

## Treasury Management Strategy and Prudential Indicators 2024-25

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<b>Lead Member/Relevant Portfolio Holder</b>	<b>Councillor Sarah Cox</b> , Portfolio Holder for Corporate Finance, Property and Resources

<b>Corporate Priority:</b>	Ensuring the right conditions to support delivery (inward)
<b>Relevant Ward Member(s):</b>	N/A
<b>Date of consultation with Ward Member(s):</b>	N/A
<b>Exempt Information:</b>	No
<b>Key Decision:</b>	No
<b>Subject to call-in:</b>	No Not key decision

### 1 Summary

- 1.1 This report outlines the Council's prudential indicators for 2024/25 – 2026/27 and sets out the expected treasury operations for this period. It fulfils four key legislative requirements.
- The reporting of the prudential indicators setting out the expected capital activities (as required by the CIPFA Prudential Code for Capital Finance in Local Authorities). The treasury management prudential indicators are now included as treasury indicators in the CIPFA Treasury Management Code of Practice and Guidance Notes 2017 as revised.

- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year (as required by Regulation under the Local Government and Public Involvement in Health Act 2007);
- The Treasury Management Strategy Statement which sets out how the Council's treasury management service will support the capital decisions taken, the day to day treasury management activity and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Affordable Borrowing Limit required by s3 of the Local Government Act 2003. This is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.
- The Investment Strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the Department for Levelling Up, Housing & Communities (DLUHC) Investment Guidance.

- 1.2 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management 2021 and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through Regulations issued under the Local Government Act 2003

## 2 Recommendations

### That Cabinet:

- 2.1 **Recommend to Council the prudential indicators and limits are adopted and approved as outlined in Appendix A section 2.**
- 2.2 **Recommend to Council to approval of the Treasury Management Strategy as outlined in Appendix A.**
- 2.3 **Recommend to Council the Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on MRP is approved as outlined in para 5.3.**
- 2.4 **That Cabinet note the linkages to the Capital Strategy due to the integral nature of how the Council manages its treasury finances to support capital development**

## 3 Reason for Recommendations

- 3.1 The Treasury Management Code requires the Council to approve annually a Treasury Management Strategy and to provide a mid-year update on Treasury Management activities to the Council. It is a requirement that Treasury Management is scrutinised during the year which falls within Cabinet's remit.
- 3.2 To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Council to agree and monitor a minimum number of prudential indicators.

## 4 Background

- 4.1 The DLUHC guidance outlines there needs to be sufficient member scrutiny of the treasury management policies. Cabinet is the responsible body for scrutinising the Treasury Management Strategy as set out in the constitution.
- 4.2 To facilitate the decision-making process and support capital investment decisions the Prudential Code requires the Council to agree and monitor a minimum number of prudential indicators and for housing authorities these are separated for the HRA and General Fund capital investment. The indicators are mandatory but can be supplemented with local indicators if this aids interpretation and may cover three years ahead.
- 4.3 The indicators cover affordability, prudence, capital expenditure, external debt and treasury management. For the General Fund the indicators have also been split into General and Special Expenses (Melton Mowbray).
- 4.4 The Treasury Management Code includes a new requirement to include a liability benchmark prudential indicator to manage an authority's borrowing needs and maturities. This is a tool used in the support of cashflow management and borrowing decision making. The maturity benchmark is based on the forecast net loans requirement (loans less investments, plus a short-term liquidity allowance). The actual loans portfolio is then compared to this to highlight any liquidity or interest rate risk.
- 4.5 The indicators are purely for internal use by the Council and are not to be used as comparators between Councils, as any comparisons will be meaningless. In addition, the indicators should not be considered individually in that the benefit from monitoring will arise from the movement in the Council's indicators over time and the year on year changes.
- 4.6 The prudential indicators have been based on the position set out in the capital programme and revenue budget reports set out elsewhere on this agenda and the draft Medium Term Financial Strategy (MTFS). Along with each indicator is an explanation of what it demonstrates.
- 4.7 The Treasury Management Strategy is attached as Appendix A including the prudential indicators that relate to the treasury management function. This strategy covers the operation of the treasury function and its activities for the forthcoming year and reflects the Council's capital and commercial investment strategies. The strategy has been informed by advice received from the Council's treasury management consultants.
- 4.8 The Council's treasury management consultants advise clients to adopt a creditworthiness service. This system uses a wide array of information, not just primary ratings, and by using a risk weighted scoring system, does not give undue reliance on just one agency's ratings. The weekly counterparty list is produced on this basis. Counterparties allocated a colour coding based on this criteria can be used, with the exception that any institution with a colour coding from 100 days to 1 year can be used for investments of up to 1 year.

## 5 Main Considerations

The key issues set out in the attached appendix are as follows.

- 5.1 Capital Expenditure – The projected capital expenditure based on the available funding set out in the draft Medium Term Financial Strategy is estimated as set out in the following table.

<b>Capital Expenditure</b>	<b>2023/24 Estimated £000's</b>	<b>2024/25 Estimated £000's</b>	<b>2025/26 Estimated £000's</b>	<b>2026/27 Estimated £000's</b>
Great Council	179	210	0	0
People	15	2,909	345	345
Place	15,395	237	398	50
<b>Total General Fund</b>	<b>15,589</b>	<b>3,356</b>	<b>743</b>	<b>395</b>
Special	0	10	0	0
HRA	5,514	3,805	4,268	2,935
<b>Total</b>	<b>21,103</b>	<b>7,171</b>	<b>5,011</b>	<b>3,330</b>

5.2 **Debt Requirement and Repayment** – Part of the capital expenditure programme will be financed directly (through Government grants, capital receipts etc.), any residue should there be one would increase the Council's external borrowing requirement (its Capital Financing Requirement – CFR). The General Fund CFR is reduced each year by a statutory revenue charge for the repayment of debt known as the Minimum Revenue Provision or MRP (there is no requirement for an HRA charge). With regard to the self-financing of the HRA the Government stated that the repayment of borrowing is not required but the Council can opt to repay the debt rather than build up cash reserves where it considers this to be in the best interests of the Council and the Housing Service. The HRA business plan, approved in 2022/23, provides for no provision for the repayment of debt for both existing and new debt. However, where new unsupported borrowing is undertaken for the HRA the affordability of new borrowing will be assessed, tracked and monitored using industry standard indicators in order to ensure interest payments are affordable.

5.3 **Minimum Revenue Policy** – As illustrated earlier the Capital Finance and Accounting Regulations affecting MRP require the Council to formally approve a method for calculating MRP annually. From 1 April 2024 for all unsupported borrowing (including PFI and finance leases) the MRP policy will be the Asset Life method. This method will be based on the estimated life of the assets, in accordance with the regulations (this option must be applied for any expenditure capitalised under a Capitalisation Direction). This option provides for a reduction in the borrowing need over approximately the asset's life. It is therefore recommended that the asset life method is used for unsupported borrowing as is the case for 2023-24.

5.4 **Capital Financing Requirement** - The following table sets out the predicted CFR for the period 2023-2027 analysed by fund, taking into account the method of calculating MRP as recommended above.

<b>Capital Financing Requirement</b>	<b>2023/24 Estimated £000's</b>	<b>2024/25 Estimated £000's</b>	<b>2025/26 Estimated £000's</b>	<b>2026/27 Estimated £000's</b>
General Expenses	43	32	21	10
HRA	31,484	31,484	31,484	31,484
<b>Total</b>	<b>31,527</b>	<b>31,516</b>	<b>31,505</b>	<b>31,494</b>

5.5 **Borrowing** – The Council’s anticipated net borrowing requirement (net of investments) is shown below with a comparison against the CFR. The Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the next two financial years. This allows some flexibility for limited early borrowing for future years.

<b>Net Borrowing</b>	<b>2023/24 Estimated £000’s</b>	<b>2024/25 Estimated £000’s</b>	<b>2025/26 Estimated £000’s</b>	<b>2026/27 Estimated £000’s</b>
Gross Borrowing	31,413	31,413	31,413	31,413
Investments	24,000	22,000	20,000	17,000
Net Borrowing	7,413	9,413	11,413	14,413
CFR	<b>31,527</b>	<b>31,516</b>	<b>31,505</b>	<b>31,494</b>

5.6 Against this borrowing need (the CFR), the Council’s expected maximum external debt position for each year (the Operational Boundary), and the maximum amount it could borrow (the Authorised Limit) are set out as follows:

<b>Authorised Limit &amp; Operational Boundary</b>	<b>2023/24 Estimated £000’s</b>	<b>2024/25 Estimated £000’s</b>	<b>2025/26 Estimated £000’s</b>	<b>2026/27 Estimated £000’s</b>
Authorised limit	46,000	46,000	46,000	46,000
Operational boundary	34,000	34,000	34,000	34,000

### 5.7 **Liability Benchmark**

A third prudential indicator for 2024/25 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

- **Existing loan debt outstanding:** the Authority’s existing loans that are still outstanding in future years.
- **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.
- **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.
- **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

Further information is provided in section 2.3 of appendix A but in summary the Council’s HRA borrowing is below the CFR and will reduce over time, however it should be noted

this is a snapshot at this current point and when any debt matures those loans will need to be refinanced. It is expected to remain below the liability benchmark after any refinancing.

## 5.8 Prudential Code

CIPFA published a new Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code). The updated Prudential Code includes some substantive changes. Most notably, the provisions in the Code, which present the approach to borrowing in advance of need in order to profit from additional sums borrowed, have been strengthened. Additionally, the relevant parts of Code have been augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code. This recognises that commercial activity can be part of regeneration but underlines that such transactions do not include debt-for-yield as the primary purpose of the investment or represent an unnecessary risk to public funds.

5.9 Proportionality has been included as an objective in the Prudential Code. New provisions have been added, so that an authority incorporates an assessment of risk to levels of resources used for capital purposes. A new requirement has been added so that capital strategies are required to report investments under the following headings: service, treasury management and commercial investments (where these were implemented prior to the changes in regulations with the aim to highlight these type of investments).

## 5.10 Capital Strategy

The Prudential Code for Capital Finance in Local Authorities includes a requirement to produce a Capital Strategy which links into the Treasury Management Strategy. This Capital Strategy is an overarching document which sets the policy framework for the development, management and monitoring of capital investment. The Strategy focuses on core principles that underpin the council's capital programme; its short, medium and long-term objectives; the key issues and risks that will impact on the delivery of the programme; and the governance framework required to ensure the capital programme is delivered and provides value for money for residents of Melton. The Capital Strategy aligns with the priorities set out in the Councils Corporate Strategy and other key Council strategies. The Strategy is integrated with the Medium Term Financial Strategy and Treasury Management Strategy. This Strategy aims to drive the authority's capital investment ambition whilst ensuring capital expenditure, capital financing and treasury management are appropriately aligned and managed to support sustainable, long term delivery of services. The updated Capital Strategy is being presented to members of this committee under a separate agenda item.

## 5.11 IFRS 16 – leases

This standard replaces the current guidance in IAS 17 on leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting remaining substantially unchanged from the IAS 17 approach.

In April 2022, the CIPFA LASAAC Local Authority Accounting Code Board announced a further deferral of the implementation of IFRS 16 Leases in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) until the 2024/25 financial year.



Work continues to be undertaken to assess the impact of these changes, however, initial indications are that there will no significant impact on the Operational Boundary or Authorised Limit

## **6 Options Considered**

- 6.1 No other options have been considered as it is a statutory requirement to have in place agreed prudential indicators. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through Regulations issued under the Local Government Act 2003.

## **7 Consultation**

- 7.1 Consultation has been undertaken with the portfolio holder regarding the position for the 2024-25 financial year

## **8 Next Steps – Implementation and Communication**

- 8.1 This report will be submitted to the Council meeting on 9<sup>th</sup> February 2024.

## **9 Financial Implications**

- 9.1 All key financial implications are outlined in the report.
- 9.2 The Director for Corporate Services reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans and the assumptions set out in the budget and MTFs for 2024-25.

**Financial Implications reviewed by: Director for Corporate Services**

## **10 Legal and Governance Implications**

- 10.1 There are no significant legal implications as a result of the recommendations in this report which are not covered in the body of the report.
- 10.2 Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities issued under the Local Government Act 2003 provides assurance that the council's investments are, and will continue to be, within its legal powers.

**Legal Implications reviewed by: Deputy Monitoring Officer**

## **11 Equality and Safeguarding Implications**

- 11.1 There are no direct equality or safeguarding issues arising from this report.

## **12 Data Protection Implications (Mandatory)**

A Data Protection Impact Assessments (DPIA) has not been completed as there are no risks/issues to the rights and freedoms of natural persons.

### 13 Community Safety Implications

13.1 There are no direct links to community safety arising from this report.

### 14 Environmental and Climate Change Implications

14.1 The Council recognises the importance of supporting sustainability and ethical investments and will ask the financial organisations to provide their ethical statements where we look to place investments with them and will consider Environmental, Social or Governance (ESG) specific products if they meet our risk criteria.

### 15 Other Implications (where significant)

15.1 No other implications have been identified.

### 16 Risk & Mitigation

16.1 These are assessed as part of the Corporate Services Risk Register

Risk No	Risk Description	Likelihood	Impact	Risk
1	Loss of investment income during 2024-25 as result of change in interest rates	Low	Marginal	Low Risk
2	Reduction in the valuation of the Councils Property Fund investment resulting in an actual loss should the regulations change to charge the loss to revenue account.	Significant	Marginal	Medium Risk
3	Loss of investment through failure of a counterparty	Very Low	Critical	Low Risk

		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				
	5 High				
	4 Significant		2		
	3 Low		1		
	2 Very Low			3	
	1 Almost impossible				



Risk No	Mitigation
1	Continue to maximise returns in line with the Treasury management investment strategy
2	Establishment of a property fund reserve to help mitigate any losses in the future should the statutory override be removed and there is a need to be charged direct to the revenue account in line with any change in accounting rules.

## 17 Background Papers

None

## 18 Appendices

18.1 Appendix A – Mid-Year Treasury Management Review 2024-25