

Title of Report	CAPITAL STRATEGY, TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS	
Presented by	Councillor Nick Rushton Corporate Portfolio Holder	
Background Papers	<p>Capital Strategy, Treasury Management Strategy and Prudential Indicators – Council 23 February 2023</p> <p>Draft Capital Strategy, Treasury Strategy and Prudential Indicators – Cabinet 9 January 2024</p> <p>Draft Minutes of the Corporate Scrutiny Committee – 4 January 2024</p> <p>General Fund Budget and Council Tax 2024/25 – Cabinet 31 January 2024</p>	Public Report: Yes
Financial Implications	The report sets out the annual update of the core strategies which underpin the Council’s approach to managing its capital investment.	
	Signed off by the Section 151 Officer: Yes	
Legal Implications	There are no direct legal implications arising from this report.	
	Signed off by the Monitoring Officer: Yes	
Staffing and Corporate Implications	There are no staffing and corporate implications arising from this report.	
	Signed off by the Head of Paid Service: Yes	
Purpose of Report	To approve the 2024/25 Capital Strategies, the Treasury Management Strategies and the Prudential Indicators.	
Recommendations	<p>COUNCIL IS REQUESTED TO:</p> <p>1. NOTE THE FINANCIAL INDICATORS REQUIRED UNDER THE PRUDENTIAL CODE DETAILED IN SECTION 3 AND APPROVE THE FOLLOWING LIMITS:</p> <p>A) THE AUTHORISED LIMIT AND OPERATIONAL BOUNDARY FOR EXTERNAL DEBT AS DETAILED IN TABLE B OF THE TREASURY MANAGEMENT</p>	

	<p style="text-align: center;">STRATEGY 2024-25 (APPENDIX 2).</p> <p>B) THE MATURITY STRUCTURE OF BORROWING AS DETAILED IN PARAGRAPH 6.6 OF THE TREASURY MANAGEMENT STRATEGY 2024-25 (APPENDIX 2).</p> <p>2. APPROVE THE:</p> <p>A) CAPITAL STRATEGY 2024-25 (APPENDIX 1)</p> <p>B) TREASURY MANAGEMENT STRATEGY 2024-25 (APPENDIX 2)</p> <p>C) MINIMUM REVENUE PROVISION (MRP) STATEMENT 2024-25 (APPENDIX 3)</p> <p>D) NON-TREASURY INVESTMENT STRATEGY 2024-25 (APPENDIX 4).</p> <p>3. DELEGATE AUTHORITY TO CABINET TO MOVE A CAPITAL SCHEME FROM THE DEVELOPMENT POOL TO THE ACTIVE PROGRAMME AS LONG AS THE SCHEME IS WITHIN THE APPROVED BUDGET.</p> <p>4. DELEGATE AUTHORITY TO THE S151 OFFICER TO MAKE ANY NECESSARY CHANGES TO APPENDICES 1-4 IF ANY AMENDMENTS ARE AGREED TO THE GENERAL FUND AND HOUSING REVENUE ACCOUNT BUDGETS AT THIS MEETING.</p>
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1.0 BACKGROUND

- 1.1 The Local Government Act 2002 and supporting regulations require the Council to 'have regard to' the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the Treasury Management Code of Practice and to prepare, set and publish prudential indicators and treasury indicators that ensure the Council's capital expenditure plans are affordable, prudent and sustainable in the long- term.
- 1.2 The prudential indicators consider the affordability and impact of capital expenditure plans and set out the Council's overall capital framework. The prudential indicators summarise expected treasury activity, introduce limits upon that activity and reflect the underlying capital programme. Therefore, a Treasury Management Strategy is prepared which considers the effective funding of the capital expenditure decisions and complements the prudential indicators.
- 1.3 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. 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 low risk appetite, providing adequate liquidity initially before considering investment return. The Council is required to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby

charges to revenue remain affordable within the projected income of the Council for the foreseeable future. These increased charges may arise from:

- increases in interest charges and debt repayment caused by increased borrowing to finance additional capital expenditure; and
- any increases in operational running costs from new capital projects.

1.4 Treasury Management is, therefore, an important part of the overall financial management of the Council's affairs and is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risk associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.5 Specific treasury indicators are prepared and included in the Treasury Management Strategy which requires Member approval. These are detailed in Section 2.

1.6 The Council's treasury activities are strictly regulated by statutory requirements and guidance, including:

- CIPFA Prudential Code for Capital Finance in Local Government
- CIPFA Treasury Management Code of Practice
- Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance
- DLUHC Minimum Revenue Provision (MRP) Guidance.

1.7 The Council's Constitution (via the Financial Procedure Rules) requires full Council to approve the Treasury Management Policy statement for the forthcoming year at or before the start of the financial year. The statement is proposed to the full Council by the Cabinet. The Council's Section 151 Officer has delegated responsibility for implementing and monitoring the statement. The Section 151 Officer is responsible for reporting annually to the Cabinet on the activities of the treasury management operation and on the exercise of his or her delegated treasury management powers. Reports on treasury management are also required to be adequately scrutinised and this role is undertaken by the Audit and Governance Committee.

2.0 CAPITAL AND TREASURY MANAGEMENT STRATEGIES

2.1 The following strategies are attached as appendices for Council to approve:

- Appendix 1 - Capital Strategy 2024/25;
- Appendix 2 - Treasury Management Strategy Statement 2024/25;
- Appendix 3 - Minimum Revenue Provision (MRP) Statement 2024/25; and
- Appendix 4 - Non-Treasury Investment Strategy 2024/25.

2.2 There are no major changes compared to the 2023/24 version of the strategies, other than the updating of the financial values and economic forecasts.

3.0 PRUDENTIAL INDICATORS

3.1 The CIPFA codes require a prescribed set of prudential indicators to be produced annually and monitored throughout the year and the Council also has the option to add locally set indicators, these are detailed shown below with further explanation to their meanings:

1(a). External Debt - Operational Boundary (Treasury Strategy – Appendix 2)

The most likely, prudent view of the level of gross external indebtedness. External debt includes both borrowing and long-term liabilities (e.g. finance leases). It encompasses all borrowing, whether for capital or revenue purposes. This indicator will be subject to the level and timing of borrowing decisions and so the actual level of borrowing can, therefore,

be below or above this initial estimate. However, what cannot be breached without a further report to Council is the authorised borrowing limit.

1(b). External Debt - The Authorised Limit (Treasury Strategy – Appendix 2)

The upper limit on the level of gross external indebtedness, which must not be breached without Council approval. It is the worst-case scenario. It reflects the level of borrowing which, while not desired, could be afforded but may not be sustainable. Any breach must be reported to the Audit and Governance Committee executive decision-making body, indicating the reason for the breach and the corrective action undertaken or required to be taken. This limit is a statutory limit required to be set by the Council under Section 3(1) of the Local Government Act 2003.

1(c). External Debt - Actual External Debt (Treasury Strategy – Appendix 2)

The indicator for actual external debt will not be directly comparable to the operational boundary and authorised limit since the actual external debt will reflect the actual position at one point in time.

2. Capital Financing Requirement (CFR) (Treasury Strategy – Appendix 2)

The Capital Financing Requirement (CFR) replaced the 'Credit Ceiling' measure of the Local Government and Housing Act 1989. It measures an authority's underlying need to borrow or use other long-term liabilities, to pay for capital expenditure.

3. Capital Expenditure (Capital Strategy – Appendix 1)

The level of capital expenditure incurred and likely to be incurred in future years. This is to be based on an accruals basis and on the definition of capital expenditure.

4. Gross External Borrowing and the Capital Financing Requirement (Treasury Strategy – Appendix 2)

The level of external borrowing is required to be compared to the Capital Financing Requirement which represents the underlying need to borrow. Requires that borrowing in the medium term can only be for capital purposes.

5. Maturity Structure of Borrowing (Treasury Strategy – Appendix 2)

Local Authority debt portfolios consist of a number of loans with differing maturities. Setting limits assists in ensuring any new borrowing in particular when combined with existing borrowing does not result in large concentrations of borrowing maturing in a short period of time.

6. Principal sums invested for greater than one year (Treasury Strategy – Appendix 2)

This indicator measures the exposure of a local authority to investing for periods of greater than one year.

7. Ratio of Financing Costs to Net Revenue Stream (Capital Strategy – Appendix 1)

This indicator is a measure of affordability of historic and future capital investment plans. It identifies the trend in the cost of capital financing which include:

- interest payable on borrowing
- penalties or any benefits receivable on early repayment of debt
- prudent revenue budget provision for repayment of capital expenditure paid for by borrowing.

This is calculated for the General Fund and Housing Revenue Account (HRA). For the General Fund, the net revenue stream is the amount to be met from non-specific Government grants and Council Tax, whilst for the HRA it is the amount to be met from rent payers. An increasing ratio indicates that a greater proportion of the Council's budget is required for capital financing costs over the planned Capital Programme period.

It should be noted that these figures include a number of assumptions such as:

- no new approvals of additional borrowing apart from that currently proposed over the period of the programme
- estimated interest rates
- the level of internal borrowing and timing of external borrowing decisions and capital expenditure.

Policies and other considerations, as appropriate	
Council Priorities:	The Capital Strategy and Treasury Management Strategy Statement help the Council achieve all its priorities:
Policy Considerations:	None
Safeguarding:	Not applicable
Equalities/Diversity:	Not applicable
Customer Impact:	Not applicable
Economic and Social Impact:	Not applicable
Environment, Climate Change and zero carbon:	The Council aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing. Where practical, when making investment decisions ESG will be considered and counterparties with integrated ESG policies and commitments to carbon.
Consultation/Community Engagement:	Draft Budget: Corporate Scrutiny Committee – 04/01/24 Cabinet – 09/01/24 Public consultation between 10 January and 23 January 2024 Parish and town councils, trade unions and the Federation of small business between 10 January and 23 January 2024 Final Budget: Cabinet – 31/01/24
Risks:	Borrowing and investment both carry an element of risk. This risk is moderated through the adoption of Treasury and Investment Strategies, compliance with the CIPFA Code of Treasury Management and the retention of Treasury Management advisors (Arlingclose) to offer expert advice
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