

## Lancaster City Council | Report Cover Sheet

<b>Meeting</b>	Cabinet	<b>Date</b>	08 February 2022
<b>Report of</b>	Chief Finance Officer		
<b>Purpose of Report</b>			
<p>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.</p>			
<b>Key Decision (Y/N)</b>	<b>N</b>	<b>Date of Notice</b>	
		<b>Exempt (Y/N)</b>	<b>N</b>

<b>Report Summary</b>
<p>The report outlines the Treasury Management Strategy for 2022/23 and associated Prudential Indicators together with linkages to the Capital Programme.</p> <p>The Council is required through regulations supporting the Local Government Act 2003 to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. It is also required to produce an annual Treasury Strategy for borrowing and for managing its investments and for giving priority to security and liquidity of those investments.</p> <p>This report satisfied these requirements and seeks Cabinet's approval and recommendation to Full Council for formal adoption.</p>

<b>Recommendations of Councillors</b>
<p>That Cabinet</p> <ul style="list-style-type: none"> <li>Considers and recommends to Council for formal approval of the Treasury Management Strategy 2022/23 and its Appendices A to C</li> </ul>

<b>Relationship to Policy Framework</b>	
Treasury Management forms part of the Councils budget framework	
<b>Conclusion of Impact Assessment(s) where applicable</b>	
Climate	Wellbeing & Social Value
Digital	Health & Safety
Equality	Community Safety
<b><i>A Thriving &amp; Prosperous Economy:</i></b>	
<b><i>Clean Green &amp; Safe Neighbourhoods:</i></b>	
<b><i>A Smart &amp; Forward-Thinking Council:</i></b>	
Effective Treasury Management and use of the Councils' resources is fundamental to the delivery of its priorities and outcomes	

**Details of Consultation**

Consultation has been undertaken with the Council's external Treasury Management Advisors and in line with the Council's constitution Budget & Performance Panel 02 February 2022.

**Legal Implications**

Legal Services have been consulted and have no further comments.

**Financial Implications**

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

**Other Resource or Risk Implications**

There are no additional resource or risk implications associated with this report

**Section 151 Officer's Comments**

The s151 Officer has authored this report in his role as Chief Finance Officer

**Monitoring Officer's Comments**

The Monitoring Officer has been consulted and has no further comments

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**Links to Background Papers**

Budget & Performance Panel 02 February 2022

[Agenda for Budget and Performance Panel on Wednesday, 2nd February 2022, 6.00 p.m. - Lancaster City Council](#)

## 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 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**

	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**

<b>Authorised Limit</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>	<b>2025/26 Estimate £M</b>
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 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