

# Draft Treasury Management Strategy Statement 2023/24

Including the Minimum Revenue Provision Policy Statement and Annual  
Investment Strategy

(Subject to amendment during the budget setting process)

# Introduction

- The Council is required to operate a balanced budget
- The treasury management operation ensures that cash flows are adequately planned, with cash being available when it is needed.
- Surplus money is invested in low risk counterparties approved by the Council
- Planning for the funding of Capital Expenditure and borrowing if required
- *“The management of the local authority’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.”*

# Reporting Requirements

- The CIPFA 2021 Prudential and Treasury Management Codes require the following reports to be produced:
  - Capital Strategy (part of budget setting report)
  - Prudential and treasury indicators and treasury strategy (this report)
    - Includes capital plans, MRP policy, treasury management strategy and annual investment strategy
  - Mid year report and Quarterly update reports
  - Annual treasury report after the financial year end
- Council has delegated scrutiny of all treasury reports to the Audit and Governance Committee

# Treasury Management Strategy for 2023/24

- The strategy for 2023/24 covers two main areas:
  - Capital issues
    - the capital expenditure plans and the associated prudential indicators;
    - the minimum revenue provision (MRP) policy
  - Treasury management issues
    - the current treasury position
    - treasury indicators which limit the treasury risk and activities of the Council
    - prospects for interest rates
    - the borrowing strategy
    - policy on borrowing in advance of need
    - debt rescheduling
    - the investment strategy
    - creditworthiness policy; and
    - the policy on use of external service providers

# Training

- The CIPFA Treasury Management Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management.
- Training for members will be arranged as required and the training needs of treasury management officers are periodically reviewed.
- Training requirements will be reviewed following the May elections
- PSPSL uses Link Group as its external treasury management advisors for the Council. Regular training sessions and seminars are available to Officers throughout the year

# CAPITAL PRUDENTIAL INDICATORS 2022/23 TO 2027/28

- Capital Expenditure and Financing

- This prudential indicator is a summary of the Council's capital expenditure plans previously agreed and those forming part of this budget cycle. Members approve capital expenditure forecasts as part of the annual Budget report.
- The table below summarises the capital expenditure plans which are fully financed.

Capital Expenditure £'000's	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Non Towns Fund Projects	19,765	2,407	2,112	2,112	2,112	2,112
Towns Fund Projects	52,368	13,440	2,000	204	-	-
<b>Total</b>	<b>72,133</b>	<b>15,847</b>	<b>4,112</b>	<b>2,316</b>	<b>2,112</b>	<b>2,112</b>
Financing	(72,133)	(15,397)	(3,662)	(1,866)	(1,662)	(1,662)
<b>Net financing need for the year</b>	<b>-</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>

- The borrowing requirement can be achieved by external borrowing or internal borrowing (using the Council's cash balances)

- The Councils borrowing need (the Capital Financing Requirement)
  - The second prudential indicator is the Council’s Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources.
  - As part of the formal governance process, the Council approves the CFR projections as follows:

£000’s	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
CFR – General Fund	-	450	855	1,215	1,530	1,800
CFR - Non-treasury investments	25,499	23,999	23,999	23,999	23,999	23,999
<b>Total CFR</b>	<b>25,499</b>	<b>24,449</b>	<b>24,854</b>	<b>25,214</b>	<b>25,529</b>	<b>25,799</b>
<b>Movement in CFR</b>	<b>-</b>	<b>(1,050)</b>	<b>405</b>	<b>360</b>	<b>315</b>	<b>270</b>
Net financing need for the year above)	-	450	450	450	450	450
Less MRP/VRP and other financing movements	-	(1,500)	(45)	(90)	(135)	(180)
<b>Movement in CFR</b>	<b>-</b>	<b>(1,050)</b>	<b>405</b>	<b>360</b>	<b>315</b>	<b>270</b>

# Minimum revenue provision (MRP) policy statement

- No change from previous year
- MRP policy must be approved annually by Council.
- The Council is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.
- Asset life method (straight line) – MRP will be based on the estimated life of the assets.
- Assets held for investment purposes – Council will determine the amount of MRP/VRP based on the combined value of its holdings at the end of each financial year.
- Loans issued to Invest East Lindsey Ltd - The Council will earmark the proceeds from the repayment of the loans to reduce the CFR where required and therefore will apply a nominal MRP charge of £1 on such loans.



# Borrowing (1)

- Current treasury portfolio position

TREASURY PORTFOLIO				
	Actual	Actual	Current	Current
	31/03/22	31/03/22	31/12/22	31/12/22
<b>Treasury Investments</b>	<b>£0</b>	<b>%</b>	<b>£000</b>	<b>%</b>
Banks	35,047	46%	25,999	27%
Building Societies - Rated	0	0%	0	0%
Local Authorities	0	0%	0	0%
DMADF (H.M.Treasury)	6,000	8%	7,300	8%
Money Market Funds	7,500	10%	7,500	8%
Certificates of Deposit	0	0%	30,000	32%
<b>Total Managed In House</b>	<b>48,547</b>	<b>64%</b>	<b>70,799</b>	<b>74%</b>
Bond Funds	0	0%	0	0%
Property Funds	27,452	36%	24,335	26%
<b>Total Managed Externally</b>	<b>27,452</b>	<b>36%</b>	<b>24,335</b>	<b>26%</b>
<b>Total Treasury Investments</b>	<b>75,999</b>	<b>100%</b>	<b>95,134</b>	<b>100%</b>
<b>Treasury External Borrowing</b>				
Local Authorities	0	0%	0	0%
PWLB	20,000	100%	20,000	100%
LOBOs	0	0%	0	0%
<b>Total External Borrowing</b>	<b>20,000</b>	<b>100%</b>	<b>20,000</b>	<b>100%</b>
<b>Net Treasury Investments / (Borrowing)</b>	<b>55,999</b>	<b>0</b>	<b>75,134</b>	<b>0</b>

# Borrowing (2)

- The Council's forward projections for borrowing are summarised below.

£'000's	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate
Debt at 1 April	20,000	20,000	20,000	20,000	20,000	20,000
Expected change in Debt	0	0	0	0	0	0
<b>Actual gross debt at 31 March</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>	<b>20,000</b>
<b>The Capital Financing Requirement</b>	<b>25,499</b>	<b>24,449</b>	<b>24,854</b>	<b>25,214</b>	<b>25,529</b>	<b>25,799</b>
<b>(Under) /over borrowing</b>	<b>(5,499)</b>	<b>(4,449)</b>	<b>(4,854)</b>	<b>(5,214)</b>	<b>(5,529)</b>	<b>(5,799)</b>



# Borrowing (4)

- Prospects for interest rates
  - Link Group help the Council formulate a view on interest rates. Their forecasts are as follows:

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

- Borrowing strategy – The council is currently maintaining an under-borrowed position. This means that the capital borrowing need (CFR), has not been fully funded with loan debt as cash supporting the Council’s reserves, balances and cash flow has been used as a temporary measure.

# Annual Investment Strategy

- No changes from previous year
- Priorities – Security, Liquidity and Yield in that order
- This Council has adopted a prudent approach to managing risk and defines its risk appetite by the following means:
  - Minimum acceptable credit criteria
  - Credit default swap prices
  - Other information sources – financial press, share price etc
  - Types of investment instruments that can be used (specified and non specified investments)
  - Lending limits - £5m per financial institution or group
  - Limits of investments >365 days
  - All investments denominated in sterling

- Sovereign Limits - £10m maximum per Sovereign (no limit for UK)

**AAA**

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

**AA+**

- Canada
- Finland
- U.S.A.

**AA**

- Abu Dhabi (UAE)
- France

**AA-**

- Belgium
- Hong Kong
- Qatar
- U.K.

- The S151 Officer will use discretion when considering where to place investments. Currently banks from Finland, Qatar and Abu Dhabi (UAE) are not being used.
- By assessing these factors when making investments it reduces the likelihood of the Council requiring funds back early. Where time deposits are entered into, funds can be returned back early but this is likely to come at a cost to the Council subject to the prevailing interest rate at the time.

- Interest return expectations

- The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows:

• 2022/23 (remainder)	4.00%
• 2023/24	4.40%
• 2024/25	3.30%
• 2025/26	2.60%
• 2026/27	2.50%
• Years 6+	2.80%

- For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, (overnight to 100 days), to benefit from the compounding of interest

# Prudential Indicators

- Capital expenditure

<b>Capital expenditure £m</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>
Total	72,133	15,847	4,112	2,316	2,112	2,112

- Ratio of financing costs to net revenue stream

<b>%</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>	<b>2027/28 Estimate</b>
Total	(5.46%)	(1.87%)	(5.28%)	(3.25%)	(2.71%)	(3.27%)



# TMP1 - Credit and Counterparty Risk Management

- Appendix 5.3 provides details of the financial instruments that are authorised for use by the Council split between specified and non specified investments
  - Specified investments – up to a maximum of 1 year in duration and not complex.
  - Non- Specified investments – any investments that do not meet the above criteria

# Summary

- The strategy is currently draft and subject to change as we progress through the budget setting process
- Slides have provided details of the key areas of the report
- Councils priority in relation to investments remain as Security, Liquidity and Yield, in that order.
- Recommendation is “That the Audit and Governance Committee scrutinise the Treasury Management Policy (Appendix B1) and the Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy 2023/24 (Appendix B2) and make any comments and suggestions for consideration by Executive Board on 15 February 2023 and Council on 1 March 2023 when they consider these documents as part of the budget report.”