Ashfield
DISTRICT COUNCIL

Report To:	**CABINET**
Date:	**21ST FEBRUARY 2023**
Heading:	**TREASURY MANAGEMENT STRATEGY 2023/24**
Executive Lead Member:	**EXECUTIVE LEAD MEMBER FOR FINANCE, REVENUES AND BENEFITS – CLLR DAVID MARTIN**
Ward/s:	**ALL**
Key Decision:	**Yes**
Subject to Call-In:	**Yes**

Purpose of Report

This report outlines the Council's Treasury Management Strategy for the financial year 2023/24. The report includes:

- Treasury Management Policy;
- Treasury Management Strategy Statement (TMSS)
- Borrowing Strategy
- Annual Investment Strategy
- Minimum Revenue Provision Policy;
- Prudential Indicators and Treasury Management Indicators
- Treasury Management Practices: Risk Management.

It has been prepared in accordance with the Treasury Management in the Public Services Code of Practice (the Code), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and Department for Levelling Up, Housing and Communities (DLUHC) formerly the Ministry for Housing, Communities and Local Government (MHCLG) Local Government Investment Guidance.

This report and Strategy were considered and noted at Audit Committee on 30th January 2023.

Recommendation(s)

1) For Cabinet to review and note the contents of the Treasury Management Strategy (TMS) for 2023/24, including the changes to the Annual Investment Strategy.
2) For Cabinet to recommend to Council that they approve the Treasury Management Policy Statement incorporating:
   • Treasury Management Strategy Statement (TMSS)
   • Borrowing Strategy
   • Annual Investment Strategy
   • Minimum Revenue Provision (MRP) Policy
   • Prudential Indicators and Treasury Management Indicators including new Liability Benchmark indicator
   • Treasury Management Practices: Risk Management which now includes Environmental, Social and Governance (ESG) update.

Reasons for Recommendation(s)

In accordance with Financial Regulation C.31. The Audit Committee is responsible for providing effective scrutiny of the Treasury Management Strategy and Policies.

Alternative Options Considered

None. It is a requirement of the CIPFA Treasury Management Code for all Local Authorities to have a Treasury Management Strategy (TMS) and a requirement of MHCLG (now DLUHC) Statutory Guidance on Local Government Investments to have an Investment Strategy.

Detailed Information

The TMS contains:

- Treasury Management Strategy Statement (TMSS), which outlines what treasury management is and how it is managed through its borrowing and investment activities
- Annual Borrowing Strategy, which outlines sources of borrowing
- Annual Investment Strategy for Treasury Management investments, which sets the limits for the maximum amounts to be invested and the types of investments the Council may consider.
- MRP Policy which states how the Council will apply MRP charges
- Annex A of Appendix 1 contains the proposed Prudential Indicators and Treasury Management Indicators for the Authority and now includes new liability Benchmark Indicator.
- Annex B shows the borrowing and investment position of the Council as at 31st December 2022
- Annex C shows the projections for future interest rates
- Annex D shows the Treasury Management Practice (TMP) for risk management of the Authority which now includes which now includes ESG update.

1. **Annual Investment Strategy**

The following changes have been made to the Annual Investment Strategy:

- Deposit limit with the Debt Management Office (DMO) to increase from £5m to unlimited.

The UK Debt Management Office is the executive agency responsible for debt and cash management for the UK Government. It is probably the most secure place in which the Council can make investments. Increasing the limit to unlimited will mean that the Council can safely and easily invest short term excess surplus monies. Currently if the existing £5m limited with the DMO is maximised then alternative counterparties have to be found which is not always that easy and the alternative counterparties will often be not as secure as the DMO.

2. **Operational Boundary and Authorised Limits**

The Authority is looking to fund the borrowing requirements associated with the new Kirkby Leisure Centre and other leisure centre improvements through prudential borrowing. The additional borrowing is added to the Capital Financing Requirement (CFR). The CFR represents capital expenditure which is still to be financed. The Council should under normal circumstances not borrow any more than its CFR. The Operational Boundary sets a warning level for which total external debt should not exceed. The proposed Operational Boundary has been set at a level which is slightly above the CFR to allow for working capital requirements. The Authorised Limit is the absolute maximum level for external debt. The proposed Authorised Limit has been set at a level which is greater than the proposed Operational Boundary by a level which matches the financed part of the Capital Programme. The rationale for doing this is to ensure the capital programme can still be financed, should the expected non borrowing funding not be available.

3. **Minimum Revenue Provision (MRP) Policy**

The Minimum Revenue Provision charge is the means by which capital expenditure, which is financed by borrowing or credit arrangements, is paid for by council taxpayers. Local Authorities are required each year to set aside some of their revenues as provision for this debt.

The Minimum Revenue Provision Guidance consultation ended on the 8th February 2022. The proposals do not allow capital receipts to be used to replace MRP charges in year. This would mean the following would need to be removed from the MRP policy:

- Where loans are made to third parties for their capital expenditure, no MRP will be charged. However, the capital receipts generated by the annual repayments on those loans will be put aside to repay debt instead.

The results of the consultation are still to published when any new guidance is issued, the policy will be changed as required. The changes will be reported through the correct governance process.

4. Prudential Indicators

Prudential Indicators are designed to show the Council's capital expenditure plans are affordable, prudent and sustainable. They include the estimated effect that future capital expenditure will have on individual council taxpayers and on individual rent payers.

The estimate of the ratio of financing costs to net revenue stream for the Housing Revenue Account (HRA) remains relatively static over the three years. (See paragraph a) Annex A). The reason for this is that there is not expected to be any new borrowing costs; the ratios will fall slightly as HRA historic debt costs are expected to remain static in future years and HRA revenues are expected to increase slightly.

The estimate of the ratio of financing costs to net revenue stream for the General Fund is expected to increase as a result of additional borrowing for the new Kirkby Leisure Centre.

The ratio of financing cost to net revenue stream including the investment property income shows the positive effect the investment properties currently make to the Authority.

Estimates of the incremental impact of capital investment decisions on Council Tax Band D equivalents is £34.79 in 2023/24, £5.94 in 2024/25 and £8.98 in 2025/26. This represents the estimated amount of Council Tax within the District's annual Council Tax charge from each Band D equivalent that will be used to fund future capital investment. These levels reflect the use of borrowing for Leisure Centre schemes and their associated financing costs in 2022/23 and 2023/24. The indicator reduces significantly in 2024/25 when Leisure Centre Projects are expected to be completed. There is no incremental impact to Council Dwelling Rent payers as there is no borrowing proposed for the HRA.

It is important to note that although the estimate of the ratio of financing costs to net revenue stream and the estimates of the incremental impact of capital investment decisions on Council Tax Band D are increasing as a result of the borrowing costs associated with the new Kirkby Leisure Centre and the other leisure centre improvements, these costs are being financed through savings achieved on the new Leisure Operator Contract and will not create a pressure on the revenue budget or Council Tax Payers.

A new indicator required by the new Treasury Management Code is the Liability Benchmark (LB).

There are four components to the LB: -

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

5. **Revised Treasury Management Code**

CIPFA issued a revised Treasury Management Code in December 2021. The new code is effective from 2023/24. The changes mainly relate to additional reporting requirements, such as the inclusion of Environmental, Social and Governance requirements within the Counterparty Policies. The changes required have been incorporated into the TMSS for 2023/24.

Implications

Corporate Plan:
The Treasury Management Strategy will support delivery of the priorities in the Corporate Plan.

Legal:
It is a requirement of the CIPFA Treasury Management Code for all Local Authorities to have a Treasury Management Strategy. It is a requirement of MHCLG (now DLUHC) Statutory Guidance on Local Government Investments to have an Investment Strategy. [RLD 20/01/2023]

Finance:

No direct financial implications arising from the refresh of this Strategy. [PH 20/01/2023].

Budget Area	Implication
General Fund – Revenue Budget	The financial implications of this Strategy are factored into the Medium Term Financial Strategy.
General Fund – Capital Programme	No implications
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
The Minimum Revenue Provision (MRP) policy is no longer suitable.	Careful monthly monitoring of Capital Expenditure should ensure an appropriate and prudent MRP provision is made annually. Revisions to the Policy in line with Code of Practice updates.
The Annual Investment Strategy is no longer suitable for the Authority	Information received from our Treasury Management Advisors should allow the Council to take necessary action to mitigate against any risks.

Human Resources:
Not applicable.

Environmental/Sustainability
Not applicable.

Equalities:
Not applicable.

Other Implications:
Not applicable.

Reason(s) for Urgency
Not applicable.

Reason(s) for Exemption
Not applicable.

Background Papers
- CIPFA Prudential Code 2017 Edition
- CIPFA Treasury Management Code 2017 Edition
- Statutory Guidance on Local Government Investments (3rd Edition) Issued under Section 15(1)(a) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2018.
- Statutory Guidance on Minimum Revenue Provision Issued under Section 21(1A) of the Local Government Act 2003 and effective for financial years commencing on or after 1 April 2019

Report Author and Contact Officer
Colin Heap
Principal Accountant
colin.heap@ashfield.gov.uk
01623 457215

Sponsoring Director
Craig Bonar
Director-Resources and Business Transformation
craig.bonar@ashfield.gov.uk
01623 457203