

## **CABINET - THURSDAY, 8 FEBRUARY 2024**

### **Report of the Director Finance, Governance and Contracts**

**Lead Member: Executive Member for Finance, Customer & Support Services,  
Revenues and Benefits**

#### **Part A**

##### MEDIUM TERM FINANCIAL OUTLOOK 2024-2027

##### CAPITAL STRATEGY (INCORPORATING THE TREASURY MANAGEMENT STRATEGY STATEMENT) 2024/25

##### Purpose of Report

This report brings together two key financial strategies which are principal strands of the Council's budgetary and policy framework.

The report incorporates the latest iteration of the Medium Term Financial Outlook which uses the 2024/25 budget as a base for financial projections into 2025/26 and 2026/27, and provides an extended view of the Council's financial position.

The Capital Strategy, is required under the terms of the 'Prudential Code', a statutory code of practice. The report also sets out the Treasury Management Strategy Statement together with the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy. These latter strategies and the MRP policy are integral to the overarching Capital Finance Strategy and should be read as one holistic report.

This Cabinet report recommends to Council the approval of the above strategies.

##### Recommendations

1. That the Medium Term Financial Outlook 2024-2027, as set out at Appendix A be noted and recommended to Council for approval.
2. That the Capital Strategy as set out at Appendix B be approved and recommended to Council.
3. That the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy as shown at Appendix BB be approved and recommended to Council.
4. That the Prudential and Treasury Indicators, also set out in within Appendix BB of this report be approved and recommended to Council.

## Reasons

1. To inform members of the future financial outlook for the Council.
2. To enable the Council to comply with the statutory code of practice issued by CIPFA: 'The Prudential Code for Capital Finance in Local Authorities, 2021 Edition'.
3. To ensure that the Council's governance and management procedures for Treasury Management reflect best practice and comply with the CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement.
4. To ensure that funding of capital expenditure is taken within the totality of the Council's financial position and that borrowing and investment is only carried out with proper regard to the Prudential Code for Capital Finance in Local Authorities.

## Policy Justification and Previous Decisions

The latest version of the Medium Term Financial Outlook (covering financial years 2024 - 2027) outlines the prospective financial challenges facing the Council and the contribution expected of the Investment Strategy in mitigating these challenges.

The Medium Term Financial Outlook should also be approved by Council as part of the maintenance of the budgetary and policy framework, as part of good practice financial arrangements.

The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code requires local authorities to produce a Capital Strategy to demonstrate how capital expenditure, capital financing and treasury management activity contribute to the provision of desired outcomes and take account of stewardship, value for money, prudence, sustainability, and affordability. The Capital Strategy must be approved by Council on an annual basis.

The Treasury Management Strategy Statement, Prudential and Treasury Indicators and Annual Investment Strategy must be approved by Council each year and reviewed half yearly.

## Implementation Timetable including Future Decisions

If approved by Council the Medium Term Financial Outlook and the Capital Strategy (including its component strategies) will come into effect from 1 April 2024.

This report is available for the consideration of the Scrutiny Commission on 5 February 2024.

In line with governance requirements, the Capital Strategy and associated Treasury Management Strategy Statement, Prudential and Treasury Indicators and Annual Investment Strategy will also be presented to the Audit Committee on 30 January 2024 for review and comment prior to approval by Council.

Report Implications

**Financial Implications**

There are no direct financial implications arising from this report.

Financial issues arising from the implementation of the plans and strategies are covered within the report and appendices.

**Risk Management**

The risks identified with this report are tabulated below.

<i>Risk Identified</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Overall Risk</i>	<i>Risk Management Actions Planned</i>
<b>MTFO</b>				
Failure to take account of the spending plans of the Council.	Unlikely (2)	Minor (1)	Very Low (2)	Robust budget planning and Budget Monitoring process are in place.

<i>Risk Identified</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Overall Risk</i>	<i>Risk Management Actions Planned</i>
<b>Capital Strategy</b>				
Poor treasury investment decisions due to inadequate treasury management strategies in place	Unlikely (2)	Significant (2)	Low (4)	Strategy developed in accordance with CIPFA guidelines and best practice.  Adherence to clearly defined treasury management policies and practices
Loss of council funds through failure of borrowers	Remote (1)	Serious (3)	Low (3)	Credit ratings and other information sources used to minimise risk  Adherence to clearly defined treasury management policies and practices

<i>Risk Identified</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Overall Risk</i>	<i>Risk Management Actions Planned</i>
<p>Volatile market changes (such as interest rates or sector ratings) occur during year</p>	<p>Unlikely (2)</p>	<p>Significant (2)</p>	<p>Low (4)</p>	<p>Approved strategy in place, regular monitoring of position and use of Treasury Consultants and other sources to provide the latest advice.</p>
<p>Significant losses arising from investments in non-financial instruments (such as loans to third parties or property investments)</p>	<p>Unlikely (2)</p>	<p>Serious (3)</p>	<p>Moderate (6)</p>	<p>Professional advice will be sought in advance of non-standard or new investment activity outside knowledge base within the Council.  Adherence to strategy which set out limits to investment in individual asset classes.</p>

### ***Equality and Diversity***

None identified.

### **Climate Change and Carbon Impact**

None identified.

### ***Crime and Disorder***

None identified.

### **Wards Affected**

All wards.

### **Publicity Arrangements**

Not applicable.

### **Consultations**

Not applicable.

## Links to the Corporate Strategy

Caring for the Environment	No
Healthy Communities	No
A Thriving Economy	No
Your Council	Yes

Key Decision: Yes

*Date included on Forward Plan* 10 January 2024

Background Papers: Treasury Management mid-year update – Cabinet Report 16th November 2023

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## Part B

### Background – Medium Term Financial Outlook

1. The Medium Term Financial Outlook (MTFO) is set out at Appendix A
2. Previous iterations of this document were known as the Medium Term Financial Strategy (or MTFS); it has been renamed to better reflect the content of the report.
3. The MTFO reiterates the previously published strategic approach which is:

*‘To slow the use of reserves to enable a balanced budget to be achieved over the term of the council across a number of financial cycles, whilst protecting services and enabling investment in projects with significant future cost saving, income raising or service enhancement potential.’*
4. This edition of the MTFO also contains a review of the Section 151 Officer which considers the appropriate level of reserves the Council should maintain in respect of the key General Fund Working Balance and Housing Revenue Account (HRA) reserves. This concluded that the minimum reserve levels going forward should be:
  - General Fund Working Balance      £3m
  - HRA      £200 per house + £0.5m (~£1.6m)
5. The financial projections at the heart of the MTFO show:
  - 2024/25 (the budget) having a Nil use of the key General Fund Working Balance reserve
  - 2025/26 will see a £0.65m use of this reserve
  - 2026/27 will see a further £0.95m use of this reserve
6. The above projections, would see the General Fund Working Balance reduce to £3.9m by 31 March 2027, but remain above the minimum level of £3m assessed as appropriate by the s151 Officer.
7. This relatively benign position is enabled by support for the General Fund budget enabled by receipt of Business Rate Pool receipts, of which £1.9m is projected across the three-year MTFO period. **This funding will not continue indefinitely and it will be important for the Council to address the underlying structural financial deficit which the MTFO identifies.**
8. A key message within the MTFO is the high level of uncertainty that surround many of the financial projections and underlying assumptions. All figures presented should therefore be viewed with this in mind.

9. It is important to note that in respect of the 2025/26 and 2026/27 financial years the projections do not take account of management actions – which will clearly be necessary – to address the financial challenges identified within these projections. To this extent the financial projections for these years should be regarded as an estimate of the financial challenge facing the Council, not a financial prediction.
10. Further detail is set out within Appendix A.

### Background – Capital Strategy

11. The Capital Strategy is a requirement arising from the extant version of the 'Prudential Code'. This code is a statutory code of practice and was published by the Chartered Institute of Public Financial Accountants (CIPFA) taking effect from 1 April 2019. It was issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. Under that section local authorities are required to 'have regard' to 'such guidance as the Secretary of State may issue'.
12. The Council's treasury management activities also fall within the scope of the Prudential Code.
13. The Capital Strategy forms part of the Council's integrated revenue, capital and balance sheet planning. It sets out the long-term context in which capital expenditure and investment decisions are made, considers risks and rewards and the potential impacts on Council objectives
14. The Capital Strategy is an overarching strategy that encompasses the following aspects:
  - Capital expenditure and governance
  - Capital financing and the borrowing
  - Treasury management investments (essentially financial assets) set out within the Annual Investment Strategy
  - Commercial strategy – investment in non-financial assets (including commercial properties and prospective housing development)
  - Access to knowledge and skills (enabling the strategy to be delivered)
  - Treasury Management policy statement and practices (presented as a separate appendix)
15. The Treasury Management Strategy Statement, incorporating the Annual Investment Strategy, have been prepared in accordance with the revised code and accordingly include:
  - the treasury limits in force which will limit the treasury risk and activities of the council,
  - the Prudential and Treasury Indicators

- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- the use of external fund managers and treasury advisers
- Minimum Revenue Provision (MRP) Policy

16. The current Capital Plan includes as yet unused amounts for Regeneration (£5m) and development of the Enterprise Zone (a balance of £5.8m will remain at 1 April 2024); the Capital Strategy assumes that these unused amounts will be carried forward to allow availability in future years.

17. Other than a £2m loan taken out in 1984 (and due for repayment in 2024) the Council has not been required to externalise borrowing within the General Fund. External borrowing may be required if the balances for Regeneration and Enterprise Zone development are invested; however, the Council has significant scope for additional 'internal' borrowing and whether or not debt is 'externalised' will be determined on a case by case basis.

18. In broad terms there are no changes in strategic approach proposed within the 2024/25 Capital Strategy. This does not mean that the Council cannot react to changes in circumstances or opportunities arising, but any changes in approach, and any associated amendments to the Capital Plan will need approval from Council (or as otherwise required through governance processes).

19. The principal changes within the Capital Strategy are:

- A change in the way investment returns and investment are allocated between the General Fund and HRA: the proposal is that the HRA will receive 'risk free' returns on its share of the underlying balances but that the rate of return be adjusted accordingly
- The addition of Multi-Asset Funds as an approved financial investment

20. Multi-Asset Funds, as the name implies, invest in a mix of underlying assets and an appropriately selected fund would enable the Council to mitigate the current outlook for falling interest rates by allowing a 'lock-in' of higher returns over a longer period of time. In practice, advice will be taken from our treasury management consultants prior to any investment in such funds.



21. **There are no changes** proposed to the counter-party investment limits within the Treasury Management Strategy Statement (which are set out in TMSS, sub-appendix BB(3)).
22. Similarly, there are no changes proposed to the Minimum Revenue Provision Policy as set out at Appendix BB (2).

#### Appendices

- Appendix A: Medium Term Financial Outlook 2024 - 2027
- Appendix B: Capital Finance Strategy 2024/25
- Appendix BB: Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy for 2024/25

Sub appendices contained within this document:

- BB (1) Economic background
- BB (2) Minimum Revenue Provision Policy
- BB (3) Treasury Management Practice
- BB (4) Approved countries for investment
- BB (5) List of approved brokers for investment
- BB (6) Current investments (snapshot at 22 January 2024)
- BB (7) Treasury management scheme of delegation
- BB (8) Treasury management role of the Section 151 Officer