Blaby District Council

Cabinet Executive

Date of Meeting	26 February 2024
Title of Report	**Prudential Indicator & Treasury Management Strategy 2024/25**
	This is not a Key Decision and is on the Forward Plan
Lead Member	**Cllr. Maggie Wright - Finance, People & Performance (Deputy Leader)**
Report Author	Finance Group Manager
Corporate Priority	Medium Term Financial Strategy (MTFS)

1. What is this report about?

1.1 This report lays down the guidelines and rules that Officers are required to follow when making decisions to borrow or when investing Council funds. Such decisions are made daily under delegated authority. The report outlines the Council's prudential indicators for 2024/25 to 2028/29 and sets out the expected treasury management activities for that period. The report also sets out the financial institutions the Council may invest in, the maximum investment level and the periods over which the investments can be made.

1.2 The report also fulfils four key legislative requirements:

- The reporting of the prudential indicators which set out the expected capital activities - as required by The Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities.
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year.
- The Treasury Management Strategy which sets out how the Council's treasury service will support the decisions taken above, the day-to-day treasury management activity, and the limitations on borrowing and investing through treasury prudential indicators. This accords with the CIPFA Code of Practice on Treasury Management in the Public Services.
- The Annual Investment Strategy in accordance with investment guidance issued by the Department for Levelling Up, Housing and Communities (DLUHC).

2. Recommendation(s) to Cabinet Executive and Council

2.1 That the capital prudential indicators and limits for 2024/25 to 2028/29 are approved.

2.2 That the Treasury Management Strategy for 2024/25 and the treasury prudential indicators are approved.

2.3 That the Investment Strategy for 2024/25 is approved.

2.4 That the Minimum Revenue Provision (MRP) Statement for 2024/25 is approved.

2.5 That delegated authority is granted to the Executive Director (Section 151), in consultation with the portfolio holder for Finance, Performance, and People, to decide whether to redeem its holding in the Lothbury Property Trust, or to transfer its investment to the proposed merger outlined at paragraph 4.3.

3. Reason for Decisions Recommended

3.1 The Local Government Act 2003 and supporting regulations requires the Council to "have regard to" the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent, and sustainable.

3.2 The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This covers the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.

3.3 The Act also requires the Council to undertake an annual review of its policy for calculating the minimum revenue provision (MRP) for repayment of external debt.

3.4 The timing of the proposed merger of the Lothbury Property Trust with an alternative property fund is such that the Council will only have a short window of opportunity to make its decision regarding the future of its property fund investment.

4. Matters to consider

4.1 Background

DLUHC guidance requires that there is sufficient Member scrutiny of the Council's treasury management function. For Blaby, Cabinet Executive is the responsible body for scrutinising the Treasury Management Strategy. To facilitate the decision-making process and support capital investment decisions the Prudential Code requires local authorities to agree and monitor a minimum number of prudential indicators. These are mandatory and must, as a minimum, cover the forthcoming three financial years.

The prudential indicators in this report, and the appendices, are based on the financial plans contained within the revenue and capital reports elsewhere on this agenda.

The Treasury Management Strategy is attached at Appendix A including the prudential indicators that relate to the treasury management function. This strategy covers the operation of the treasury function and its activities for the forthcoming year and reflects the Council’s capital and commercial investment strategies. The strategy has been informed by advice received from the Council's treasury management consultants.

4.2 Proposal(s)

The main considerations set out in the Treasury Management Strategy (Appendix A) are as follows:

Capital Expenditure

The capital spending plans are based on available resources and the affordability of any associated borrowing, which has been built into the Medium-Term Financial Strategy.

	2022/23 Actual £000	2023/24 Revised £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
Capital Expenditure	**2,332**	**11,761**	**3,827**	**1,685**	**788**	**4,090**	**935**
Financed by: Capital Receipts	(136)	(1,675)	(574)	0	0	(500)	(220)
Capital Grants & Contributions	(1,018)	(3,660)	(1,493)	(660)	(660)	(660)	(660)
Capital Reserves	(225)	(107)	(94)	(55)	(55)	(55)	(55)
Revenue Contributions	(43)	(113)	0	0	0	0	.0
Net financing need for the year	**910**	**6,206**	**1,666**	**970**	**73**	**2,875**	**0**

Borrowing Requirement

As shown in the table above, the capital expenditure plans can be partly funded from capital receipts, grants, and contributions, and from reserves, leaving a residual amount to be funded through borrowing. This increases the Capital Financing Requirement (CFR) but the CFR is also reduced each year by a statutory revenue charge, the Minimum Revenue Provision (MRP). The Council is also able to top-up this repayment by applying a Voluntary Revenue Provision (VRP).

Capital Financing Requirement

The projected CFR over the life of the Medium-Term Financial Strategy is set out in the table below.

	2022/23 Actual £000	2023/24 Revised £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
Total CFR	14,486	19,907	20,524	20,265	19,200	20,876	19,525
Movement in CFR	521	5,421	617	(259)	(1,065)	1,676	(1,351)

MRP Policy

The MRP is an annual revenue charge based on the outstanding Capital Financing Requirement (CFR) brought forward from the preceding financial year. The CFR represents the Council’s underlying need to borrow and is basically that part of capital expenditure which has not yet been financed. It is effectively capital expenditure financed through borrowing, whether that is external borrowing or internal borrowing (i.e., from the Council’s own reserves and balances). Each year the Council is required to repay a proportion of that outstanding “borrowing cost” by way of the MRP, and it must approve its policy for charging MRP annually in advance of the forthcoming financial year. For 2024/25 the recommended policy is set out in paragraph 2.3 of Appendix A.

Borrowing

The Council’s anticipated net borrowing requirement (net of investments) is shown below with a comparison against the CFR. The Council needs to ensure that its total borrowing net of any investments, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2024/25 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council’s gross borrowing remains significantly below its CFR due to the ongoing use of internal borrowing. Whilst internal reserves and balances remain at current levels, internal borrowing is a prudent method of financing capital expenditure since it is cheaper than external borrowing.

	2022/23 Actual £000	2023/24 Revised £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
Gross Borrowing	6,385	9,468	10,862	11,754	11,754	14,754	14,753
Investments	(26,301)	(20,000)	(15,000)	(15,000)	(15,000)	(10,000)	(8,000)
Net Borrowing	(19,916)	(10,532)	(4,138)	(3,246)	(3,246)	4,754	6,753
CFR	14,486	19,907	20,524	20265	19,200	20,876	19,525

The Council's borrowing limits are as follows:

	2023/24 Revised £000	2024/25 Estimate £000	2025/26 Estimate £000	2026/27 Estimate £000	2027/28 Estimate £000	2028/29 Estimate £000
Operational Boundary for External Debt	20,700	20,700	23,400	23,400	21,600	21,600
Authorised Limit for External Debt	23,000	23,000	26,000	26,000	24,000	24,000

Liability Benchmark

The Council is required to estimate and measure the Liability Benchmark for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the Liability Benchmark:

1. **Existing loan debt outstanding:** the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR:** this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement:** this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark (or gross loans requirement):** this equals net loans requirement plus short-term liquidity allowance.

Further details are included in paragraph 2.3 to Appendix A.

4.3 Property Fund

Members will be aware of the longstanding issues with regards to the Lothbury Property Trust, whereby the fund value has seen a significant fall on the back of an unprecedented number of investors seeking to withdraw from the fund.

Lothbury have given notice to terminate the fund and sell off the remaining fund assets on 31st March 2024, if a viable merger opportunity is not found by that time. The fund managers are currently in negotiations with another well-established property fund, with the aim of transferring holdings to that fund for those investors that wish to continue their investment. Negotiations are at an advanced stage, with heads of terms and due diligence considerations in progress. Both parties are optimistic that the merger could be able to go ahead by the week commencing 18th March 2024.

In normal circumstances the decision as to whether to accept the merger or to withdraw from the fund, would be brought to Council for approval.

However, in this instance, given that the timing of any such decision may not fit with the expected merger deadline, approval is also sought to give delegated authority to the Executive Director (Section 151), in consultation with the portfolio holder for Finance, Performance, and People, to decide whether to redeem its holding in the Lothbury Property Trust, or to transfer its investment to a new property fund, dependent upon the suitability of the proposed merger.

4.4 Capital Strategy

The Prudential Code also makes it a requirement to produce a Capital Strategy which links to the Treasury Management Strategy. The Capital Strategy is an overarching document that sets the policy framework for the development, management, and monitoring of capital investment. It should focus on the core principles that underpin the Council's capital plans; short, medium, and long-term objectives; key issues and risks affecting the delivery of the capital programme; and the governance framework.

The strategy aims to drive the Council's capital plans by ensuring that capital expenditure and financing, and treasury management are appropriately aligned to support the sustainable, long-term delivery of our services. The strategy is reported as part of the 5 Year Capital Programme report elsewhere on this agenda.

5. What will it cost and are there opportunities for savings?

5.1 There are no direct costs arising from this report. Instead, it provides a basis on which to undertake the treasury management activities necessary to support the Council's capital expenditure plans.

6. What are the risks and how can they be reduced?

6.1

Current Risk	Actions to reduce the risks
That external borrowing might not be undertaken at the most advantageous rate	Treasury officers maintain regular contact with the Council's advisors, Link Treasury Services, who monitor movements in interest rates on our behalf. The aim is always to drawdown loans when interest rates are at their lowest point.
Credit risk – the risk that other parties might fail to pay amounts due, e.g., deposits with banks etc.	The Annual Investment Strategy sets the criteria through which the Council decides with whom it may invest. The lending list is updated regularly to reflect changes in credit ratings.
Liquidity risk – the Council might not have sufficient funds to meet its commitments	Daily monitoring of cash flow balances. Access to the money markets to cover any short-term cash shortfall.

Refinancing and maturity risk – the risk that the Council might need to renew a loan or investment at disadvantageous interest rates	Monitoring of the maturity profile of debt to make sure that loans do not all mature in the same period. Monitoring the maturity profile of investments to ensure there is sufficient liquidity to meet day to day cash flow needs.
Market risk – losses may arise as a result of changes in interest rates etc	Maximum limits are set for exposure to fixed and variable interest rates. The Finance team will monitor market rates and forecast interest rates to limit exposure
Loss on the Property Fund investment if property values continue to fall.	See paragraph 4.3 – withdrawal from fund or merger with another existing property fund.

7. Other options considered

7.1 None. The approval of the Treasury Management Strategy and prudential indicators is a statutory requirement.

8. Environmental impact

8.1 The Council is actively seeking opportunities to invest its surplus balances in a way which supports the Green Strategy, with the caveat that such investments meet the primary considerations of security, liquidity, and return.

9. Other significant issues

9.1 In preparing this report, the author has considered issues related to Human Rights, Legal Matters, Human Resources, Equalities, Public Health Inequalities, and Climate Local and there are no areas of concern.

10. Appendix

10.1 Appendix A – Capital prudential indicators and treasury management strategy 2023/24 to 2027/28.

10.2 Appendix B – Interest rate forecasts 2022 – 2025

10.3 Appendix C – Economic background

10.4 Appendix D – Credit and counterparty risk management

10.5 Appendix E – Approved counterparty list

10.6 Appendix F – Approved countries for investment

10.7 Appendix G – Treasury management scheme of delegation

10.8 Appendix H – The treasury management role of the S151 Officer

11. Background paper(s)

11.1 The CIPFA Prudential Code
CIPFA's Code of Treasury Management in the Public Services
The Treasury Management Policy, Practices and Schedules

12. Report author's contact details

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