COUNCIL **28 FEBRUARY 2023**

SUBJECT:	**PRUDENTIAL INDICATORS 2022/23 TO 2025/26 AND TREASURY MANAGEMENT STRATEGY 2023/24**
DIRECTORATE:	**CHIEF EXECUTIVE AND TOWN CLERK**
REPORT AUTHOR:	**COLLEEN WARREN, FINANCIAL SERVICES MANAGER**

1. Purpose of Report

1.1 To seek approval of the:

- Treasury Management Strategy 2023/24;
- Prudential Indicators;
- Minimum Revenue Provision (MRP) Policy Amended from 2022/23
- Treasury Management Practices (TMP's).

2. Background

2.1 This report covers the operation of the Council's prudential indicators, its treasury function and its likely activities for the forthcoming year. It incorporates four key Council reporting requirements:

- Prudential and Treasury Indicators – the reporting of the statutory prudential indicators together with local indicators, in accordance with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities and the CIPFA Treasury Management Code of Practice.

- Minimum Revenue Provision (MRP) Statement – the reporting of the MRP policy which sets out how the Council will pay for capital assets through revenue each year (as required by regulation under the Local Government Act 2003).

- Treasury Management Strategy – which sets out how the Council's treasury activity will support capital decisions, the day-to-day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit, the maximum amount of debt the Council could afford in the short term, but which would not be sustainable in the longer term. This is the Authorised Borrowing Limit required by s3 of the Local Government Act 2003 and is in accordance with the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code.

- Investment Strategy – this is included within the Treasury Management Strategy and sets out the criteria for choosing investment counterparties and limiting exposure to the risk of loss. It is reported annually (in accordance with Department for Levelling Up, Housing and Communities (DLUHC) Investment Guidance).

2.2 This report has been considered by Audit Committee on 31st January 2023 and the minutes of the meeting are attached at Appendix B.

3. Key Prudential Indicators

3.1 The table below summarises the key prudential indicators that have been incorporated into the 2023/24 strategy. The projected capital expenditure will determine the capital financing or borrowing requirement, which will in turn determine the actual level of external borrowing taken and hence, cash balances available for investment.

Key Prudential Indicators	2022/23 Estimated £'000	2023/24 Estimated £'000	2024/25 Estimated £'000	2025/26 Estimated £'000
Capital Expenditure				
General Fund	17,860	14,114	10,463	6,236
HRA	20,499	16,462	15,681	11,083
Total	**38,359**	**30,576**	**26,144**	**17,319**
Capital Financing Requirement (CFR)				
General Fund	71,401	74,149	74,105	70,262
HRA	78,024	78,803	80,954	80,954
Total CFR	**149,425**	**152,952**	**155,059**	**151,216**
Movement in CFR	**6,567**	**3,527**	**2,107**	**(3,843)**
Gross Debt				
Borrowing	121,962	109,897	115,822	114,695
Operational Boundary for external debt				
Operational Boundary	133,162	121,097	127,022	125,895
Authorised Limit for external debt				
Authorised Limit	136,920	125,642	133,223	132,891
Actual external debt				
Borrowing	123,162	111,097	117,022	115,895
Upper limit for fixed interest rates	100%	100%	100%	100%
Upper limit for variable interest rates	40%	40%	40%	40%
Upper limit for investments >365 days	£7m	£7m	£7m	£7m
Current treasury investments as at 31/12/2022 in excess of 1 year maturing in each year	-	-	-	-

3.2 Liability Benchmark – Treasury Management Strategy Section 2.3

A new Treasury Indicator was introduced in the CIPFA Treasury Management Code revised December 2021 and has been adopted in the Treasury Management 2023/24 Strategy. This is a liability benchmark to support the financing risk management of the capital financing requirements. The Benchmark demonstrates that the Council has no additional borrowing need for 2023 to 2026.

4. Minimum Revenue Provision (MRP) for Debt Repayment

4.1 In accordance with the Local Government Act 2003, the Council is required to pay off an element of accumulated General Fund capital expenditure each year through a revenue charge known as Minimum Revenue Provision (MRP).

The Council is required to determine a level of MRP it considers to be prudent, whilst having regard to the current MRP Guidance issued in 2018 by MHCLG (now renamed DLUHC). The Guidance gives four ready-made options for determining MRP which it considers to be prudent but does not rule out alternative approaches.

The overriding requirement of the Guidance is to set a prudent provision which ensures that debt is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The Guidance requires that before the start of each financial year the Council prepares a statement of its policy on making MRP in respect of the forthcoming financial year and submits it to full Council for approval.

The government has recently consulted on changes to the 2003 MRP regulations with an intention to make explicit that (i) capital receipts may not be used in place of the revenue charge, and (ii) there should be no intentional exclusion of debt from the MRP determination because it relates to an investment asset or capital loan. The proposed changes are expected to be implemented in April 2024 but they are not expected to have a major impact for this Authority.

4.2 Proposed Changes to MRP Policy

A review of the Authority's MRP policy was recently undertaken by Link Group (Link), the Council's external treasury management advisors. The objective of the review was to identify opportunities to move to a more suitable and cost effective MRP strategy whilst ensuring that the provision remains prudent and compliant with statutory guidance. The review identified various options for both supported and unsupported borrowing which could be implemented; the Council has chosen within these options to adopt the policies which is deemed best suited to Lincoln.

The Council's current MRP policy for supported borrowing and historic debt prior to 2008 is calculated on a straight-line method over 50 years including a reduction for Adjustment A. An alternative option has been identified whereby MRP is calculated using an annuity method over 50 years. A change to an annuity method could be seen as being equally as prudent as the current method because time over which the debt liability will be repaid is not being extended. The remainder of the original 50-year write-down as at 31 March 2022 is 35 years and this will continue to be used therefore the write-down period is exactly the same time as under the existing method.

The current method for calculating MRP for unsupported borrowing is a straight-line method over the asset life. The Council could alternatively use an annuity method over the asset life, having the benefit of a reduction in MRP charges in the near term. This option is as prudent as the current option since the asset lives currently being used will not be changed. It can be argued that the annuity method provides a fairer charge than the straight-line method since it results in a consistent charge over the asset's life, considering the time value of money.

Link have carried out extensive research on current MRP policies in England and have observed that the annuity method of calculating MRP is used by over 60% of Authorities throughout the country.

It is recommended that Council considers implementing these options – the MRP savings for the first 5 years is shown below.

Supported Borrowing:

Year	Original charge £'000	Revised charge £'000	(Saving) / Cost £'000
2022/23	181	99	(82)
2023/24	181	103	(78)
2024/25	181	106	(75)
2025/26	181	109	(72)
2026/27	181	113	(68)
5 year TOTAL			**(374)**

Unsupported Borrowing:

Year	Original charge £'000	Revised charge £'000	(Saving) / Cost £'000
2022/23	1,506	667	(839)
2023/24	1,511	689	(822)
2024/25	1,519	712	(806)
2025/26	1,377	735	(642)
2026/27	1,424	759	(664)
5 year TOTAL			**(3,774)**

The tables above show savings arising from capital expenditure to 31 March 2022, there will be further savings on projected capital expenditure in the General Investment Programme from 1 April 2022 onwards.

4.3 Main advantages of the changes in policy:

- The debt liability will be written off as quickly overall as the existing method. This is in line with one of the main MRP guidance principles, whilst achieving an overall level of debt redemption over the same number of total years than would be provided under the existing straight-line method.
- The annuity method of charging MRP can be seen as a more prudent basis for providing for capital expenditure which provides a steady flow of benefits over their useful life. It can provide a fairer charge than the straight-line method as it provides a consistent charge over an asset's life when considering the time value of money.
- Associating all MRP charges with the approximate useful life of the underlying assets creates a fairer charge to the taxpayers who have had use of the asset.
- The changes bring consistency between how supported and unsupported debt is treated.

- The weighted average method of calculation for unsupported borrowing is a much simpler calculation than the current method, providing for more concise and user friendly working papers.

4.4 Main disadvantages of the changes in policy:

- The proposed changes will lead to a higher Capital Financing Requirement and borrowing requirement than under the Council's current MRP policy. The associated cost for the Council will depend on the Council's treasury position and interest rates prevailing at the time.

The statutory guidance allows the Council to review its policy every year and set a policy that it considers prudent at that time. The impact of a revised MRP policy will be kept under regular review in order to ensure that the annual provision is prudent.

5. Environmental, Social and Governance (ESG) Considerations

5.1 Changes to the CIPFA Treasury Management Code 2021 incorporates ESG considerations into Treasury Management Practice 1. The Council will invest, where possible, in sustainable investment opportunities.

6. Strategic Priorities

6.1 The budget process sets the resources in support of the Council's Vision 2025 and Strategic Priorities and determines the Service Plans for the year ahead. Effective scrutiny of the budget process should support the Audit Committee in reaching the right decisions with regard to finances.

7. Organisational Impacts

7.1 Finance

Financial implications are contained in the main body of the report.

7.2 Legal Implications including Procurement Rules

The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 (LGA 2003) and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code and the MHCLG Investment Guidance when carrying out their treasury management functions

7.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

Due to the nature of the report, no specific Equality Impact Analysis is required.

8. Risk Implications

8.1 The Local Government Act 2003, the Prudential Code and the Treasury Management Code of Practice include a key principle that an organisations appetite for risk is included in their annual Treasury Management Strategy and this should include any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing

9. Recommendation

Full Council are asked to:

9.1 Approve the Treasury Management Strategy 2023/24 including the Prudential Indicators;

9.2 Approve the revised Minimum Revenue Provision Policy amended from 2022/23.

9.3 Approve the Treasury Management Practices.

Is this a key decision?	No
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	Two (Appendix A and B)
List of Background Papers:	Medium Term Financial Strategy 2023-28 CIPFA Code of Practice CIPFA Prudential Code Treasury Management Strategy Treasury Management Practices
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