TITLE	**Treasury Management Strategy 2023-2026**
FOR CONSIDERATION BY	Council on Thursday, 16 February 2023
WARD	None Specific;
LEAD OFFICER	Deputy Chief Executive - Graham Ebers
LEAD MEMBER	Executive Member for Finance - Imogen Shepherd-DuBey

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)
Agree the treasury management procedures, limits, and objectives for 2023/24.

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 Council consider the recommendations of the Executive in respect of the Treasury Management Strategy 2023- 2026. That Council:

1) Note the Treasury Management Strategy as set out in Appendix A including the following additional appendices;
   - Prudential Indicators (Appendix B)
   - Annual Investment Strategy 2023/24 (Appendix C)
   - Minimum Revenue Provision (MRP) policy (Appendix D)

2) Note that the Audit Committee agreed the Treasury Management Strategy, including the change of minimum credit rating for investments, on 1 February 2023 and have recommended the report to Council.

EXECUTIVE SUMMARY

The Chartered Institute of Public Finance & Accountancy (CIPFA) 2021 Prudential Code sets out the requirements for all local authorities to set an annual Treasury Management Strategy. The key objectives are to ensure, within a clear framework, that local authorities' capital investment plans are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice. Local authorities are required to have regard to the prudential code as set out in part one of the Local Government Act 2003 in England and Wales.

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 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.

Further monitoring reports are produced during the year: a mid-year monitoring and a year-end outturn.

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.

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

Prudential Indicators	2023/24 £m	2024/25 £m	2025/26 £m
Limits			
Authorised Limit (Note: CFR*120%)	£594.0m	£647.2m	£661.0m
Operational Boundary (Note: CFR*110%)	£544.5m	£593.2m	£605.9m
Maturity structure of borrowing	See Appendix B		
Performance Indicators			
Capital financing requirement – General Fund (GF)	£417.3m	£443.8m	£449.6m
Capital financing requirement – HRA	£77.7m	£95.5m	£101.2m
Gross external borrowing – General Fund (GF)	£130.1m	£177.7m	£185.7m
Gross external borrowing - HRA	£65.0m	£82.8m	£88.5m
Ratio of financing costs to net revenue stream - GF	(0.57%)	(0.36%)	(0.39%)
Ratio of financing costs to net revenue stream - HRA	20.26%	20.06%	21.61%
Net income from commercial & service investments to net revenue stream - GF	9.44%	9.77%	9.75%
Liability benchmark	See Section 5		

- Annual Investment Strategy 2023/24 (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 historic capital spend also known as the capital financing requirement. The current approach which is in line 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;

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Housing, Local Economy & Regeneration – Non HRA	42.9	13.3	8.3	64.5
Children Services and Schools	17.3	27.0	21.0	65.3
Roads and Transport	10.5	9.3	7.9	27.7
Adult Social Care	6.8	3.1	1.8	11.7
Internal Services	6.4	3.7	3.0	13.1
Climate Emergency	5.3	3.1	4.9	13.3
Environment	0.9	0.1	1.1	2.1
Total General Fund Capital Programme	**90.1**	**59.6**	**48.0**	**197.7**
Housing, Local Economy & Regeneration – Housing Revenue Account (HRA)	11.6	25.1	21.7	58.4
Total Capital Programme 2023/24 to 2025/26	**101.7**	**84.7**	**69.7**	**256.1**

Note – the figures above do not include any carry forward budgets from the current approved 2022/23 capital programme.

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

General Fund

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Supported borrowing	(39.0)	(17.5)	(9.3)	(65.8)

Developer contributions (S106 / CIL)	(8.6)	(3.0)	(0.9)	(12.5)
Capital grants	(23.0)	(29.1)	(21.8)	(73.9)
Other contributions	(0.6)	(0.4)	(0.1)	(1.1)
Capital receipts	(5.6)	(1.0)	(1.0)	(7.6)
General fund borrowing	(13.3)	(4.1)	(5.2)	(22.6)
Total	**(90.1)**	**(55.1)**	**(38.3)**	**(183.5)**

<u>Housing Revenue Account</u>

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Supported borrowing	(0.4)	(18.8)	(7.1)	(26.3)
Other contributions	(5.5)	(5.7)	(5.4)	(16.6)
Capital receipts	(5.7)	(0.6)	(9.2)	(15.5)
Total	**(11.6)**	**(25.1)**	**(21.7)**	**(58.4)**

The capital programme currently has a budget shortfall of c£28m over three years which includes a fully funded year 1 programme. This shortfall is made up of c£14m budget shortfall against the capital programme highlighted above (General Fund £198m less £184m). The remaining c£14m shortfall is the current estimated gap between CIL income and associated capital spend requirements. 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 an accounting concept which monitors how much capital expenditure has been incurred but not yet paid for.

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			
	22/23	23/24	24/25	25/26	22/23	23/24	24/25	25/26
	£m	£m	£m	£m	£m	£m	£m	£m
Opening balance	280.9	300.4	309.6	329.2	100.6	103.2	107.7	114.7
Expenditure in year	46.1	42.8	44.8	31.0	6.3	7.9	11.0	7.7

Repayments in year	(26.6)	(33.6)	(25.2)	(28.6)	(3.7)	(3.5)	(4.0)	(4.2)
Closing balance	**300.4**	**309.6**	**329.2**	**331.5**	**103.2**	**107.7**	**114.7**	**118.1**

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. 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 debt the Council holds. Where the Council hold surplus 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. Furthermore, it is important to take into account any treasury investment balances when looking at external debt to understand a more accurate debt figure.

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 entirely from tenant's rental income.

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

	Housing Revenue Account			
	22/23	23/24	24/25	25/26
	£m	£m	£m	£m
Opening balance	80.3	78.2	77.6	95.4
Expenditure in year	0	0.4	18.8	7.0
Repayments in year	(2.1)	(1.0)	(1.0)	(1.4)
Closing balance	**78.2**	**77.6**	**95.4**	**101.0**

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. The additional prudential borrowing from year 2 onwards relate primarily 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.

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.

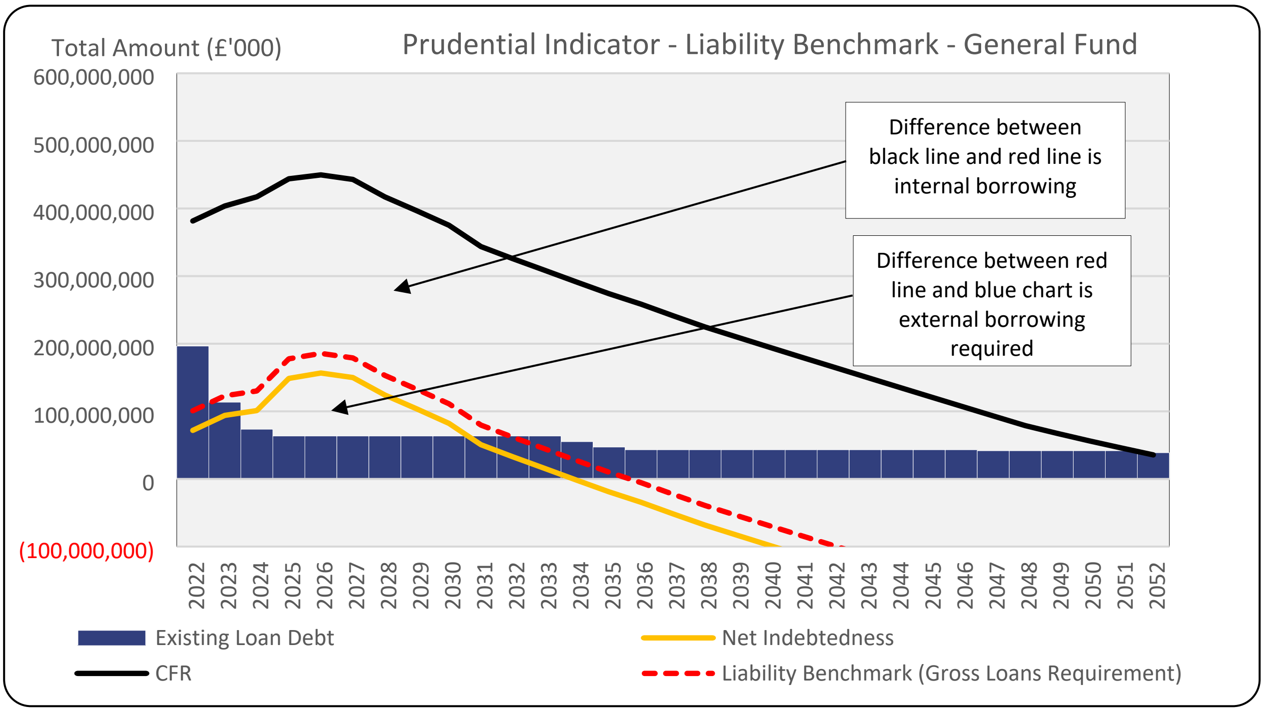
The graph includes four key parts in reference to debt;

- CFR (Capital financing requirement) - A technical calculation of historic capital expenditure less that already paid for, required to arrive at the annual level of debt repayment.
- 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 is based on general fund only and excludes HRA as this is ringfenced and shown separately.



	2023/24 £m	2024/25 £m	2025/26 £m
Loans CFR (a)	417	444	450
Less internally Funded (b)	287	266	264
External debt - general fund only (c = a+b)	130	178	186
Less treasury investments (d)	29	29	29
Net indebtedness (e = c -d)	**101**	**149**	**157**

Key Changes to the Strategy

The following changes are proposed to the strategy for 2023/24.

- Prudential Indicators
    - Inclusion of the new prudential indicator called 'the liability benchmark'. This sets out a long-term projection of external debt and the capital financing requirement (CFR). This projection should enable review of how the level of underlying borrowing for capital purposes (the CFR) is offset by other cash flows and balances, which reduce the level of actual debt required.

      This is shown in graphical format. Due to similarities with the debt graph previously used, this has been replaced.
    - Inclusion of the new prudential indicator called 'Net income from commercial & service investments to net revenue stream – GF'. This indicator comprises interest and investment income (other than from investments held for treasury management purposes), together with net income from other assets held primarily for financial return, such as commercial property. The intention of this indicator is to show the net financial impact on the authority of its entire non treasury investment income.
- Minimum credit rating criteria for Investments - It is proposed that the Council change their minimum credit rating for investments from high grade rated investments to upper medium grade rated investments. This will give the Council more flexibility with counterparties when investing surplus cash balances. This will allow the treasury team greater resilience around options for investing cash balances whilst maintaining security of investments. Further information is set out in section 9 of appendix A

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)	N/A	N/A	N/A
Next Financial Year (Year 2)	N/A	N/A	N/A
Following Financial Year (Year 3)	N/A	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 16 February 2023 Executive meeting and will be available on the Council's website once approved.

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 2023/24 to 2025/26 Appendix C - Annual Investment Strategy Appendix D - MRP policy

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