SELBY DISTRICT COUNCIL

Report Reference Number: E/21/44

To:	Executive
Date:	3 February 2022
Status:	Key Decision
Ward(s) Affected:	All
Author:	Christopher Chapman, Accountant
Lead Executive Member:	Councillor Lunn, Lead Executive Member for Finance and Resources
Lead Officer:	Karen Iveson, Chief Finance Officer

Title: **Treasury Management – Treasury Management Strategy Statement 2022/23, Minimum Revenue Provision Policy Statement 2022/23, Annual Investment Strategy 2022/23, Prudential Indicators 2022/23 and Capital Strategy 2022/23.**

Summary:

This report presents for approval the proposed Treasury Management Strategy together with the Minimum Revenue Provision Policy Statement, Annual Investment Strategy for 2022/23, Capital Strategy 2022/23 and Prudential Indicators 2022/23 as required by the Department for Levelling Up, Housing and Communities (DLUHC) and CIPFA. Whilst 2022/23 will be Selby's final year before Local Government Re-Organisation the strategy includes forecasts for the three years to 2024/25 to enable transition to the new unitary authority.

The capital expenditure plans for the next three years, along with re-profiled budgets carried forward from 2021/22 total £44.75m, which includes Housing Delivery projects and programme for growth. Given the anticipated level of expenditure, whilst there are no immediate plans to externally borrow, authorised borrowing limits are set at £78m to enable prudent assessment of the Council's borrowing needs over the year.

Cash balances are expected to remain relatively high initially over the three year period, before decreasing as the Programme for Growth projects accelerate. The Council will continue to adopt the NYCC investment strategy for cash balances, along with consideration of other alternative investment opportunities, where considered prudent and operating within CIPFA's investment guidance.

Recommendations:

It is recommended to Council that:

i) **The Operational Borrowing Limit for 2022/23 is set at £73m**

ii) **The Authorised Borrowing Limit for 2022/23 is set at £78m**

iii) **Councillors delegate authority to the Chief Finance Officer to effect movement within the agreed authorised boundary limits for long-term borrowing for 2022/23.**

iv) **Councillors delegate authority to the Chief Finance Officer to effect movement within the agreed operational boundary limits for long-term borrowing for 2022/23 onwards.**

v) **The treasury management strategy statement 2022/23 be approved.**

vi) **The minimum revenue provision policy statement for 2022/23 be approved.**

vii) **The treasury management investment strategy for 2022/23 be approved.**

viii) **The prudential indicators for 2022/23 which reflect the capital expenditure plans which are affordable, prudent and sustainable be approved.**

ix) **The Capital Strategy for 2022/23 be approved.**

Reasons for recommendation:

To ensure the Council's Treasury Management Strategy and associated policies are prudent and affordable.

1. Introduction and background

1.1 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 to maximise returns within a policy which prioritises security of capital and liquidity of funds.

1.2 The second main function of the treasury management service is the funding of the Council's capital programmes. These capital programmes provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The Council's Treasury Management Strategy is attached at Appendix A. The strategy sets out the limits to borrowing and investments that officers will apply over the coming year in order to ensure the Council's capital investments plans are affordable, prudent and sustainable.

1.4 The strategy incorporates Statutory MRP guidance including disclosures relating to Voluntary Revenue Provision payments, (VRP). The HRA Business Plan shows that the cost of planned improvement works will exceed the funds available in the major repairs reserve and consequently VRP previously set-aside to repay the self-financing debt will be needed to support the capital programme. This will mean that debt repayment will have to be deferred beyond the 30 years originally planned, with the intention being to reprofile HRA VRP over the remaining life of the existing debt.

1.5 The strategy also takes into account rules that prevent Public Works Loans Board borrowing primarily for yield. The Council has no plans to invest primarily for yield.

1.6 Whilst 2022/23 will be Selby's final year before Local Government Re-Organisation the strategy includes forecasts for the three years to 2024/25 to enable transition to the new unitary authority.

2. The Report

2.1 Treasury Management Strategy

- The Council's 'Authorised Limit for External Debt' is £78m for 2022/23, which is the maximum that can be borrowed in the year.

- The 'Operational Boundary' (the maximum amount that is expected to be borrowed) is £73m in 2022/23, which includes £15m headroom for any unusual cashflow purposes or debt rescheduling, should this be required.

- The borrowing limits reflect capital spending plans arising from capital programmes and the Programme for Growth (P4G)**.**

- Within its Treasury Management Strategy, the Council will contain its exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of principal sums, by setting limits for the amounts that can be invested from 1 up to 5 years (ranging from £20m down to £5m respectively).

- The Council operates 2 borrowing pools – one for the General Fund and one for the HRA.

- The Council has a range of loans with differing maturity limits in order to smooth out the repayment profile – the value of loans at 31/12/21 was £52.8m at an average rate of 3.63%. The next loan repayment is scheduled for 2034/35.

- Total treasury deposits are around £79.6m at an average rate of 0.20%, along with investments in Property Funds of £5.06m (as at end of December 2021), achieving a net rate of return of around 3.41% (as at Q3).

- Investment rates available remain at low levels as a result of the continuing low Bank Rate. Though the December 2021 Monetary Policy Committee voted to increase the Bank Rate to 0.25%, the first rise since the Pandemic began, this increase will take time to filter through to council investments, as existing investments mature and are replaced.

- The Council continues to experience exceptional annual receipts as a result of Renewable Energy Business Rates. Plans for a number of projects are in progress, and as Programme for Growth projects accelerate over the coming three years, cash balances are expected to decrease in line with the financing of these projects.

2.2 Minimum Revenue Provision (MRP) Policy

- The Council is required to determine the amount of MRP it considers prudent for each financial year. The MRP policy is based on the Government's statutory guidance. Under the guidance, any amount charged above the statutory minimum provision as voluntary payments (VRP), can if needed, be reclaimed for use in future years, if required and prudent, providing the cumulative amounts are disclosed each year in the policy;

- MRP for new borrowing will be based on the asset life;

- Total MRP for 2022/23 is £0.517m, all relating the General Fund Internal Borrowing;

- VRP for 2022/23 is £1.214m, in relation to HRA external borrowing.

2.3 Annual Investment Strategy

- The Council's day to day investments are now managed as part of an overall investment pool operated by North Yorkshire County Council (NYCC).

- In order to facilitate the pooling of investments with NYCC, the Council's Annual Investment Strategy and Lending List has been aligned to that of NYCC.

- While it is recognised that there is value in pooling investments, responsibility for risk management lies wholly with the Council and officers of the Council and NYCC are explicitly required to follow Treasury Management policies and procedures.

- The priorities for investing the Council's cash reserves remain the security of capital and liquidity of funds.

- Cash balances for investment are expected to range between £52m and £31m over the coming year dependent upon cashflows.

- A prudent average rate of return of 0.25% has been estimated for 2022/23, though loans to Selby District Housing Trust and the revenue returns from the council's investment in property funds will help to increase overall returns. Increases in Bank of England Base rate over the course of the year will serve to increase the rate of return achieved on the funds invested via the pooling arrangements with NYCC, which currently sit at 0.20%. Any increase in base rate will take time to filter though however as existing investments mature and are replaced.

- NYCC have included a range of alternative options, including Certificates of Deposit, Bonds and UK Government Gilts within its Investment Strategy in order to improve returns over the coming year.

- In addition to the types of investment set out in Schedules 1 and 2 of the Council's Treasury Strategy (attached), Treasury Management staff continue to investigate alternative options, in order to assess whether they meet the Councils investment priorities and criteria list.

- As part of the monitoring and review of investment options, Property Funds were identified as an instrument for investment following discussions with the County Councils Treasury Management consultants. £5m was placed during 2018/19. Given current market uncertainty no further investments are planned at this time and existing investments will be kept under review.

2.4 Prudential Indicators

- The Council plans to spend £24.4m on capital projects in 2022/23;

- This expenditure will be funded from the HRA major repairs reserve, earmarked revenue reserves, capital receipts & grants or revenue resources.

- Principle (Minimum Revenue Provision or MRP) and interest repayments on current and proposed borrowing, less interest on investments, equate to 2.12% of the General Fund Budget and 23.83% of the HRA net budget in 2022/23.

- Taking into account all capital spending plans during 2022/23 there are no additional borrowing requirements anticipated for either the General Fund or the HRA, with the Capital programme for the year anticipated to be funded from existing reserve balances.

2.5 Capital Strategy

- In December 2017, CIPFA issued a revised Treasury Management Code of Practice and Prudential Code. The revised Codes require all local authorities to produce a Capital Strategy. The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management contribute to the provision of Corporate and service objectives and takes account of stewardship, value for money, prudence, sustainability and affordability. As a result, a Capital Strategy is included as **Appendix F** to this report.

- The current economic environment as a result of the Covid-19 pandemic is resulting in ongoing low returns on traditional treasury management investments. As a result, the Council has explored an alternative strategic approach to managing cash resources through non-core investments, which includes the existing loans to Selby and District Housing Trust in support of the Council's Affordable Housing Delivery Programme. The current Trust loan balance as at 31.12.21 stands at £2.8m. Alternative investments are currently earmarked as capital expenditure and as such are included in the Capital Programme. Whilst no further loans are anticipated, the decision to undertake such investments are driven by the Council's corporate objectives as set out in the Council Plan.

- The Capital Strategy provides a projection of how capital expenditure plans, including alternative investment plans, impact on capital borrowing and repayment plans. The Prudential Code requires the Chief Financial Officer to report explicitly on the affordability and risk associated with the Capital Strategy.

- The Council's capital expenditure plans include property acquisitions in support of the Council's Transforming Cities project. In accordance with CIPFA's Commercial Property Investment guidance, issued in autumn 2019, the Council does not plan to externally borrow to finance commercial investments and has no plans for investment primarily for yield.

3. Implications

3.1 Legal Implications

There are no legal issues as a result of this report.

3.2 Financial Implications

There are no direct financial implications as a result of this report. However, the Chief Finance Officer will, with advice from the Council's advisor (Link

Group) look to maximise opportunities with the Council's investment and borrowing position.

4. Conclusion

4.1 The Council has a statutory duty to produce its annual treasury management and investment strategies. The underpinning purpose is to ensure the Council considers the key financial risks associated with managing cash flows, prudent investment decisions, financing of capital spending plans, and to ensure that capital investment is prudent, affordable and sustainable in the long term. The strategies and prudential indicators are also designed to demonstrate proportionality and balance of risk. Whilst 2022/23 will be Selby's final year before Local Government Re-Organisation the strategy includes forecasts for the three years to 2024/25 to enable transition to the new unitary authority.

5. Background Documents

None

6. Appendices

Appendix A – Treasury Management Strategy 2022/23
Appendix B – Minimum Revenue Provision Policy 2022/23
Appendix C – Capital Prudential Indicators 2022/23
Appendix D – Borrowing Strategy 2022/23
Appendix E – Annual Investment Strategy 2022/23
Appendix F – Capital Strategy 2022/23
Schedule 1 – Specified and Non-Specified Investments 2022/23
Schedule 2 – Approved Lending List 2022/23
Schedule 3 – Approved Countries for Investment

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