

# CABINET

## Treasury Management Strategy

2025/26

11 February 2025

### Report of Chief Finance Officer

PURPOSE OF REPORT				
To present to Cabinet the draft Treasury Management Strategy and associated documents for 2025/26 and to provide an opportunity for consideration and comment ahead of formal presentation to Full Council 26 February 2025 for approval				
Key Decision	X	Non-Key Decision		Referral from Cabinet Member
Date of notice of forthcoming key decision				16 <sup>th</sup> December 2024

#### RECOMMENDATION OF COUNCILLOR HAMILTON - COX

That Cabinet recommends the following for approval to Budget Council:

1. The Treasury Management Strategy 2025/26, Appendices A to C
2. Delegated authority be given to the S151 Officer, in consultation with the Portfolio Holder for Finance & Resources to amend change in the prudential indicators should Cabinet or Full Council make any revisions to the Capital Programme

#### 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, to incorporate the Council’s spending and income plans with decisions about investing and borrowing.
- 2.2 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 2025/26

- 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 2025/26 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 MHCLG has tightened 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 2025/26 to 2027/28 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 2024/25/24 position of £101.17M rising to £117.96M in 2025/26 before reducing slightly to £103.09M in 2029/30, reflecting 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 £63.93M to £83.84M (2026/27) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities. It is then forecast to decrease slightly to £83.72M (2029/30).
- 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**

	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
CFR – Non Housing	64.50	68.13	85.96	84.75	81.00	79.32	75.25
CFR – Housing	34.08	33.04	32.00	30.96	29.92	28.88	27.83
<b>Total CFR</b>	<b>98.58</b>	<b>101.17</b>	<b>117.96</b>	<b>115.71</b>	<b>110.91</b>	<b>108.20</b>	<b>103.09</b>
<b>Movement in CFR</b>							
Non Housing	0.93	3.63	17.83	-1.21	-3.75	-1.67	-4.07
Housing	-1.05	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
<b>Net Movement in CFR</b>	<b>-0.12</b>	<b>2.59</b>	<b>16.79</b>	<b>-2.25</b>	<b>-4.79</b>	<b>-2.71</b>	<b>-5.11</b>

<b>Movement in CFR represented by</b>							
Net financing need for the year (above) re Non Housing	3.59	6.54	20.75	3.14	0.97	2.91	0.79
Less MRP/VRP and other financing movements	-3.71	-3.94	-3.96	-5.39	-5.76	-5.62	-5.90
<b>Net Movement in CFR</b>	<b>-0.12</b>	<b>2.59</b>	<b>16.79</b>	<b>-2.25</b>	<b>-4.79</b>	<b>-2.71</b>	<b>-5.11</b>

**Table 2 Borrowing Projections**

	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
<b>External Debt</b>							
Debt at 1 April - PWLB & short term - actual	59.01	57.97	63.93	78.89	83.84	83.80	83.76
Debt - estimated	0.00	6.00	15.00	5.00	0.00	0.00	0.00
Expected change in Debt	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Other long-term liabilities (OLTL)	0.00	1.00	1.00	1.00	1.00	1.00	1.00
Expected change in OLTL	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Actual gross debt at 31 March</b>	<b>57.97</b>	<b>63.93</b>	<b>78.89</b>	<b>83.84</b>	<b>83.80</b>	<b>83.76</b>	<b>83.72</b>
<b>The Capital Financing Requirement</b>	<b>98.58</b>	<b>101.17</b>	<b>117.96</b>	<b>115.71</b>	<b>110.91</b>	<b>108.20</b>	<b>103.09</b>
<b>(Under) / over borrowing</b>	<b>-40.61</b>	<b>-37.24</b>	<b>-39.07</b>	<b>-31.86</b>	<b>-27.11</b>	<b>-24.44</b>	<b>-19.37</b>

#### 4.6 The Operational Boundary

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	2023/24 Actual £'M	2024/25 Estimate £'M	2025/26 Estimate £'M	2026/27 Estimate £'M	2027/28 Estimate £'M	2028/29 Estimate £'M	2029/30 Estimate £'M
Debt	99.00	101.17	117.96	115.71	110.91	108.20	103.09
Other Long-Term Liabilities	0.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>Total</b>	<b>99.00</b>	<b>102.17</b>	<b>118.96</b>	<b>116.71</b>	<b>111.91</b>	<b>109.20</b>	<b>104.09</b>

#### 4.7 The Authorised Limit for External Debt

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 for 2025/26 - £134M:

**Table 4: Authorised Limit**

Authorised limit £m	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Debt	115.00	116.00	133.00	131.00	126.00	123.00	118.00
Other Long-Term Liabilities	0.00	1.00	1.00	1.00	1.00	1.00	1.00
<b>Total</b>	<b>115.00</b>	<b>117.00</b>	<b>134.00</b>	<b>132.00</b>	<b>127.00</b>	<b>124.00</b>	<b>119.00</b>

#### 4.8 Affordability Prudential Indicators

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**

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Non-HRA	17.98%	19.21%	17.82%	24.97%	25.19%	24.16%	23.89%
HRA	17.52%	15.78%	15.40%	14.69%	14.01%	13.82%	13.19%

4.9 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 at around 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. Following a review, the Council's external advisors recommended a change to the MRP policy switching from the "Asset Life Method" to calculation using the annuity method using a weighted average useful life. This revision was formally approved by Council 22 February 2023.

5.3 The MRP policy statement requires full Council approval in advance of each financial year although regulation does permit in year changes. Following a review of the MRP charges and methodology it is recommended that Council retains the annuity method of calculation approves the MRP Policy Statemen as referred to within the Treasury Management Strategy **Appendix A**.

5.4 Table 4 below provides details of the Council's estimates MRP charges, based on current capital and borrowing information.

**Table 4 Forecast MRP Charges**

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
	£M	£M	£M	£M	£M	£M
Interest	1.241	1.534	2.184	2.192	2.201	2.210
MRP	2.912	2.924	4.357	4.717	4.586	4.586
<b>Total</b>	<b>4.153</b>	<b>4.458</b>	<b>6.541</b>	<b>6.909</b>	<b>6.787</b>	<b>6.796</b>

## 6.0 OPTIONS & OPTIONS ANALYSIS

6.1 Cabinet may put forward alternative proposals or amendments to the proposed Strategy ahead of consideration by Full Council, 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 currently.

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.

## 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. 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.

8.2 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.

<b>RELATIONSHIP TO POLICY FRAMEWORK</b> Treasury Management forms part of the Councils budget framework	
<b>CONCLUSION OF IMPACT ASSESSMENT</b> (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	
<b>FINANCIAL IMPLICATIONS</b> The Treasury Management Strategy is in support of achieving the borrowing cost and investment interest estimates included in the budget.	
<b>S151 OFFICER COMMENTS</b> The s151 Officer has authored this report and his comments are reflected within	
<b>LEGAL IMPLICATIONS</b> Legal Services have been consulted and have no further comments	
<b>MONITORING OFFICER'S COMMENTS</b> The Monitoring Officer has been consulted and has no further comments	
<b>BACKGROUND PAPERS</b> Appendix A - Council Responsibility Appendix B - TM Policy Appendix C - Treasury Management Strategy 2025-26	<b>Contact Officer:</b> Paul Thompson <b>Telephone:</b> 01524 582603 <b>E-mail:</b> pthompson@lancaster.gov.uk <b>Ref:</b> N/A