CABINET

Treasury Management Strategy 2023/24

7 February 2023

Report of Chief Finance Officer

PURPOSE OF REPORT					
To present to Cabinet the draft Treasury Management Strategy and associated documents for 2022/23 and to provide an opportunity for final consideration and comment ahead of formal presentation to Council for approval, in accordance with the Council's constitution.					
Key Decision	**X**	**Non-Key Decision**		**Referral from Cabinet Member**	
Date of notice of forthcoming key decision				12th December 2022	

RECOMMENDATION OF COUNCILLOR WHITEHEAD

1. That Cabinet recommends the following for approval to Budget Council:

- **the Treasury Management Strategy 2023/24 and its Appendices A to C**
- **the revision to the Councils Minimum Revenue Provision (MRP) Policy for financial year 2022/23 (Appendix D).**

1.0 INTRODUCTION

1.1 The Code of Practice on Treasury Management ("the Code") requires that a strategy outlining the expected treasury activity for the forthcoming 3 years be adopted, but that it be reviewed at least annually. It needs to reflect treasury policy and cover various forecasts and activities, in order to incorporate the Council's spending and income plans with decisions about investing and borrowing

1.2 Cabinet are asked to consideration to the Treasury Management strategy and associated attachments in line with their Terms of Reference and if satisfied refer the strategy to Council for approval in accordance with the Constitution.

2.0 TREASURY MANAGEMENT FRAMEWORK 2023/24

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 2023/24 the minimum reporting requirements are that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (this report)
- 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 has 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 2023/24 to 2026/27 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 fluctuate from the current estimated 2023/24 position of £105.96M rising to £110.04M in 2024/25 before reducing slightly to £104.28M in 2025/26, to reflect current planned levels of capital expenditure

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 £59.00M to £73.46M (2023/24) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities. It is then forecast to increase slightly to £75.34M (2026/27).

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. Unfortunately, due a number of factors including the late conclusion of the budget process, delays to IT software and provision of information, the Treasury Management Strategy 2023/24 has not been considered by Budget & Performance Panel. As the approval of the strategy is a function of Full Council all Members, including those sitting on B&PP may proposes and changes, or amendments at that meeting.

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	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital Financing Requirement						
CFR – Non Housing	59.06	63.73	71.87	76.98	76.77	73.30
CFR – Housing	36.18	35.14	34.10	33.05	32.01	30.97
Total CFR	**95.24**	**98.86**	**105.96**	**110.04**	**108.78**	**104.28**
Movement in CFR						
Non Housing	1.34	4.67	8.14	5.11	-0.21	-3.46
Housing	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	**0.29**	**3.63**	**7.10**	**4.07**	**-1.26**	**-4.51**

Movement in CFR represented by						
Net financing need for the year (above) re Non Housing	3.49	6.77	11.06	8.53	3.52	0.55
Less MRP/VRP and other financing movements	-3.20	-3.14	-3.96	-4.46	-4.78	-5.06
Net Movement in CFR	**0.29**	**3.63**	**7.10**	**4.07**	**-1.26**	**-4.51**

Table 2: Borrowing Projections

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
External Debt						
Debt at 1 April	**61.08**	**60.04**	**59.00**	**73.46**	**77.42**	**76.38**
Expected change in Debt	**-1.04**	**-1.04**	**14.46**	**3.96**	**-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**
Actual gross debt at 31 March	**60.04**	**59.00**	**73.46**	**77.42**	**76.38**	**75.34**
The Capital Financing Requirement	**95.24**	**98.86**	**105.96**	**110.04**	**108.78**	**104.28**
Under Borrowing	**-35.20**	**-39.86**	**-32.50**	**-32.62**	**-32.40**	**-28.94**

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	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
Debt*	98.86	105.96	110.04	108.78	104.28
Other long term liabilities	1.00	1.00	1.00	1.00	1.00
Total	**99.86**	**106.96**	**110.04**	**109.78**	**105.28**

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	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
Debt	114.00	121.00	125.00	124.00	119.00
Other long-term liabilities	1.00	1.00	1.00	1.00	1.00
Total	**115.00**	**122.00**	**126.00**	**125.00**	**120.00**

Affordability Prudential Indicators

4.8 Prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances.

Table 5: Ratio of Financing Costs to Net Revenue Stream

	2021/22 Actual £m	**2022/23 Estimate £m**	**2023/24 Estimate £m**	**2024/25 Estimate £m**	**2025/26 Estimate £m**	**2026/27 Estimate £m**
General Fund	18.50	14.90	24.31	25.05	25.12	24.23
HRA	19.87	18.57	17.00	16.22	16.25	15.99

4.19 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream. Benchmarking by the Local Government Association (2022) suggested a regional and national average of c14% for the General Fund and so with potential percentage rates exceeding 25%, care and consideration must be taken with future capital investment.

5.0 MINIMUM REVENUE PROVISION (MRP) POLICY

5.1 Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the Authority has financed capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).

5.2 Regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) (Amendment) regulations 2008 require the Authority to calculate a prudent provision of MRP whilst having regard to the current MRP Guidance (2018). The broad aim of prudent provision is to ensure that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The Guidance gives four ready-made options for calculating MRP but the Authority can use any other reasonable basis that it can justify as prudent.

5.3 As part of the OBR process officers commissioned an external review of the Council's MRP policy and historic provision. The review highlighted a number of historic adjustments, which given the length of time could generate a significant retrospective windfall to the Council. Members need to note that there is a significant amount of work required from officers to realise this value. Given the complexity and volume of work needed it was originally anticipated that this work will commence in the second quarter of the 2023/24 financial year, however, following discussions with our external advisors it is felt that it would be more beneficial to the Council to complete this work in the 2022/23 financial year, to enable this support has now been provided by the external advisors and a prudent estimate reflected in the 2022/23 monitoring and its impact reflected in the 2023/24 budget proposals.

5.4 The first step in realising the value requires a change to the Council's MRP policy. Historically the Council has adopted the "Asset life method", where MRP is based on the estimated life of each asset created as a result of the related capital expenditure. The external advisors view is that whilst continuing to reflect the asset life of the asset it would benefit the Council if the MRP charge was calculated using the annuity method using a weighted average useful life.

5.5 The MRP policy statement requires full Council approval in advance of each financial year although regulation does permit in year changes. Following a comprehensive review of the MRP charges and methodology it is recommended that Council approves the revised MRP Policy Statement in relation to the 2022/23 ***Appendix D*** and 2023/24 financial years as referred to within the Treasury Management Strategy ***Appendix A***

6.0 INVESTMENT ASPECTS OF THE STRATEGY

6.1 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.

6.2 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 OPTIONS & OPTIONS ANALYSIS

6.1 Cabinet may put forward alternative proposals or amendments to the proposed Strategy, but these would have to be considered in light of legislative, professional, and economic factors, and importantly, any alternative views regarding the Council's risk appetite. As such no further options analysis is available at this time.

6.2 Furthermore, the Strategy must fit with other aspects of Cabinet's budget proposals, such as deposit interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators. There are no options available regarding other components of the overall framework.

7.0 OFFICER PREFERRED OPTION (AND COMMENTS)

7.1 To approve the framework as attached, allowing for any amendments being made under delegated authority prior to referral to Council. This is based on the Council continuing to have a comparatively low risk appetite regarding the security and liquidity of investments particularly, but recognising that some flexibility should help improve returns, whilst still effectively mitigating risk. It is stressed that in terms of treasury activity, there is no risk free approach. It is felt, however, that the measures set out above provide a fit for purpose framework within which to work, pending any update during the course of next year.

7.2 If Cabinet, or Budget Council changes its Capital Programme from that which is proposed in this report then this would require a change in the prudential indicators which are part of the Treasury Management Strategy. Delegation to the Finance Portfolio Holder is therefore requested in order to ensure that Cabinet's final capital programme proposals are reflected in the Treasury Management Strategy

8.0 CONCLUSION

8.1 This report addresses the actions required to complete the budget setting process for Treasury Management, and for updating the Council's associated financial strategy.

RELATIONSHIP TO POLICY FRAMEWORK Treasury Management forms part of the Councils budget framework
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) Effective Treasury Management and use of the Councils' resources is fundamental to the delivery of its priorities and outcomes

FINANCIAL IMPLICATIONS
The Treasury Management Strategy is in support of achieving the borrowing cost and investment interest estimates included in the budget.

S151 OFFICER COMMENTS
The s151 Officer has contributed to the writing of this report and Appendices, however, he wishes to draw Members attention to the following.
The Council's Constitution (Part 3 Section 5 – Budget & Policy Framework), where either a new or existing plan/strategy/budget is being considered, the Overview and Scrutiny Committee or Budget and Performance Panel will have an opportunity to comment. If it considers it appropriate, Cabinet may then amend its proposals before submitting them to Council for consideration.

Unfortunately, due a number of factors including the late conclusion of the budget process, delays to IT software and provision of information, the Capital Strategy 2023/24 has not been considered by Budget & Performance Panel. As the approval of the strategy is a function of Full Council all Members, including those sitting on B&PP my proposes and changes, or amendments at that meeting.

LEGAL IMPLICATIONS
Legal Services have been consulted and have no further comments

MONITORING OFFICER'S COMMENTS
The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS Appendix A - Council Responsibility Appendix B - TM Policy Appendix C - Treasury Management Strategy 2023-24 Appendix D - Revised MRP Policy Statement 2022-23	**Contact Officer:** Paul Thompson **Telephone: 01524 582603** **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A