Public Document Pack

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The Chair and Members of Standards
and Audit Committee

Dear Councillor,

AGENDA SUPPLEMENT

Please see attached the documents for the agenda item(s) listed below for the meeting of the STANDARDS AND AUDIT COMMITTEE to be held on WEDNESDAY, 15 FEBRUARY 2023, the agenda for which has already been published.

7. Treasury Management Strategy 2023/24 (including investment and capital strategy) (Pages 3 - 34)

   - Report to follow

Yours sincerely,

Head of Regulatory Law and Monitoring Officer

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Appendix A

Treasury Management Strategy Statement 2023/24

Introduction

Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2021 Edition* (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in Appendix C to this report, the Investment Strategy.

External Context

Economic background: The ongoing impact on the UK from the war in Ukraine, together with higher inflation, higher interest rates, uncertain government policy, and a deteriorating economic outlook, will be major influences on the Authority's treasury management strategy for 2023/24.

The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. The November quarterly Monetary Policy Report (MPR) forecast a prolonged but shallow recession in the UK with CPI inflation remaining elevated at over 10% in the near-term. While the projected peak of inflation is lower than in the August report, due in part to the government's support package for household energy costs, inflation is expected remain higher for longer over the forecast horizon and the economic outlook remains weak, with unemployment projected to start rising.

CPI inflation is expected to have peaked at around 11% in the last calendar quarter of 2022 and then fall sharply to 1.4%, below the 2% target, in two years' time and to 0% in three years' time if Bank Rate follows the path implied by financial markets at the time of the November MPR (a peak of 5.25%). However, the BoE stated it considered this path to be too high, suggesting that the peak in interest rates could be lower, reducing the risk of inflation falling too far below target.

Credit outlook: Credit default swap (CDS) prices have generally followed an upward trend throughout 2022, indicating higher credit risk. They have been boosted by the war in Ukraine, increasing economic and political uncertainty and a weaker global and UK outlook, but remain well below the levels seen at the beginning of the Covid-19 pandemic.

The weakening economic picture during 2022 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several local authorities and financial institutions, revising them from to negative from stable.

There are competing tensions in the banking sector which could impact bank balance sheet strength going forward. The weakening economic outlook and likely recessions in many regions increase the possibility of a deterioration in the quality of banks' assets, while higher interest rates provide a boost to net income and profitability.

However, the institutions on our adviser Arlingclose's counterparty list remain well-capitalised and their counterparty advice on both recommended institutions and maximum duration remain under constant review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast (December 2022): The Authority's treasury management adviser Arlingclose forecasts that Bank Rate will continue to rise in 2022 and 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target.

While interest rate expectations reduced during October and November 2022, multiple interest rate rises are still expected over the forecast horizon despite looming recession. Arlingclose expects Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near- and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

For the purpose of setting the budget, it has been assumed that new treasury investments will be made at an average rate/yield of 4.25%, and that new long-term loans will be borrowed at an average rate of 5.0%.

Local Context

On 31st December 2022, the Authority held £138.0m of borrowing and £31.5m of treasury investments. This is set out in further detail at page 12. Forecast changes in these sums are shown in the balance sheet analysis in table 1 below.

Table 1: Balance sheet summary and forecast

	31.3.22 Actual £000	31.3.23 Estimate £000	31.3.24 Forecast £000	31.3.25 Forecast £000	31.3.26 Forecast £000
General Fund CFR	56.6	59.9	59.8	62.1	60.4
HRA CFR	124.5	122.7	131.3	131.2	132.9
Total CFR	**181.1**	**182.6**	**191.1**	**193.3**	**193.3**
Less: External borrowing	-143.5	-145.7	-155.6	-159.3	-158.5
Internal borrowing	**37.6**	**36.9**	**35.5**	**34.0**	**34.8**
Less: Balance Sheet Resources	-64.8	-46.9	-45.5	-44.0	-44.8
Treasury Investments	**27.2**	**10.0**	**10.0**	**10.0**	**10.0**

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The Authorities General Fund CFR increases in the financial years to 2024/25 due to the capital programme. It then reduces in 2025/26 as the MRP contribution applied are greater than the new borrowing requirement. The HRA CFR increases from 23/24 due to the HRA capital programme. The increased need for borrowing is offset by an annual 1.5% voluntary repayment of debt contribution.

Investments are forecast to fall as useable reserves are utilised to finance the HRA and General Fund capital programmes, however a minimum of £10 million investments will be maintained in order to retain Professional Client status under MiFID 2.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Authority's total debt should be lower than its highest forecast CFR over the next three years. Table 1 shows that the Authority expects to comply with this recommendation.

Liability benchmark: To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 1 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

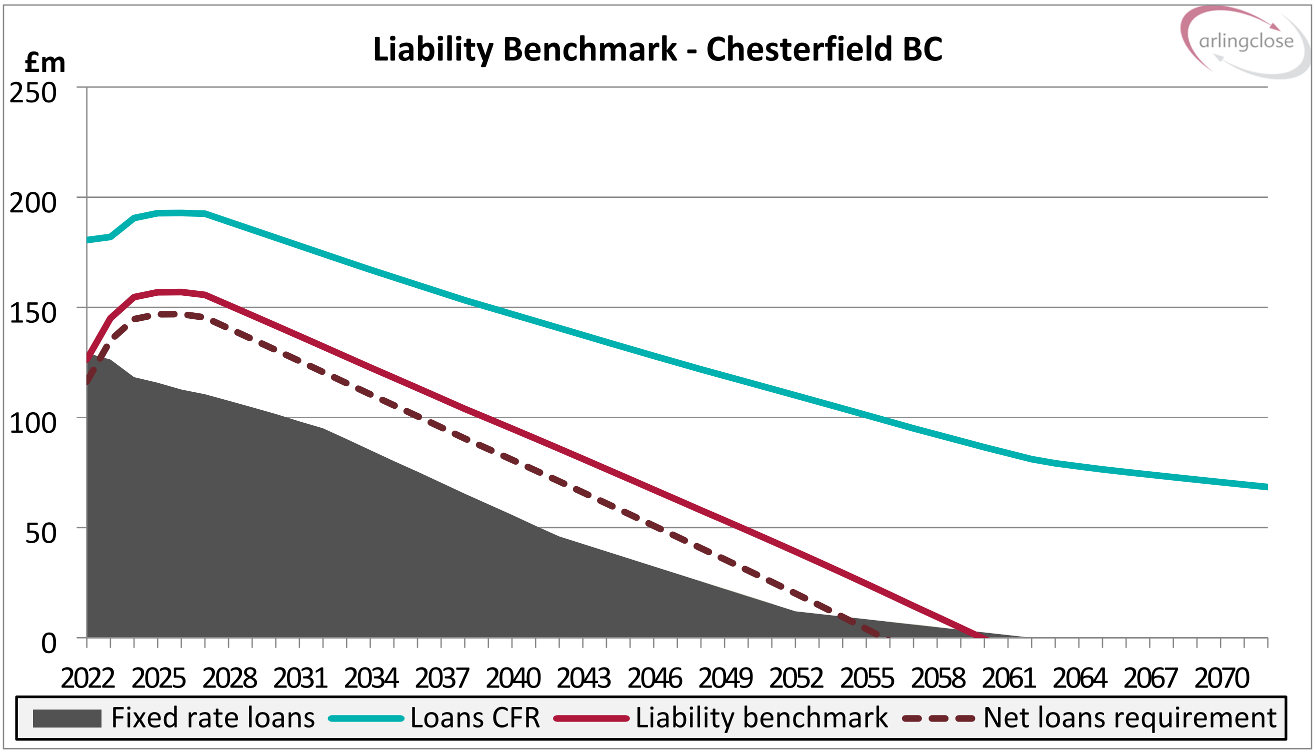
The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 2: Prudential Indicator: Liability benchmark

	31.3.22 Actual £m	**31.3.23 Estimate £m**	**31.3.24 Forecast £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**
Loans CFR	181.1	182.6	191.1	193.3	193.3
Less: Balance sheet resources	-64.8	-46.9	-45.5	-44.0	-44.8
Net loans requirement	**116.3**	**135.7**	**145.6**	**149.3**	**148.5**
Plus: Liquidity allowance	10.0	10.0	10.0	10.0	10.0
Liability benchmark	**126.3**	**145.7**	**155.6**	**159.3**	**158.5**

Following on from the medium-term forecasts in table 2 above, the long-term liability benchmark is shown in the chart below, together with the maturity profile of the Council's existing long-term borrowing. In calculating the long-term liability benchmark it has been assumed that there will be no new capital expenditure to be financed from borrowing beyond 2025/26.

The chart below demonstrates that the Council expects to be a long-term borrower in the future.



<u>Borrowing Strategy</u>

The Authority currently holds £138 million of loans, a decrease of £5 million on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast in table 1 shows that the Authority expects to need to externally borrow in 2023/24 to fund both the GF and HRA capital programmes. The Authority may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing.

Objectives: The Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Authority's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Authority is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Authority with this 'cost of carry' and breakeven analysis. Its output may determine whether the Authority borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Authority has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity in order to retain its access to PWLB loans.

Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Authority may borrow further short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Derbyshire Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

The Authority has previously raised the majority of its long-term borrowing from the PWLB but it continues to investigate other sources of finance, such as local authority loans and bank loans, that may be available at more favourable rates.

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

Short-term and variable rate loans: These loans leave the Authority exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Authority may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

Treasury Investment Strategy

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Authority's treasury investment balance has ranged between £18 and £33 million and similar levels are expected to be maintained in the forthcoming year.

Objectives: The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: As demonstrated by the liability benchmark above, the Authority expects to be a long-term borrower and new treasury investments will therefore be made primarily to manage day-to-day cash flows using short-term low risk instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different sectors and boost investment income.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing and therefore the Authority's ESG policy does not currently include ESG scoring or other real-time ESG criteria at an individual investment level.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Authority may invest its surplus funds with any of the counterparty types in table 2 below, subject to the cash limits (per counterparty) and the time limits shown.

Table 3: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	5 years	£5m	Unlimited
Secured investments *	5 years	£5m	Unlimited
Banks (unsecured) *	13 months	£5m	£15m
Building societies (unsecured) *	13 months	£5m	£5m

Registered providers (unsecured) *	5 years	£5m	£10m
Money market funds *	n/a	£12m	Unlimited
Strategic pooled funds	n/a	£10m	£10m
Real estate investment trusts	n/a	£5m	£10m
Other investments *	5 years	£5m	£5m

This table must be read in conjunction with the notes below

Minimum Credit rating: Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks unsecured: Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties. Investments in REIT shares cannot be withdrawn but can be sold on the stock market to another investor.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Authority's investment at risk.

Operational bank accounts: The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £50,000 per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government via the Debt Management Office or invested in government treasury bills for example, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The maximum that will be lent to any one organisation (other than the UK Government) will be £5 million. Limits will also be placed on fund managers, investments in brokers' nominee accounts, foreign countries and industry sectors as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Table 4: Investment limits

	Cash limit
Any single organisation, except the UK Central Government	£5m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£7.5m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker's nominee account	£15m per broker
Foreign countries	£10m per country
Registered providers and registered social landlords	£10m in total
Unsecured investments with building societies	£5m in total
Loans to unrated corporates	£5m in total
Money market funds	£12m per manager

Liquidity management: The Authority uses purpose-built cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% rise in interest rates	£300,000
Upper limit on one-year revenue impact of a 1% fall in interest rates	£300,000

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at current rates.

Maturity structure of borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	25%	0%
12 months and within 24 months	25%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and within 25 years	70%	20%
25 years and above	75%	15%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal sums invested for periods longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price risk indicator	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£10m	£10m	£10m

Related Matters

The CIPFA Code requires the Authority to include the following in its treasury management strategy.

Financial Derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Authority will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Authority is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Authority will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Housing Revenue Account: On 1st April 2012, the Authority notionally split each of its existing long-term loans into General Fund and HRA pools. In the future, new long-term loans borrowed will be assigned in their entirety to one pool or the other. Interest payable and other costs/income arising from long-term loans (e.g. premiums and discounts on early redemption) will be charged/ credited to the respective revenue account. Differences between the value of the HRA loans pool and the HRA's underlying need to borrow (adjusted for HRA balance sheet resources available for investment) will result in a notional cash balance which may be positive or negative. This balance will be measured annually and interest transferred between the General Fund and HRA at the Authority's average interest rate on investments, adjusted for credit risk.

Markets in Financial Instruments Directive: The Authority has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Authority's treasury management activities, the Chief Finance Officer believes this to be the most appropriate status.

Financial Implications

The budget for investment income in 2023/24 is £638k based on an average investment portfolio of £15 million at an interest rate of 4.25%. For the General Fund the budget for debt interest paid in 2023/24 is £827k, based on an average debt portfolio of £21.0 million at an average interest rate of 3.9%. For the HRA the budget for debt interest paid in 2023/24 is £4.3 million, based on an average debt portfolio of £118 million at an average interest rate of 3.62%. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Service Director - Finance believes that the above strategy represents an appropriate balance between risk management and cost effectiveness.

Existing Investment & Debt Portfolio Position

	31/12/22 Actual Portfolio £m	31/12/22 Average Rate %
External borrowing:		
Public Works Loan Board	**128.0**	**3.65**
Other Short Term Loans	**10.0**	**0.88**
Total external borrowing	**138.0**	
Treasury investments:		
Government (incl. local authorities)	**14.3**	**3.17**
Money Market Funds	**17.2**	**3.24**
Total treasury investments	**31.5**	
Net debt	**106.5**	

Capital Strategy Report 2023/24

Introduction

This capital strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes technical areas.

Decisions made this year on capital and treasury management will have financial consequences for the Council for many years into the future. They are therefore subject to both a national regulatory framework and to local policy framework, summarised in this report.

Capital Expenditure and Financing

Capital expenditure is where the Council spends money on assets, such as property or vehicles, that will be used for more than one year. In local government this includes spending on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets.

In 2023/24, the Council is planning capital expenditure of £49.9 as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
General Fund services	36.5	15.0	19.3	14.3	1.1
Council housing (HRA)	21.7	21.8	30.6	20.1	22.5
TOTAL	**58.2**	**36.8**	**49.9**	**34.4**	**23.6**

The main General Fund capital projects for 23/24 include Stephenson Memorial Hall (£8.9m), Revitalising the Heart of Chesterfield (£2.8m), Staveley Town Deal schemes (£5.4m) and Disabled Facilities Grants (£2.2m).

The Housing Revenue Account (HRA) is a ring-fenced account which ensures that council housing does not subsidise, or is itself subsidised, by other local services. HRA capital expenditure is therefore recorded separately, and includes the building of new homes, as well as enhancements to current housing stock.

Governance: The Finance and Performance Board appraises all requests for capital growth based on a comparison of service priorities against financing costs and ongoing revenue commitments. Approval at Finance and Performance Board allows new schemes to be added to the latest version of the capital programme which is presented to Council for approval. Copies of all Council reports can be found on the Authority's website.

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

Table 2: Capital financing in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
External sources	2.7	10.3	16.9	9.3	1.0
Capital receipts	4.7	4.9	4.7	4.2	3.9
Revenue resources	17.7	17.6	16.5	15.2	15.0
Debt	33.1	4.0	11.8	5.7	3.7
TOTAL	**58.2**	**36.8**	**49.9**	**34.4**	**23.6**

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP and use of capital receipts are as follows:

Table 3: Replacement of prior years' debt finance in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
General Fund	0.3	0.7	1.4	1.5	1.8
HRA	1.9	1.9	1.8	2.0	2.0

The Council's full minimum revenue provision statement can be found at Appendix D to this report.

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The General Fund CFR is expected to decrease by £100k during 2023/24 and the HRA CFR is expected to increase by £8.6m during the same period. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 4: Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
General Fund services	56.6	59.9	59.8	62.1	60.4
Council housing (HRA)	124.5	122.7	131.3	131.2	132.9
TOTAL CFR	**181.1**	**182.6**	**191.1**	**193.3**	**193.3**

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. The Authority is currently also permitted to spend capital receipts "flexibly" on service transformation projects until 2023/24. Repayments of capital grants, loans and investments also generate capital receipts. The Council plans to receive £5.9m of capital receipts in the 2023/24 financial year as follows:

Table 5: Capital receipts in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
General Fund Asset sales	0.5	2.0	2.5	1.5	1.5
Right to Buy Receipts	5.8	3.9	2.6	2.1	1.6
Other HRA Asset sales	0	0.8	0.8	0.8	0.8
TOTAL	**6.3**	**6.7**	**5.9**	**4.4**	**3.9**

Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet the Council's spending needs, while managing the risks involved. Surplus cash is invested until required, while a shortage of cash will be met by borrowing, to avoid excessive credit balances or overdrafts in the bank current account.

Due to decisions taken in the past, the Council currently has £138m borrowing at an average interest rate of 3.45% and £31m treasury investments at an average rate of 3.20%.

Borrowing strategy: The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between short-term loans (currently available at around 4.0%) and long-term fixed rate loans where the future cost is known but higher (currently 4.5 to 5.0%).

The Council does not borrow to invest for the primary purpose of financial return and therefore retains full access to the Public Works Loans Board.

Projected levels of the Council's total outstanding debt (which comprises borrowing and transfers from local government reorganisation) are shown below, compared with the capital financing requirement (see above).

Table 6: Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
Debt	143.5	145.7	155.6	159.3	158.5
Capital Financing Requirement	181.1	182.6	191.1	193.3	193.3

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table 6, the Council expects to comply with this in the medium term.

Affordable borrowing limit: The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year and to keep it under review. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Table 7: Prudential Indicators: Authorised limit and operational boundary for external debt in £m

	2022/23 limit	2023/24 limit	2024/25 limit	2025/26 limit
Authorised limit	180.7	181.9	185.9	187.9
Operational boundary	164.3	165.3	169.0	170.8

Treasury Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

The Council's policy on treasury investments is to prioritise security and liquidity over yield, that is to focus on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms can be invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Table 8: Treasury management investments in £millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
Near-term investments	27.3	10.0	0	0	0
Longer-term investments	0	0	10.0	10.0	10.0
TOTAL	**27.3**	**10.0**	**10.0**	**10.0**	**10.0**

Risk management: The effective management and control of risk are prime objectives of the Authority's treasury management activities. The treasury management strategy therefore sets out various indicators and limits to constrain the risk of unexpected losses and details the extent to which financial derivatives may be used to manage treasury risks.

Governance: Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Service Director - Finance and staff, who must act in line with the treasury management strategy approved by Council. Regular reports on treasury management activity are presented to Council. The Standards and Audit Committee is responsible for scrutinising treasury management decisions.

Investments for Service Purposes

The Council may from time to time make investments to assist local public services, including making loans to local service providers and local small businesses to promote economic growth. In light of the public service objective, the Authority is willing to take more risk than with treasury investments, however it still plans for such investments to generate a profit after all costs.

Governance: Decisions on service investments are made by the Service Director - Finance in consultation with the relevant Executive Directors, and must meet the criteria and limits laid down in the investment strategy. Most loans and shares are capital expenditure and purchases will therefore also be approved as part of the capital programme.

Commercial Activities

The Council invests in commercial properties which are held primarily for service purposes such as economic regeneration, but which in addition generate a profit that will be spent on local public services. With central government financial support for local public services declining, the Council may in the future decide to invest in commercial property purely or mainly for financial gain.

With financial return being the main objective, the Council would accept higher risk on commercial investment than with treasury investments. Further details can be found in the Investment Strategy at Appendix C to this report.

Table 9: Prudential indicator: Net income from commercial and service investments to net revenue stream in £millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Total net income from service and commercial investments	2.4	2.4	2.4	2.4	2.4
Proportion of net revenue stream	17.0%	21.6%	19.6%	21.3%	20.8%

Liabilities

In addition to debt of £144m detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £72.4m) This deficit is planned to be reduced to a break-even position over the next 18 years.

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue. The charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. As a result of the 2021 changes to the Prudential Code interest and investment income has been removed from the definition of financing costs.

Table 9: Prudential Indicator: Proportion of financing costs to net revenue stream

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget
Financing costs General Fund(£000)	433	801	1,479	1,520	1,868
Financing costs HRA (£000)	6,431	5,993	5,755	6,372	6,389
Proportion of net revenue stream General Fund	3.1%	7.3%	12.3%	13.7%	16.4%
Proportion of net revenue stream HRA	12.1%	11.3%	10.2%	10.4%	10.3%

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 40 years into the future. The Service Director - Finance is satisfied that the proposed capital programme is prudent, affordable and sustainable.

Knowledge and Skills

The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. The Council pays for staff to study towards relevant professional qualifications including CIPFA and AAT.

Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers. This approach is more cost effective than employing such staff directly, and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

Investment Strategy Report 2023/24

Introduction

The Authority invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

The Authority typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between £30m and £10m during the 2023/24 financial year.

Contribution: The contribution that these investments make to the objectives of the Authority is to support effective treasury management activities.

Further details: Full details of the Authority's policies and its plan for 2023/24 for treasury management investments are covered in Appendix A of this report.

Service Investments: Loans

Contribution: The Authority from time to time may lend money to local businesses, local charities or housing associations to support local public services and stimulate local economic growth.

The Council currently has four active service loans. The first is a start-up loan that was made to the Derbyshire Building Control Partnership during the 2017/18 financial year, which currently has an outstanding balance of £50,000. The second is a loan to Staveley Town Council that was made in April 2020, which currently has an outstanding balance of £45,000. The third is a loan to support the acquisition and operation of CFC 2001 Limited, trading as Chesterfield Football Club, which was made in July 2020, which has an outstanding balance of £430,000. The fourth is a loan to Baylight Properties in respect of Peak Resort which was provided in October 2022 to accelerate the development, de-risk the project and bring certainty to the proposals. This loan has a current outstanding balance of £280,000, with a further commitment to lend of £220,000 that has not yet been drawn down.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due.

Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's statement of accounts are shown net of this loss allowance. However, the Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The Authority assesses the risk of loss before entering into and whilst holding service loans, on a case by case basis. A thorough examination of the borrowers' accounts and/or business plans is undertaken by the Service Director - Finance. The services of external advisors will be sought for any areas requiring specific expertise.

Commercial Investments: Property

Contribution: The Council owns local industrial and commercial properties which are held primarily for service purposes such as economic regeneration, but which in addition generate a profit that will be spent on local public services. These properties can be split into three main categories: industrial units and trading estates, retail and office and undeveloped land. The majority of these properties have been held for a substantial period of time, more than 30 years in the case of some assets.

Table 1: Property held for investment purposes in £ millions

Type of Property	**Value in accounts 31.03.2022**
Industrial Units and Trading Estates	26.0
Retail and Office	9.1
Undeveloped Land	10.7
TOTAL	**45.8**

Security: In accordance with government guidance, the Authority considers a property investment to be secure if its accounting valuation is at or higher than its purchase / construction cost.

A fair value assessment of the Authority's investment property portfolio has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2022/23 year end accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

Liquidity: Compared with other investment types, property is relatively difficult to sell and convert to cash at short notice, and can take a considerable period to sell in certain market conditions. As the main purpose of owning these properties is for service reasons, the Authority does not need to rely on selling these assets for investment purposes, for example to repay capital borrowed.

Income: The Authority is dependent on profit generating investment activity to achieve a balanced revenue budget. The net amount of investment income (after operating expenses) received in 2021/22 was £2.4m, this equated to 4.5% of all general fund income received and is expected to increase in 2023/24. Income received is monitored on a regular basis and any expected shortfall would be reported in the revised budget

Risk assessment of future commercial investments: The Service Director - Finance will assess the risk of loss before entering into and whilst holding commercial property investments. Due consideration will be given to the risks relating to failure to create income/exposure to market changes, ongoing maintenance/management of the asset, possibility of arrears and exposure in one sector or locality. External advice will be sought for any investments requiring specific expertise.

Commercial property investments will be evaluated on a case by case basis and it must be demonstrated that the level of risk is acceptable for the expected yield, including benchmarking against alternative investment products. Full contingency plans are required to be in place before entering into any commercial property investments, in the event that the investment will fail to meet the expected yield.

Capacity, Skills and Culture

Elected members and statutory officers: All investment and commercial decisions will be taken with the involvement of the Service Director - Finance, who will ensure that all elected members and other officers are fully aware of the risks involved and how the decision could change the overall risk exposure of the Authority. All decisions made will also have regard to the principles of the prudential framework and of the regulatory regime in which local authorities operate.

Investment Indicators

The Authority has set the following quantitative indicators to allow elected members and the public to assess the Authority's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Authority's total exposure to potential investment losses.

Table 2: Total investment exposure in £millions

Total investment exposure	31.03.2022 Actual	31.03.2023 Forecast	31.03.2024 Forecast
Treasury management investments	27.2	10.0	10.0
Service investments: Loans	0.6	0.74	0.93
Commercial investments: Property	45.8	36.8	36.8
Commitments to lend	0	0.22	0
TOTAL EXPOSURE	73.6	47.76	47.73

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Authority does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. The Authority does not have any investments that could be described as being funded by borrowing. All of the Authority's investments are funded by usable reserves and income received in advance of expenditure.

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Table 3: Investment rate of return (net of all costs)

Investments net rate of return	2021/22 Actual	2022/23 Forecast	2023/24 Forecast
Treasury management investments	0.06%	1.9%	4.0%
Service investments: Loans	3.31%	3.31%	3.31%
Commercial investments: Property	5.24%	5.24	5.24

Minimum Revenue Provision Statement 2023/24

Where the Authority finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the Authority to have regard to the former Ministry of Housing, Communities and Local Government's *Guidance on Minimum Revenue Provision* (the MHCLG Guidance) most recently issued in 2018.

The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant.

The MHCLG Guidance requires the Authority to approve an Annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP. The following statement only incorporates options recommended in the Guidance.

> For capital expenditure incurred before 1st April 2008, MRP will be determined by charging the remaining expenditure over 40 years as the principal repayment on an annuity with an annual interest rate of 2%.
>
> For unsupported capital expenditure incurred after 31st March 2008, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset as the principal repayment on an annuity with an annual interest rate of 2%, starting in the year after the asset becomes operational. MRP on purchases of freehold land will be charged over 50 years. MRP on expenditure not related to fixed assets but which has been capitalised by regulation or direction will be charged over 20 years.
>
> For capital expenditure where MRP is to be met by a contribution from Enterprise Zone business rates, MRP will be determined by charging the expenditure over the remaining period of allowable business rates retention for the Enterprise Zone.
>
> For assets acquired by leases MRP will be determined as being equal to the element of the charge that goes to write down the balance sheet liability.
>
> For capital expenditure loans to third parties that are repaid in annual or more frequent instalments of principal, the Council will make nil MRP, but will instead apply the capital receipts arising from principal repayments to reduce the capital financing requirement instead. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate, delaying MRP until the year after the assets become operational.

Capital expenditure incurred during 2023/24 will not be subject to an MRP charge until 2024/25 or later.

No MRP will be charged in respect of assets held within the Housing Revenue Account, however a voluntary revenue provision will be charged at 1.5% of the outstanding Housing Revenue Account Capital Financing Requirement in respect of housing assets.

	31.03.2023 Estimated CFR £	2023/24 Estimated MRP/VRP £
Capital expenditure before 01.04.2008	4,750,910	99,386
Unsupported capital expenditure after 31.03.2008	55,104,587	1,298,807
Total General Fund	**58,855,497**	**1,398,193**
Assets in the Housing Revenue Account	122,710,795	1,840,662
Total Housing Revenue Account	**122,710,795**	**1,840,662**

For publication

Treasury Management Strategy 2023/24

Meeting:	Standards and Audit Committee Council
Date:	15th February 2023 22nd February 2023
Cabinet portfolio:	Deputy Leader
Directorate:	Finance

1.0 Purpose of report

1.1 To approve the Treasury Management Strategy Statement for the financial year 2023/24.

1.2 To approve the Capital Strategy Report for the financial year 2023/24.

1.3 To approve the Investment Strategy Report for the financial year 2023/24.

1.4 To approve the Minimum Revenue Provision (MRP) policy for the financial year 2023/24.

2.0 Recommendations

That the Standards and Audit Committee recommends to the full Council that:

2.1 That the Treasury Management Strategy Statement be approved.

2.2 That the Capital Strategy Report, including the Prudential Code Indicators be approved.

2.3 That the Investment Strategy Report be approved.

2.4 That the Minimum Revenue Provision policy be approved.

3.0 Reasons for recommendations

3.1 To keep Members informed about the council's treasury management, capital and investment strategies and to comply with the CIPFA Code of Practice for Treasury Management in the Public Services.

CHESTERFIELD
BOROUGH COUNCIL

4.0 Report Details

Background

4.1 The key aims of the CIPFA 'Code of Practice for Treasury Management in the Public Services' (the Code) are:

a) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities;
b) Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities;
c) They should acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools to employ.

4.2 CIPFA amended the Code in 2021 to reflect changes in an increasingly complex environment.

4.3 CIPFA also amended the Prudential Code for Capital Finance in Local Authorities in 2021, to include strengthened and clear provisions within the code for prudent investing, definitions and disclosures for service, treasury and commercial investments. Further developments for capital strategies have also been made following their introduction in 2017.

4.4 In 2018 the then Ministry of Housing, Communities and Local Government completely revised their statutory guidance on treasury management investments. This included the requirement for the Council to produce an Investment Strategy for non-treasury investments.

Treasury Management Strategy

4.5 The Treasury Management Strategy defines what categories of investments are to be used and the restrictions placed on their use. The primary objective is to protect capital and the maximisation of returns is secondary. However, the strategy allows sufficient flexibility for the Council to diversify into higher yielding asset classes where appropriate. The credit ratings of the approved counterparties for investments are regularly reviewed.

4.6 The strategy has been updated to include the new Liability Benchmark Prudential Indicator, which is a requirement of the updated Treasury

Management Code. The liability benchmark represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

4.7 The Treasury Management Strategy Statement 2023/24 can be found at Appendix A.

Capital Strategy Report

4.8 The Prudential Code for Capital Finance in Local Authorities (the Code) is a professional Code that provides a framework for self- regulation of capital spending.

4.9 A requirement of the Code is for the Council to produce a capital strategy, with the purpose of demonstrating that capital expenditure and investment decisions are taken in line with service objectives, and take account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy Report 2023/24 can be found at Appendix B.

4.10 To facilitate the decision making process, the Code also requires the Council to agree and monitor a number of prudential indicators covering affordability, prudence, capital expenditure, debt levels and treasury management.

4.11 Capital Expenditure - This prudential indicator is a summary of the Council's capital expenditure plans:

Capital Expenditure £millions	**2021/22 Actual**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
General Fund	36.5	15.0	19.3	14.3	1.1
HRA	21.7	21.8	30.6	20.1	22.5
Total	**58.2**	**36.8**	**49.9**	**34.4**	**23.6**

4.12 The table below shows how these plans are being financed by external sources such as grants and contributions, internal sources such as reserves and capital receipts and debt:

Capital Expenditure £millions	**2021/22 Actual**	**2022/23 Estimate**	**2023/24 Estimate**	**2024/25 Estimate**	**2025/26 Estimate**
Financed by:					
External sources	2.7	10.3	16.9	9.3	1.0
Capital receipts	4.7	4.9	4.7	4.2	3.9
Revenue Resources	17.7	17.6	16.5	15.2	15.0
Debt	33.1	4.0	11.8	5.7	3.7
Total	**58.2**	**36.8**	**49.9**	**34.4**	**23.6**

4.13 The Council's Borrowing Need (Capital Financing Requirement)- The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources, and measures the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

4.14 The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

£millions	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Financing Requirement					
CFR – General Fund	56.6	59.9	59.8	62.1	60.4
CFR – HRA	124.5	122.7	131.3	131.2	132.9
Total CFR	**181.1**	**182.6**	**191.1**	**193.3**	**193.3**
Movement in CFR	30.9	1.5	8.5	2.2	0

Movement in CFR represented by					
Net financing need for the year (above)	33.1	4.0	11.8	5.7	3.7
Less MRP/VRP and other financing movements	(2.2)	(2.5)	(3.3)	(3.5)	(3.7)
Movement in CFR	**30.9**	**1.5**	**8.6**	**2.2**	**0**

4.15 Affordability Ratio - Estimates of financing costs to net revenue stream shows the trend in the cost of capital based on the programme against the net revenue stream. The estimates of financing costs include current commitments and the proposals in the budget report.

%	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
General Fund	3.1	7.3	12.3	13.7	16.4
HRA	12.1	11.3	10.2	10.4	10.3

4.16 The General Fund ratio increases from 2022/23 to 2025/26 due to increased financing costs associated with the capital programme and an increase in the interest rate assumed for new borrowings. Following a change in the 2021 Prudential Code interest and investment income has been removed from the definition of financing costs and is therefore no longer netted off the financing costs when calculating this ratio. The HRA ratio remains reasonably constant over the forthcoming years as increased financing costs are offset by an increased revenue stream.

4.17 External Debt **-** The Code specifies a number of prudential indicators in respect of external debt. These are described below:

Limits to Borrowing Activity

- Operational Boundary - this is an estimate of the probable external borrowing during the year, it is not a limit and actual borrowing can vary for short periods during the year.

- Authorised Limit - represents the limit beyond which borrowing is not permitted. It includes estimates for long and short-term borrowing. The limit must be set and can be revised by the Council.

£millions	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Operational Boundary (£m)	164.3	165.3	169.0	170.8
Authorised Limit (£m)	180.7	181.9	185.9	187.9

4.18 Borrowing Strategy - The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. An appropriate mix of short and long -term borrowing will be maintained.

Investment Strategy

4.19 In 2018 the Ministry for Housing, Communities and Local Government's Investment Guidance was revised, and introduced the requirement for Authorities to produce an Investment Strategy Report.

4.20 The report focuses on non-treasury investments and sets out how these contribute towards the Council's core objectives to deliver services to residents, and the procedures for risk assessing potential investments.

4.21 The Investment Strategy Report 2023/24 can be found at Appendix C.

Minimum Revenue Provision (MRP) Policy

4.22 The Local Authorities (Capital Finance & Accounting) (England) Amendment Regulations 2008 require local authorities to agree a policy on the calculation of the Minimum Revenue Provision (MRP) for each financial year. The MRP is the amount the authority has to provide for the repayment of debt. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

4.23 The Minimum Revenue Provision (MRP) Policy 2023/24 can be found at Appendix D.

5.0 Alternative options

5.1 The strategies within this report have been prepared in accordance with legislation and external treasury management advice. No alternative options are proposed.

6.0 Implications for consideration – Financial and value for money

6.1 The report in its entirety deals with financial and value for money implications.

7.0 Implications for consideration – Legal

7.1 This report provides a framework for treasury management in accordance with legislation. There are no other legal implications.

8.0 Implications for consideration – Human resources

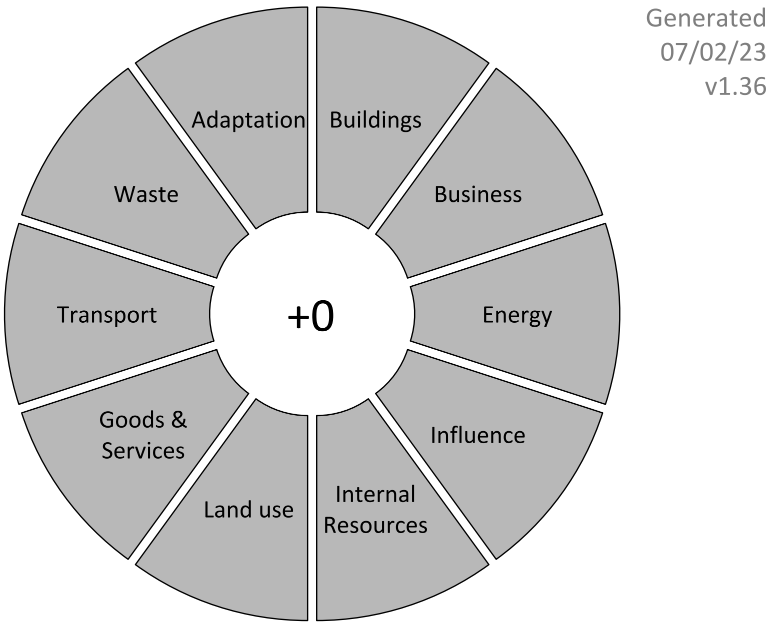
8.1 There are no human resource considerations arising from this report.

9.0 Implications for consideration – Council Plan

9.1 These arrangements enable the priorities set out in the Council Plan to be achieved.

10.0 Implications for consideration – Climate Change

10.1 A climate change impact assessment was undertaken for this report. There will be no direct change to service provision or delivery from this report. The outcome from this is detailed below



Chesterfield Borough Council has committed to being a carbon neutral organisation by 2030 (6 years and 10 months away).

11.0 Implications for consideration – Equality and diversity

11.1 There are no equality and diversity impact implications arising from this report.

12.0 Implications for consideration – Risk management

12.1 There are a number of risks inherent within any treasury management strategy, and these are covered in detail within the individual strategies appended to this report. The most significant risks at the moment include:

- Reporting is not compliant with statutory guidelines.
- Investment and borrowing activity is outside the approved TM framework.
- Long term borrowing is taken at rates that are not advantageous.
- Investment of principal sums with insecure counterparties.
- Investment returns are volatile and may not meet budgeted amounts.
- Borrowing is not affordable.

Decision information

Key decision number	
Wards affected	

Document information

Report author	**Contact number/email**

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Background documents
These are unpublished works which have been relied on to a material extent when the report was prepared.

This must be made available to the public for up to 4 years.

Appendices to the report

Appendix A	Treasury Management Strategy 2023/24
Appendix B	Capital Strategy 2023/24
Appendix C	Investment Strategy 2023/24
Appendix D	Minimum Revenue Provision (MRP) Policy 2023/24