

## **Treasury Management Strategy 2021/22 24 February 2021**

### **Report of Cabinet**

#### **PURPOSE OF REPORT**

This report sets out the 2021/22 Treasury Management framework for Council's approval.

**This report is public.**

#### **RECOMMENDATIONS:**

- (1) **That the Council notes the report and approves the Treasury Management Framework and associated Prudential Indicators as set out in Appendices A to C.**

#### **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

#### **2.0 TREASURY MANAGEMENT STRATEGY**

- 2.1 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.
- 2.2 In February 2020 Parliament reformed the statutory basis of the PWLB, transferring its lending powers to HM Treasury. In March 2020 the government consulted on revising the PWLB's lending terms to reflect these new governance arrangements. The government published its response to this consultation and implemented reforms in November 2020.
- 2.3 The main objective of these reforms was to respond to the major expansion of local authority investment activity over the last few years into the purchase of non-financial investments, particularly property held for primarily for yield. As noted in section 4 above this has impacted the Council's capital programme and elements of its Funding the Future Strategy. The proposed Treasury Management Strategy fully complies current regulation and guidance. However, officers are exploring options around future funding of capital schemes and any revisions to the programme or supporting strategies will be brought forward for approval in line with the Council's constitution.

- 2.4 The proposed Strategy for 2021/22 to 2024/25 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**.

### 3.0 BORROWING ASPECTS OF THE STRATEGY

#### Capital Financing Requirement (CFR)

- 3.1 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 2020/21 position £95.87M to £158.70M in 2024/25.
- 3.2 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.
- 3.3 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase significantly over the next three to five years from its current position of £61M to £101M (2021/22) potentially raising to £126M (2024/25) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities.
- 3.4 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
- 3.5 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	2019/20 Actual £m	2020/21 Estimate £m	2021/22 Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m
CFR – Non Housing	43.50	44.71	85.04	106.95	110.08	112.82
CFR – Housing	38.28	37.23	36.19	35.15	34.11	33.07
CFR – Commercial activities/non-financial investments	4.92	13.93	13.65	13.37	13.09	12.81
<b>Total CFR</b>	<b>86.70</b>	<b>95.87</b>	<b>134.88</b>	<b>155.47</b>	<b>157.28</b>	<b>158.70</b>

Table 2: Borrowing Projections

	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>Actual</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>	<b>Estimate</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>External Debt</b>						
Debt at 1 April	63.17	62.13	102.09	122.67	125.60	126.66
Expected change in Debt	(1.04)	(1.04)	(1.04)	(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>62.13</b>	<b>61.08</b>	<b>101.05</b>	<b>121.63</b>	<b>124.56</b>	<b>125.62</b>

### The Operational Boundary

- 3.6 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 boundaries are included in table 3 below.

Table 3 Operational Boundary

<b>Operational boundary</b>	<b>2020/21 Estimate £m</b>	<b>2021/22 Estimate £m</b>	<b>2022/23 Estimate £m</b>	<b>2023/24 Estimate £m</b>	<b>2024/25 Estimate £m</b>
Debt*	81.78	81.94	121.23	142.10	144.19
Other long term liabilities	0.00	0.00	0.00	0.00	0.00
Commercial activities/non-financial investments	4.92	13.93	13.65	13.37	13.09
<b>Total</b>	<b>86.70</b>	<b>95.87</b>	<b>134.88</b>	<b>155.47</b>	<b>157.28</b>

### The Authorised Limit for External Debt

- 3.7 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 is asked to approve the following authorised limit:

Table 4: Authorised Limit

<b>Authorised Limit</b>	<b>2020/21 Estimate £m</b>	<b>2021/22 Estimate £m</b>	<b>2022/23 Estimate £m</b>	<b>2023/24 Estimate £m</b>	<b>2024/25 Estimate £m</b>
Debt	97.00	97.00	136.00	157.00	159.00
Other long term liabilities	1.00	1.00	1.00	1.00	1.00
Commercial activities/non-financial investments	5.00	14.00	14.00	13.00	13.00
<b>Total</b>	<b>103.00</b>	<b>112.00</b>	<b>151.00</b>	<b>171.00</b>	<b>173.00</b>

#### **4.0 INVESTMENT ASPECTS OF THE STRATEGY**

4.1 Where short term treasury management investments are required the Council retains a comparatively low risk appetite with focus on high quality deposits. The 2021/22 strategy continues to use the same short term investment criteria as approved by Members in previous years.

4.2 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.

#### **5.0 CONSULTATION**

5.1 Officers have liaised with Link Asset Services, the Council's Treasury Advisors, in developing the proposed framework. The framework was considered by Budget and Performance Panel at its meeting on 16 February 2021.

#### **6.0 CONCLUSION**

6.1 The Treasury Management Framework must fit with other aspects of the budget, such as such as commercial investments together with traditional deposit interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators

6.2 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.

#### **RELATIONSHIP TO POLICY FRAMEWORK**

The proposed Treasury Management framework forms part of the Council's budget and policy framework, and fits into the Medium Term Financial Strategy.

**CONCLUSION OF IMPACT ASSESSMENT**

(including Diversity, Human Rights, Community Safety, Sustainability etc) No direct implications arising.

**FINANCIAL IMPLICATIONS**

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

**OTHER RESOURCE IMPLICATIONS**

None directly arising.

**SECTION 151 OFFICER'S COMMENTS**

The s151 Officer has authored this report and his comments and advice are reflected in its content.

**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**

Cabinet 09 February 2021

Budget & Performance Panel 16 February 2021

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