

REPORT TO:	FINANCE AND MANAGEMENT COMMITTEE	AGENDA ITEM: 10
DATE OF MEETING:	15 FEBRUARY 2024	CATEGORY: RECOMMENDED
REPORT FROM:	STRATEGIC DIRECTOR (CORPORATE RESOURCES)	OPEN
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SUBJECT:	CAPITAL STRATEGY, TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2024/25	REF:
WARD(S) AFFECTED:	ALL	TERMS OF REFERENCE: FM 08

1.0 Recommendations

1.1 That the Committee recommend to Council the approval of the:

- 1.2.1 Treasury Management Strategy (Appendix 1)
- 1.2.2 Prudential Indicators (Appendix 2)
- 1.2.3 Minimum Revenue Provision (MRP) Policy (Appendix 3)
- 1.2.4 Capital Strategy (Appendix 4)
- 1.2.5 Non-Treasury Investment Strategy (Appendix 5)

2.0 Purpose of the Report

2.1 To detail the Council's Prudential Indicators and Treasury Management Strategy for its expected treasury operations for the medium-term financial planning period, 2024/25 – 2028/29, its MRP policy, Capital Strategy and Non-Treasury Investment Strategy. This is in accordance with the requirements of the Local Government Act 2003. The main areas covered are:

3.0 Detail

The Prudential System for Capital Finance

3.1 The Council is required to manage its treasury and capital expenditure activities under a National Code. The main aims of the system are to ensure that:

- Capital investment plans of local authorities are affordable and sustainable;
- Treasury management decisions are taken in accordance with best professional practice; and
- Financial planning and asset management are integrated into the Council's overall corporate planning arrangements.

Treasury Management Strategy

- 3.2 Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties commensurate with the Council's risk appetite, providing adequate liquidity initially before considering investment return. The CIPFA Code requires the Council 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.
- 3.3 Treasury operations are measured within a set of prudential indicators (Appendix 2). The main purpose of these indicators is to provide the limits and benchmarks to control the level of capital expenditure, borrowing and investment. The Council is expected to operate comfortably within these limits.
- 3.4 The Prudential System allows councils the freedom to borrow on a prudential basis. Any new borrowing must be accommodated within any maximum debt limits or caps set by Central Government and the Council must demonstrate that it can afford to service and repay the debt within its financial plans.
- 3.5 The Strategy aims to provide transparency for treasury decisions including the use of counterparties, together with assessing how risk is managed on a day- to-day basis.
- 3.6 There are changes to the strategy in respect of the repayment of HRA self-financing debt. This is because the contributions made from the HRA on an annual basis are not sustainable against the current HRA budget position. As such, deferment of the 2027 MRP has been proposed to allow for significant investment in its housing stock in the medium term. Repayment of which will be determined at a later stage, in line with the housing review.
- 3.7 The Council has more capital investment in 2024/25 General Fund capital programme which will be funded by internal borrowing and paid off over the asset's useful life on an annuity.
- 3.8 A review of CFR was undertaken by the Council's treasury advisors. A reconciliation exercise was successfully undertaken which has subsequently been used to calculate MRP over the medium term.
- 3.9 The strategy is set out at Appendix 1.

Prudential Indicators

- 3.10 As above, the prudential indicators consider the affordability and impact of capital expenditure plans and set out the Council's overall capital framework.
- 3.11 The CIPFA codes require a prescribed set of prudential indicators to be produced annually and monitored throughout the year and the Council.
- 3.12 The indicators required under the regulations are set out along with explanations in Appendix 2.

Minimum Revenue Provision Policy

- 3.13 MRP statement provides details on the amount charged to revenue for the repayment of internal debt over the capital programme.

- 3.14 There are proposed changes to the MRP Policy for 2024/25 relating to the method in which the Council calculates its MRP.
- 3.15 Currently the Council adopts the regulatory method which charges 4% of the authority's underlying need to borrow. It has been proposed that this method is changed to an asset life method, which sees all capital investment is repaid by the end of an asset's life. This method represents the most prudent provision and is recommended for adoption by the Council.
- 3.16 The MRP Policy is at Appendix 3.

Capital Strategy

- 3.17 The CIPFA Prudential Code for Capital Finance requires councils to produce a Capital Strategy. The strategy must set out capital expenditure planned by the council against its overall organisational strategy and resources to ensure that decisions are being made with sufficient regard to the long-term financing implications and potential risks to the Council.
- 3.18 Aligning with the Council's capital programme 2024/25 – 2028/29, the strategy sets out how the council will resource its planned capital expenditure. This includes internal borrowing. Internal borrowing is a way in which Council fund their capital expenditure rather than borrowing externally. The Council then charges to its revenue account a minimum amount (minimum revenue provision) for that financial year in respect of the financing of capital expenditure incurred by the local authority in that year or in any financial year prior. The Council determines an amount of minimum revenue provision which it considers to be prudent which is explored in the MRP statement.
- 3.19 The Capital Strategy is at Appendix 4.

Non-Treasury Investment Strategy

- 3.20 The Non-Treasury Investment Strategy sets out how the Council will support local public services through investments and investing commercially alongside the performance of its existing commercial investments.
- 3.21 This information was previously presented as part of the Treasury Management Strategy in previous years but has been included as a stand-alone document for 2024/25 and going forward, in line with best practice.
- 3.22 There are no approved limits for loans or investments to/in shares in subsidiaries, suppliers, parish councils, local businesses, charities, Housing Associations, residents or employees – any forthcoming consideration will be dealt with on a case-by-case basis and require approval by Full Council following a comprehensive review.
- 3.23 The Non-Treasury Investment Strategy is at Appendix 5.

4.0 Financial Implications

- 4.1 The report sets out the annual update of the core strategies which underpin the council's approach to managing its capital investment.

4.2 Treasury investment income has been budgeted at the forecasted interest rate of 4%. This equates to budgeted investment income in 2024/25 of £847k and £436k with the General Fund and HRA respectfully.

5.0 Corporate Implications

5.1 None directly.

6.0 Community Impact

6.1 None directly.

7.0 Background Papers

7.1 Treasury Management in Public Services and the Code of Practice (CIPFA Publication – November 2011)

7.2 Local Government Act 2003 (Part 1)

7.3 Localism Act 2011 – Part 7 Chapter 3