TITLE	**Treasury Management Strategy 2024-2027**
FOR CONSIDERATION BY	The Executive on Thursday, 22 February 2024
WARD	None Specific
LEAD OFFICER	Deputy Chief Executive - Graham Ebers

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)
Agree the treasury management procedures, limits, and objectives for 2024/25.

Effective and safe use of our resources to deliver service improvements and service continuity through the management of the council's cash flow and investments while funding the capital programme.

RECOMMENDATION
That the Executive endorse and recommend to Council for approval:

1) The Treasury Management Strategy as set out in Appendix A including the following additional appendices;
   - Prudential Indicators (Appendix B)
   - Annual Investment Strategy 2024/25 (Appendix C)
   - Minimum Revenue Provision (MRP) policy (Appendix D)

EXECUTIVE SUMMARY

The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and Treasury Management Code of Practice, and to set out indicators to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Prudential Code focuses on capital finance, while the Treasury Management Code provides guidance on treasury management in the public services

The objectives of the Prudential Code are to provide a framework for local authority capital finance that will ensure for individual local authorities that:

- capital expenditure and investment plans are affordable and proportionate
- all external borrowing and other long-term liabilities are within prudent and sustainable levels
- the risks associated with investments for service and commercial purposes are proportionate to their financial capacity
- treasury management and other investment decisions are taken in accordance with professional good practice

Treasury Management Activities are defined as 'The management of the organisation's borrowing, investments and cash flows, including its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks'.

The CIPFA Prudential Code and CIPFA Treasury Management Code of Practice are both referred to by regulations, set out good practice and are complementary to one another.

The 2021 CIPFA Treasury Management Code of Practice sets out the requirements for all local authorities to set an annual Treasury Management Strategy.

Under the prudential system, individual local authorities are responsible for deciding the level of their affordable borrowing, having regard to the code. Prudential limits apply to all borrowing, qualifying credit arrangements and other long-term liabilities. The system is designed to encourage authorities that need and can afford to undertake capital investment to do so within a robust framework.

Using the guidance from the Treasury Code and Prudential Code, every year the Council produce a Treasury Management Strategy and a Capital Strategy. Both strategies are closely linked and also support the Medium Term Financial Plan. The Capital Strategy is considered in a separate report.

This report outlines the expected treasury activity for the forthcoming year and includes prudential indicators relating specifically to Treasury Management for the next three years. A key requirement of this report is to explain both the risks and the management of the risks associated with the treasury management.

Under the minimum reporting requirements under the treasury management code, the Council will receive the strategy, mid-year and annual reports as part of this annual reporting cycle.

Treasury Management Strategy

The Executive are asked to note the Treasury Management Strategy as set out in Appendix A including the following appendices;

- Prudential Indicators (Appendix B)

  These are primary indicators designed to ensure the key objectives of the Prudential Code are met and that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice. The indicators are a series of actuals, estimates, limits and a liability benchmark.

  These are summarised below and consist of limits and performance indicators for categories of Affordability and Prudence.

Prudential Indicators	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
Limits				
Authorised Limit (Note: Total CFR*120%)	575	646	690	701
Operational Boundary (Note: Total CFR*110%)	527	592	632	642
Maturity structure of borrowing		See Appendix B		
Performance Indicators				
Capital financing requirement – General Fund (GF)	382	434	467	473
Capital financing requirement – HRA	97	104	108	111
Gross external borrowing – General Fund (GF)	127	171	204	218
Gross external borrowing - HRA	76	87	97	105
Ratio of financing costs to net revenue stream – General Fund (GF)	(0.56%)	0.71%	2.19%	2.44%
Ratio of financing costs to net revenue stream - HRA	19.87%	23.30%	24.33%	24.53%
Net income from commercial & service investments to net revenue stream - GF	8.36%	10.17%	9.53%	9.25%
Liability benchmark		See Section 5		

- Annual Investment Strategy 2024/25 (Appendix C)

This sets out the investment parameters that the Council treasury service will work within when making decisions. The CIPFA Code and DLUHC Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's investment priorities will be security first, liquidity second, then return.

- Minimum Revenue Provision (MRP) policy (Appendix D)

The policy in which the Council set aside a prudent revenue provision each year to repay capital spend also known as the capital financing requirement. The current approach which is inline with the Statutory Guidance on Minimum Revenue Provision requires a local authority to calculate in each financial year an amount of MRP that it considers to be prudent. The Secretary of State considers that the methods of making prudent provision (set out in Appendix D). However, this does not rule out or otherwise preclude a local authority from using an alternative method should it decide that is more appropriate.

BACKGROUND

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations is to ensure that the Council has sufficient available cash to manage its day-to- day operations. By planning this daily cashflow the treasury service is able to invest short term surplus balances in suitable low-risk counterparties, which provide security of the investment and the appropriate liquidity before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing requirement of the Council, essentially the longer- term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer- term cash may involve arranging long or short- term loans or using core balances. On occasion, debt previously drawn may be restructured to achieve a better financial position.

Details of the Council's capital spend plans are set out in the **Capital Strategy** document. As capital spend impacts on treasury management, key highlights from the capital strategy are included in the treasury management strategy (Appendix A) and summarised below;

	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Housing, Local Economy & Regeneration – Non HRA	10.1	7.2	7.1	24.4
Children Services and Schools	28.3	26.6	7.7	62.6
Roads and Transport	11.0	12.0	9.2	32.2
Adult Social Care	3.8	2.0	1.0	6.8
Internal Services	6.2	8.3	8.8	23.3
Environment	3.6	13.3	10.5	27.4
Total General Fund Capital Programme	**63.0**	**69.4**	**44.3**	**176.7**
Housing, Local Economy & Regeneration – Housing Revenue Account (HRA)	10.6	20.5	19.0	50.1
Total Capital Programme 2024/25 to 2026/27	**73.6**	**89.9**	**63.3**	**226.8**

Note – the figures above do not include any carry forward budgets from the current approved 2023/24 capital programme.

The capital programme proposed for the next year is prudent and affordable as per the principles of the CIPFA prudential code. The proposed funding of the three year programme is summarised below;

General Fund

	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Supported borrowing	(17.4)	(22.4)	(17.0)	(56.8)
Developer contributions (S106)	(2.5)	(4.0)	(0.6)	(7.1)
Capital grants	(29.0)	(29.1)	(15.0)	(73.1)
Other contributions	(0.5)	(2.0)	0.0	(2.5)
Capital receipts	(5.6)	(2.5)	(5.2)	(13.2)
General fund borrowing	(8.0)	(5.2)	(2.1)	(15.4)
Total	**(63.0)**	**(65.2)**	**(39.9)**	**(168.1)**

Housing Revenue Account

	2024/25 £m	2025/26 £m	2026/27 £m	Total £m
Supported borrowing	(2.1)	(6.6)	(4.8)	(13.5)
Developer contributions (S106)	(0.0)	(4.6)	(0.0)	(4.6)
Other contributions	(5.7)	(5.7)	(5.9)	(17.3)
Capital receipts	(2.8)	(3.6)	(8.3)	(14.7)
Total	**(10.6)**	**(20.5)**	**(19.0)**	**(50.1)**

The capital programme currently has a budget shortfall of c£8.5m over three years which includes a fully funded year 1 programme. This shortfall over three years will be balanced through a combination of reducing or reprofiling capital expenditure, additional CIL income from potential new developments and by maximising capital funding opportunities such as bidding for capital grants.

Borrowing Position

An important part of the treasury management strategy is to highlight the level of borrowing need. This is known as the capital financing requirement (CFR) and is a measure of the authority's level of indebtedness which represents capital expenditure that has been incurred but not yet paid for.

The table below shows estimated capital financing requirement over the MTFP period. Expenditure is driven from the delivery of the capital programme and repayments are expected through capital receipts, minimum revenue provision repayment and developer contributions. There are a number of capital budgets which are considered as 'approval to spend' however are still subject to approval of detailed business cases. If these capital budgets were excluded, the revised CFR is also shown in the table below.

	Capital Financing Requirement (General Fund)			
	23/24	24/25	25/26	26/27
	£m	£m	£m	£m
Opening balance	368	382	449	493
Expenditure in year	42	80	79	113
Repayments in year;				
- Capital Receipts / Developer Contributions	(21)	(2)	(23)	(6)
- MRP	(7)	(9)	(13)	(15)
Closing Balance - CFR	**382**	**449**	**493**	**584**
Excluding capital budget approvals without planned expenditure (cumulative effect)		(16)	(26)	(111)
Closing Balance	**382**	**434**	**467**	**473**

A major source of funding for the Council's general fund capital programme is borrowing. This is described in two forms, supported borrowing and general fund borrowing. A significant part of the Council's capital programme is either self-financing or makes a surplus where the income generated is greater than the cost of financing and therefore is available to fund other council services. These are referred to as "supported borrowing". General fund borrowing is funded through existing base budget and supports general investment to maintain Council assets and continue to provide services to customers and residents.

A summary of the general fund CFR for the next three financial years is estimated below.

	Supported Borrowing				General Fund Borrowing			
	23/24	24/25	25/26	26/27	23/24	24/25	25/26	26/27
	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance	270	276	311	334	98	106	123	133
Expenditure in year	25	43	54	23	17	21	14	4
Repayments in year (MRP + Fund Swaps)	(19)	(8)	(31)	(17)	(9)	(4)	(4)	(4)
Closing balance	**276**	**311**	**334**	**340**	**106**	**123**	**133**	**133**

It is important to note, the "expenditure in year" row is an estimate of actual capital expenditure to be incurred in the financial year based on a detailed analysis of project spend, timing and delivery and includes the impact of carry forwards from the previous year and carry forwards into future years based on historic trends and information about the delivery of projects. This ensures a more accurate CFR position which is important when considering investment and borrowing decisions. It will therefore be different to the amount identified as funding earlier in the report in the capital funding tables as these are setting out the permission to allocate capital budget to a project.

Also, worth noting, is the CFR balance does not reflect the level of external debt the Council holds. Where the Council hold balances such as reserves, unspent grants and working capital, this avoids the need to borrow externally saving on interest costs. This is known as internal borrowing. The level of internal borrowing will impact on the level of treasury investments held and therefore impact on the investment returns or savings from avoiding the need to borrow externally. Reserves are held for specific reasons and to mitigate against risk. Reserves are not available to fund ongoing service costs. Further information on the Councils reserves are set out in the Medium Term Financial Plan.

The tables on the previous page are referred to as the “general fund” position and exclude the Housing Revenue Account (HRA) CFR because this is ringfenced and funded mainly from tenant’s rental income and right to buy receipts.

The HRA CFR for the next three years is estimated below.

	Housing Revenue Account			
	23/24	24/25	25/26	26/27
	£m	£m	£m	£m
Opening balance	82	97	104	108
Expenditure in year	16	8	7	5
Repayments in year				
VRP	(1)	(2)	(2)	(2)
Capital Receipts	0	0	0	0
Closing balance	**97**	**104**	**108**	**111**

The repayments of the Housing Revenue Account CFR are known as Voluntary Revenue Provision (VRP). These are set out as part of the HRA budget setting and form part of the budget setting process. A key driver for the increase in the prudential borrowing relate to Gorse Ride Redevelopment. Capital receipts and additional rental income will be received once the project is completed and will be used as additional VRP to reduce the HRA CFR balance.

Liability Benchmark Prudential Indicator (Repayment Of Borrowing)

As highlighted previously, the Council continue to invest significant amounts into the capital programme generating assets such as roads, schools, housing, regeneration properties and many more. The graph below sets out the expected repayment of this debt.

The graph includes four key parts in reference to debt;

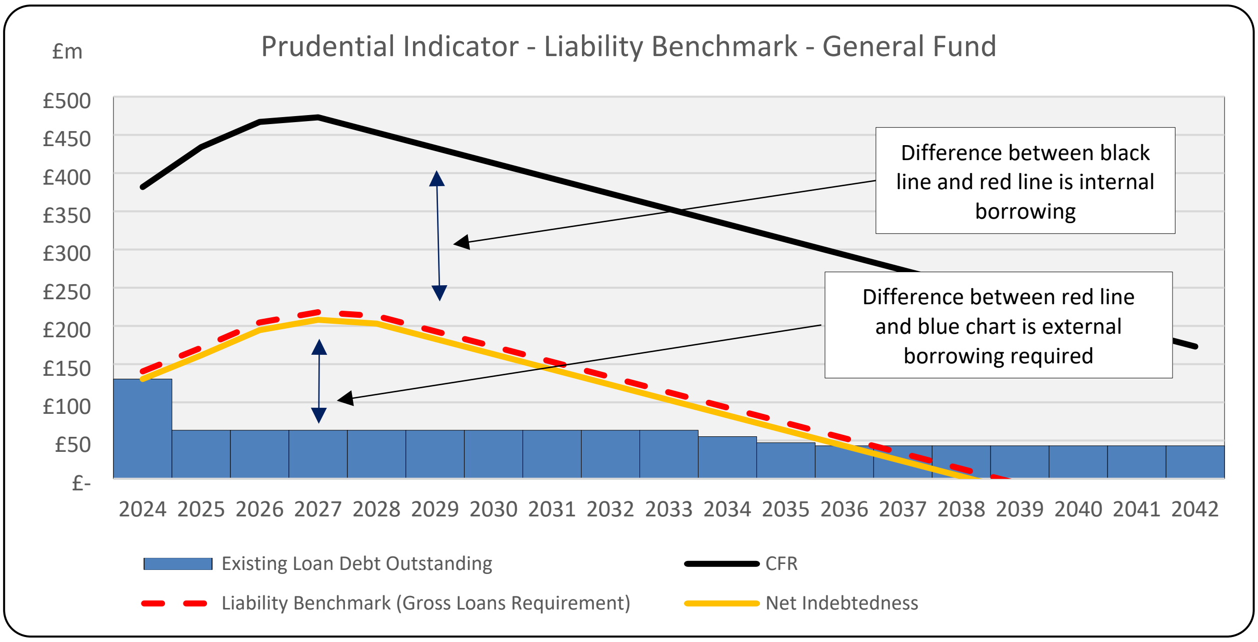
- CFR (Capital financing requirement) - a measure of the Authority's level of indebtedness, calculated from the capital assets the Authority has on its balance sheet and how they have been resourced – either through funding such as capital receipts, grants, revenue or through prudential borrowing. CFR will reduce over time through either MRP or through the application of other resources such as Capital Receipts.
- Existing Loan Debt – this is the actual amount currently borrowed with third parties.
- Net Indebtedness (Net Loans Requirement) – this is external debt less treasury (i.e. liquid) investment balances. It is important that these are considered together as treasury investments could be used to repay external debt.
- Liability Benchmark – Net loans requirement plus a liquidity buffer held for daily treasury management.

The Council are expecting debt to rise over the next three years in line with the capital programme and then it is expected to reduce over time as income is generated from these projects and cost savings are realised.

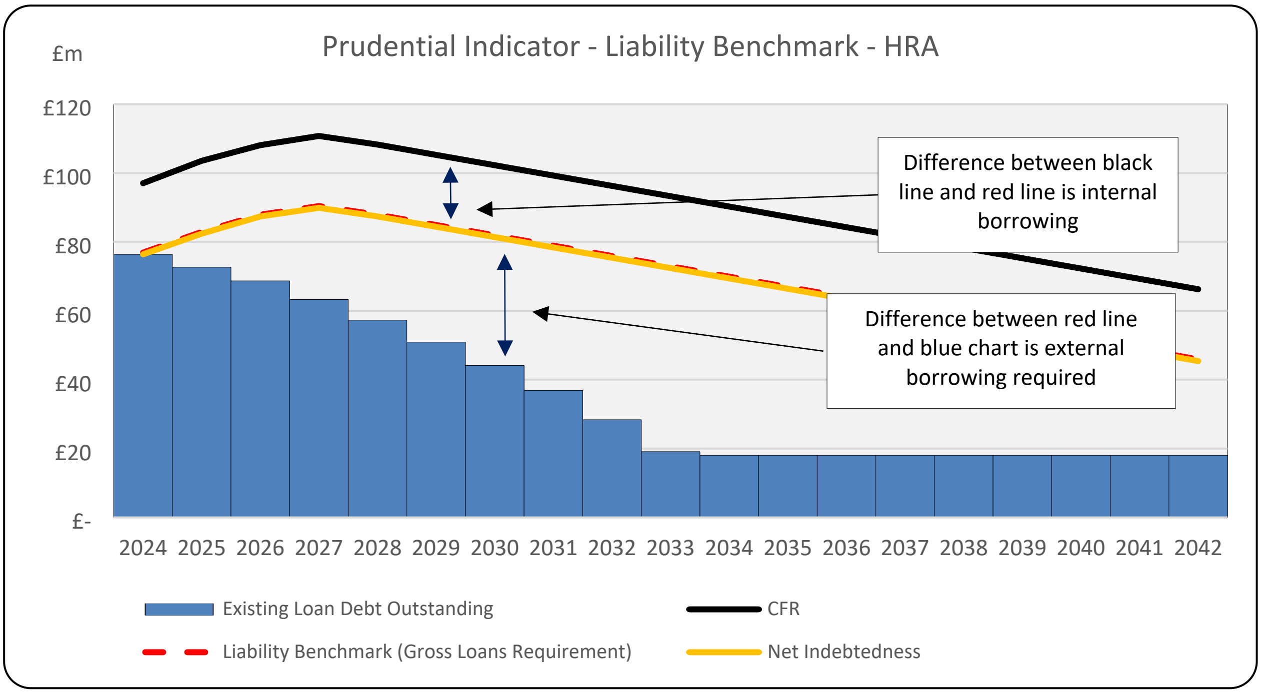
CFR and external debt will reduce as borrowings are repaid through income and will reach a point in time when debt is fully repaid and the ongoing income will be transferred to benefit the general fund.

The graph below is the Liability Benchmark for the General Fund. This is based on the CFR excluding the capital budgets that are currently 'approvals to spend' and still subject to detailed viable business cases.

The graph below is the Liability Benchmark for the General Fund Account



The graph below is the Liability Benchmark for the Housing Revenue Account



Key Changes to the Strategy

For 2024/25, the Council have enhanced their minimum revenue provision (MRP) policy which is set out in detail in Appendix D. Whilst the Council have applied the MRP policy in previous years within the guidance set out by Government, during the past year, Government has consulted on the MRP Statutory Guidance and revised the guidance around areas such as commercial investments, future capital receipts (from asset sales) to repay debt and loans to companies. This has resulted in an increase in MRP provision which will in turn repay the capital financing requirement at an earlier date.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION
The Council faces unprecedented financial pressures as a result of; the longer term impact of the COVID-19 crisis, Brexit, the war in Ukraine and the general economic climate of rising prices and the increasing cost of debt. It is therefore imperative that Council resources are optimised and are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	See other financial information	N/A	N/A
Next Financial Year (Year 2)	See other financial information	N/A	N/A
Following Financial Year (Year 3)	See other financial information	N/A	N/A

Other Financial Information
Capital spend plans are outlined in further detail in the Capital Strategy which is available within the agenda pack for the 22 February 2024 Executive meeting and will be available on the Council's website once approved. The cost of borrowing and interest received from investments are provided for in the medium term financial plan

Stakeholder Considerations and Consultation
None

Public Sector Equality Duty
An Equality Impact Assessment is not required for this report.

Climate Emergency – *This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030*
None

Reasons for considering the report in Part 2
None

List of Background Papers
Appendix A - Treasury Management Strategy Appendix B - Prudential & Treasury Management Indicators 2024/25 to 2026/27 Appendix C - Annual Investment Strategy

Appendix D - MRP policy

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