<u>For publication</u>

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.

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

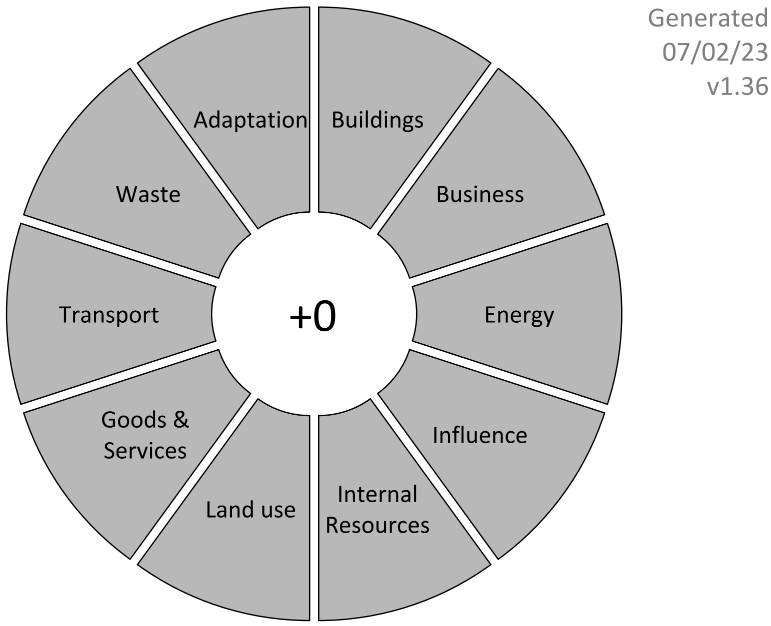
8.1 There are no human resource considerations arising from this report.

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