the codes with any change to reporting requirements deferred until the 2023/24 financial year.
- 3.3 It should also be noted that the DLUHC is proposing to tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme. The new CIPFA codes have also adopted a similar set of restrictions to discourage further capital expenditure on commercial investments for yield.
- 3.4 The proposed Strategy for 2022/23 to 2025/26 is set out at **Appendix A**. The document contains the necessary details to comply with both the Code and Government investment guidance. Responsibilities for treasury management are set out at **Appendix B** and the policy statement is presented at **Appendix C**.

### **4.0 BORROWING ASPECTS OF THE STRATEGY**

#### Capital Financing Requirement (CFR)

- 4.1 The Council's CFR is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. Based on the draft capital programme the Council's CFR is set to increase from the current estimated 2022/23 position of £104.00M to £105.28M in 2025/26.
- 4.2 The CFR does not increase indefinitely as a statutory annual charge to revenue known as Minimum Revenue Provision (MRP), approximately reduces the borrowing need in line with each asset's life.
- 4.3 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase over the next three to five years from its estimated current position of £70.04M to £84M (2022/23) as the Council looks to move forward with several ambitious schemes to enable delivery of its

Strategic Priorities. It is then forecast to reduce to £81M (2025/26) reflecting repayments of the HRA self-financing loan.

- 4.4 This level of borrowing is assessed for affordability, sustainability and prudence in line with the Council's Treasury Management Strategy and requires annual approval by Council following consultation with Budget & Performance Panel
- 4.5 Changes in the Council's Capital Financing Requirement and forward borrowing projections are summarised in tables 1 and 2 below.

**Table 1: Capital Financing Requirement**

£m	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
<b>Capital Financing Requirement</b>						
CFR – Non Housing	57.72	64.43	68.86	67.98	72.28	73.26
CFR – Housing	37.23	36.19	35.14	34.10	33.06	32.02
<b>Total CFR</b>	<b>94.95</b>	<b>100.62</b>	<b>104.00</b>	<b>102.08</b>	<b>105.34</b>	<b>105.28</b>
<b>Movement in CFR</b>						
Non Housing	9.29	6.72	4.42	(0.88)	4.30	0.98
Housing	(1.06)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
<b>Net Movement in CFR</b>	<b>8.25</b>	<b>5.68</b>	<b>3.38</b>	<b>(1.92)</b>	<b>3.26</b>	<b>(0.06)</b>

<b>Movement in CFR represented by</b>						
Net financing need for the year (above) re Non Housing	11.06	8.87	7.12	2.44	7.71	4.84
Less MRP/VRP and other financing movements	(2.81)	(3.19)	(3.74)	(4.36)	(4.45)	(4.90)
<b>Net Movement in CFR</b>	<b>8.25</b>	<b>5.68</b>	<b>3.38</b>	<b>(1.92)</b>	<b>3.26</b>	<b>(0.06)</b>

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**Table 2: Borrowing Projections**

	2020/21 Actual £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
<b>External Debt</b>						
Debt at 1 April	62.12	61.08	70.04	84.00	82.96	81.92
Expected change in Debt	(1.04)	8.96	13.96	(1.04)	(1.04)	(1.04)
Other long-term liabilities (OLTL)	0.00	0.00	0.00	0.00	0.00	0.00
Expected change in OLTL	0.00	0.00	0.00	0.00	0.00	0.00
<b>Actual gross debt at 31 March</b>	<b>61.08</b>	<b>70.04</b>	<b>84.00</b>	<b>82.96</b>	<b>81.92</b>	<b>80.88</b>
<b>The Capital Financing Requirement</b>	<b>94.95</b>	<b>100.62</b>	<b>104.00</b>	<b>102.08</b>	<b>105.34</b>	<b>105.28</b>
<b>Under Borrowing</b>	<b>(33.86)</b>	<b>(30.58)</b>	<b>(20.00)</b>	<b>(19.12)</b>	<b>(23.42)</b>	<b>(24.40)</b>

**The Operational Boundary**

- 4.6 This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. Changes to the operational boundary are included in table 3 below.

**Table 3: Operational Boundary**

Operational boundary	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Debt*	100.62	104.00	102.08	105.34	105.28
Other long- term liabilities	0.00	1.00	1.00	1.00	1.00
<b>Total</b>	<b>100.62</b>	<b>105.00</b>	<b>103.08</b>	<b>106.34</b>	<b>106.28</b>

**The Authorised Limit for External Debt**

- 4.7 This represents a control on the maximum level of borrowing and is a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. Changes to the authorised limit are included in table 4 below.

- This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

- Council will be asked to approve the following authorised limit:

**Table 4: Authorised Limit**

Authorised Limit	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m
Debt	116.00	119.00	117.00	120.00	120.00
Other long-term liabilities	0.00	1.00	1.00	1.00	1.00
<b>Total</b>	<b>116.00</b>	<b>120.00</b>	<b>118.00</b>	<b>121.00</b>	<b>121.00</b>

## **5.0 INVESTMENT ASPECTS OF THE STRATEGY**

5.1 Where short term treasury management investments are required the Council retains a comparatively low risk appetite with focus on high quality deposits. The 2022/23 strategy continues to use the same short-term investment criteria as approved by Members in previous years.

5.2 The proposed investment aspects of the strategy for treasury activities continues to provide for investing with other local authorities given that these, in effect, are as secure as investing with the Government but they offer greater returns, and from an Officer perspective, it makes sense to keep the benefits of such temporary cash investing/ borrowing wholly within the local authority family. Where this is not possible for liquidity reasons the Council is looking to place more emphasis on investment counterparties that are consistent with its own Priorities in particularly around climate change and ethical investments.

## **6.0 CONSULTATION**

6.1 Officers have liaised with Link Asset Services, the Council's Treasury Advisors, in developing the proposed framework.

6.2 The Council's Constitution (Part 3 Section 5 – Budget & Policy Framework) requires that when a new or existing strategy is being considered, the Overview and Scrutiny Committee or Budget and Performance Panel have an opportunity to comment. If it considers it appropriate, Cabinet may then amend its proposals before submitting them to Council for formal adoption.

## **7.0 CONCLUSION**

7.1 The Treasury Management Framework must fit with other aspects of the budget, with interest estimates and underlying borrowing assumptions, feeding into Prudential and Treasury Management Indicators

7.2 Any alternative proposals or amendments to the proposed Strategy in **Appendix A** would have to be considered in light of legislation, professional and economic factors, and importantly, any alternative views regarding the Council's approach to risk.

**CONCLUSION OF IMPACT ASSESSMENT**

(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing): As set out in the relevant appendices.

**LEGAL IMPLICATIONS**

As set out in the relevant appendices.

**FINANCIAL IMPLICATIONS**

As set out in the relevant appendices.

**OTHER RESOURCE IMPLICATIONS, such as Human Resources, Information Services, Property, Open Spaces:**

As set out in the relevant appendices.

**SECTION 151 OFFICER'S COMMENTS**

The Section 151 Officer has authored this report

**MONITORING OFFICER'S COMMENTS**

The Monitoring Officer has been consulted and has no further comments.

**BACKGROUND PAPERS**

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