

**REPORT OF: DIRECTOR OF RESOURCES**

**TO: ACCOUNTS AND AUDIT COMMITTEE**

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## **TREASURY MANAGEMENT STRATEGY STATEMENT 2023/24**

### **PURPOSE OF REPORT**

The purpose of the report is to present the Annual Treasury Management Strategy Statement for 2023/24. The report will be presented to Council for Approval on 23<sup>rd</sup> March 2023.

### **RECOMMENDATION**

The Accounts and Audit committee is asked to note the Annual Treasury Management Strategy Statement (TMSS) incorporating the Minimum Revenue Provision (MRP) Policy Statement, the Annual Investment Strategy (AIS) and Prudential Indicators for 2023/24 at **Appendix A**.

### **REASONS FOR RECOMMENDATION**

To comply with the CIPFA Treasury Management Code of Practice, the Council's Treasury Management Policy and good practice generally.

### **ISSUE**

1. CIPFA's 2021 Treasury Management Code has adopted the following as its definition of treasury management activities:

*The management of the organisation'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*

2. Attached at **Appendix A** is the Council's Annual Treasury Strategy Statement for 2023/24. The Strategy document sets out how the investment and borrowing operations of the Council are to be managed within the framework established by the Treasury Management Policy

Statement. The Treasury Strategy Statement should be read in conjunction with the Council's Capital Programme which was approved by the Council on 22nd February 2023.

3. The Treasury Strategy Statement also reflects the requirements of the Local Government Act 2003 which places a duty on Local Authorities to:-
  - a) determine affordable borrowing limits which are calculated in accordance with the Prudential Code for Capital Finance in Local Authorities. Section 2 and 3 of the Strategy provides more detail of the Prudential Code and the relevant limits proposed for the Council, for 2023/24 and over the medium term period to 2024/25.
  - b) comply with Section 15 of the Act which requires local authorities to have regard to such guidance as may be issued by the Secretary of State for Housing, Communities and Local Government.

#### Annual Minimum Revenue Provision Policy Statement

4. The Strategy document includes, in section 2.5 of **Appendix A**, a statement on the Minimum Revenue Provision which is a requirement arising out of the Local Authorities (Capital Finance and Accounting) (England) Regulations.
5. The Minimum Revenue Provision (MRP) is the annual charge to the Council's revenue accounts for the repayment of debt. Prior to the new regulations, the annual MRP was the result of complex calculation based on notional amounts of debt. The regulations simplified and introduced a degree of flexibility to the calculations and also attempted, in the case of unsupported borrowing, to link the MRP charge to the estimated life of the borrowing for specific assets.
6. Since 2008, the calculation of the annual MRP charge has consisted of 2 elements as follows:-
  - Pre-2008 legacy debt – calculated at 2.5% on a straight line basis so that this debt is repaid over a period of 40 years;
  - Post-2008 debt – calculated on an annuity basis such that the debt is repaid over the life of the capital expenditure financed by borrowing.
7. For 2023/24, there are no changes to the MRP Policy Statement. However, the Policy will remain under review as guidance on the calculation of MRP emerges with the aim that the Council's MRP remains prudent and compliant with legislation but affordable to the Council in the context of the ongoing financial challenges.

#### Statement of Prudential Limits

8. The CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) underpins the system of capital finance. Local authorities determine their own programmes for capital investment in non-current assets that are central to the delivery of quality local public services. The 2021 Prudential Code has been developed as a professional code of practice to support them in taking these decisions. Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.
9. In setting or revising its prudential indicators, the local authority is required to have regard to the following matters:
  - service objectives, e.g. strategic planning for the authority
  - stewardship of assets, e.g. asset management planning

- value for money, e.g. option appraisal
- prudence and sustainability, e.g. risk, implications for external debt and whole life costing
- affordability, e.g. implications for council tax/district rates
- practicality, e.g. achievability of the forward plan.

10. Within the range of prudential indicators, 2023/24 is the first year that Council's must adopt the Liability Benchmark indicator, Section 2.3 Pages 8/9 of the report. The liability benchmark is the optimum position for external borrowing (i.e., all balance sheet resources should be used to maximise internal borrowing). The graph on page 9 shows that Pendle's external loans exceed the liability benchmark and highlights an over-borrowed position which results in excess cash in the organisation requiring investment thus exposing the authority to credit and reinvestment risks and a potential cost of carry. The Authority is looking to mitigate this risk over the medium term future by not replacing some £4.5m of loans which are due for repayment and also maximising the use of grant funded capital schemes.

## **IMPLICATIONS**

### **Policy**

11. The Annual Treasury Management Strategy has been produced in compliance with the requirements of the Councils' Treasury Management Policy which the Council has previously approved and formally adopted specific clauses as per recommendations in the CIPFA Code of Practice on Treasury Management.

### **Financial**

12. The financial implications associated with the Annual Treasury Strategy are incorporated in the Council's General Fund Revenue Budget for 2023/24 as approved by Council on 24<sup>th</sup> February 2022.
13. The financial implications for 2023/24 primarily reflect the external interest cost of £677k associated with the Council's outstanding long-term debt and the Minimum Revenue Provision (a mechanism to provide for the repayment of loan principal) of £549k. Investment income for the year has been budgeted at £300k.

### **Legal**

14. In accordance with the Local Government Act 2003, Councillors are required to approve the Annual Treasury Management Strategy incorporating the Annual Investment Strategy, the prudential indicators, and the authorised limit for external debt, which are provided in the Annual Treasury Strategy attached at **Appendix A**.

### **Risk Management**

15. There are no direct risk management implications arising from the contents of this report. Treasury activities are undertaken within the Council's Treasury Management Policy and risk is managed through the application of the requirements of Treasury Management Practice notes.
16. The Strategy includes details of some of the risks associated with the Council's treasury management operations and how these will be managed.

### **Health and Safety**

17. There are no health and safety implications arising directly from the contents of this report.

## **Sustainability Implications**

18. There are no sustainability implications arising directly from this report.

## **Community Safety:**

19. There are no community safety issues arising directly from the contents of this report.

## **Equality and Diversity:**

20. There are no equality and diversity implications arising from the contents of this report.

## **APPENDICES**

**Appendix A** – Treasury Management Strategy Statement including MRP Policy and Annual Investment Strategy 2023/24.

## **LIST OF BACKGROUND PAPERS**

None