The Treasury Management Strategy Statement (TMSS) 2023/24

Report of the Cabinet Member for Finance and Commissioning

Date:	2 February 2023
Agenda Item:	4
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Key Decision?	**YES**
Local Ward Members	Full Council

Lichfield district council

AUDIT AND MEMBER STANDARDS COMMITTEE

1. Executive Summary

Introduction

1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services: Code of Practice 2018 Edition (the CIPFA) Code which requires the Authority to approve a treasury management strategy before the start of each financial year.

1.2 CIPFA released the latest version of the Prudential and Treasury Management Codes in December 2021 and the accompanying guidance notes were published in January 2022.

1.3 This report fulfils the Authority's legal obligation, under the Local Government Act 2003, to have regard to both the CIPFA Code and the Department of Levelling Up, Housing and Communities (DLUHC) Guidance.

1.4 The figures provided in this report may differ to those contained in the version to Overview and Scrutiny Committee on 19 January 2023 due to the use of more up to date information.

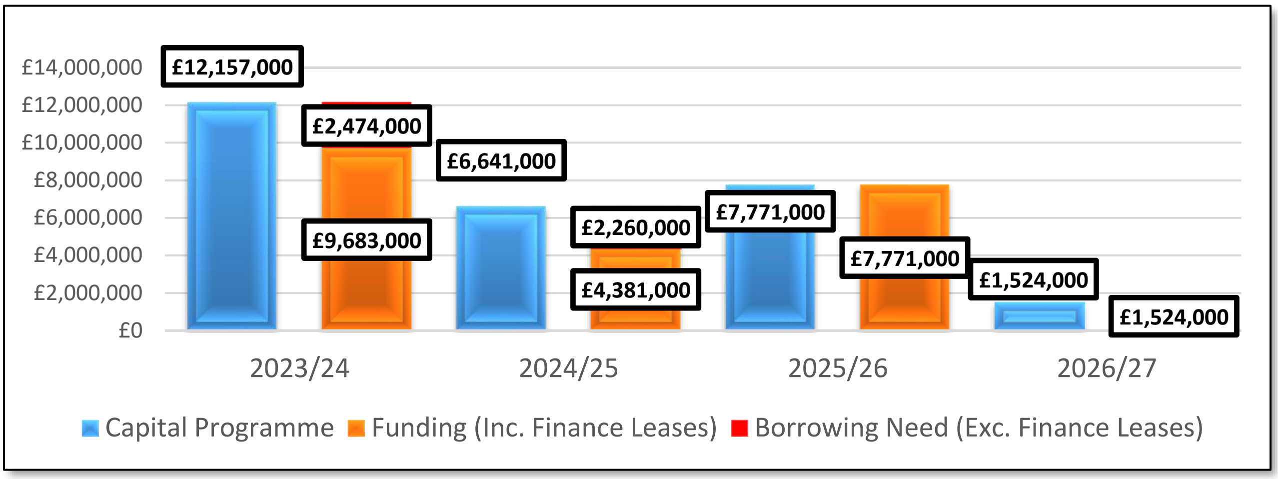
1.5 The timetable for consideration of the MTFS development including the Treasury Management Strategy Statement is summarised below:

Date		Meeting	Topics
Budget Consultation (June to December)	05/07/2022	Cabinet	Budget timetable, Budget principles, MTFS update, Budget consultation and Budget assumptions for 2023/24
	15/09/2022	Overview and Scrutiny Committee	To review the Draft Medium Term Financial Strategy
	04/10/2022	Cabinet	An update on the Draft Medium Term Financial Strategy
	17/11/2022	Overview and Scrutiny Committee	To review the Draft Medium Term Financial Strategy
	06/12/2022	Cabinet	Set the Council Taxbase for 2023/24
	NEW 15/12/2022	Overview and Scrutiny Committee	Special Meeting to consider Budget Proposals
	19/01/2023	Overview and Scrutiny Committee	To review the Draft Medium Term Financial Strategy
	02/02/2023	Audit and Member Standards Committee	To review the Treasury Management Strategy Statement
	14/02/2023	Cabinet	To recommend the Medium Term Financial Strategy and Council Tax increase to Council
	28/02/2023	Council	Approve the Medium Term Financial Strategy, updated Local Council Tax Support Scheme and set the Council Tax

The Capital Strategy and Capital Programme

1.6 The Capital Strategy and Capital Programme form part of the Medium Term Financial Strategy (MTFS) and show the approach and budgets for longer term investment for our **Strategic Plan**.

1.7 The Capital Strategy required by the Prudential Code is outlined at **APPENDIX A** and the Capital Programme is outlined in **APPENDIX B** and below:



Treasury Management

1.8 The Treasury Management Strategy Statement incorporates the Annual Investment Strategy and it covers the Financing and Investment Strategy for the forthcoming financial year.

1.9 The purpose of this paper is, therefore, to review:

- The Capital Strategy and Capital Programme, outlined in **APPENDICES A & B.**
- Minimum Revenue Provision Statement for 2023/24 **(APPENDIX C).**
- Treasury Management Strategy Statement for 2023/24 **(APPENDIX D).**
- Treasury Investments and their Limits where no changes are recommended for 2023/24 **(APPENDIX D)**.
- The Investment Strategy Report for 2023/24 **(APPENDIX E)** as required under Statutory Guidance in January 2018.
- The Capital and Treasury Prudential Indicators 2022-27 in the financial implications section.

1.10 All treasury activity will comply with relevant statute, guidance and accounting standards.

1.11 A replacement leisure centre of **£5,000,000** funded by external borrowing has been included in the Approved MTFS. The estimated cost of borrowing of **£447,000** impacting from 2025/26 onwards (a year later than estimated) for a budgeted period of 25 years has also been included in the Approved Revenue Budget.

1.12 **The budget and approach to funding the leisure centre will be considered in a report to Cabinet on 14 February 2023. The use of internal borrowing will be recommended as part of the funding strategy because it is currently lower cost, it can be repaid without penalty, and it reduces credit and counterparty risk because investments are reduced.**

2. Recommendations

That Members consider the Treasury Management Strategy Statement and highlight any changes or recommendations to Cabinet in relation to:

2.1 The Capital Strategy and Capital Programme, outlined in **APPENDICES A** & **B**.

2.2 The Minimum Revenue Provision Statement for 2023/24, at **APPENDIX C**, which sets out the Council's policy of using the asset life method for making prudent provision for debt redemption.

2.3 Treasury Management Strategy Statement for 2023/24 **APPENDIX D**.

2.4 The Investment Strategy Report **(APPENDIX E)** where no changes are recommended for 2023/24.

2.5 The Capital and Treasury Prudential Indicators for 2022-27 in the financial implications section.

2.6 The Authorised Limit Prudential Indicator shown within the financial implications section.

3. Background

The Capital Strategy

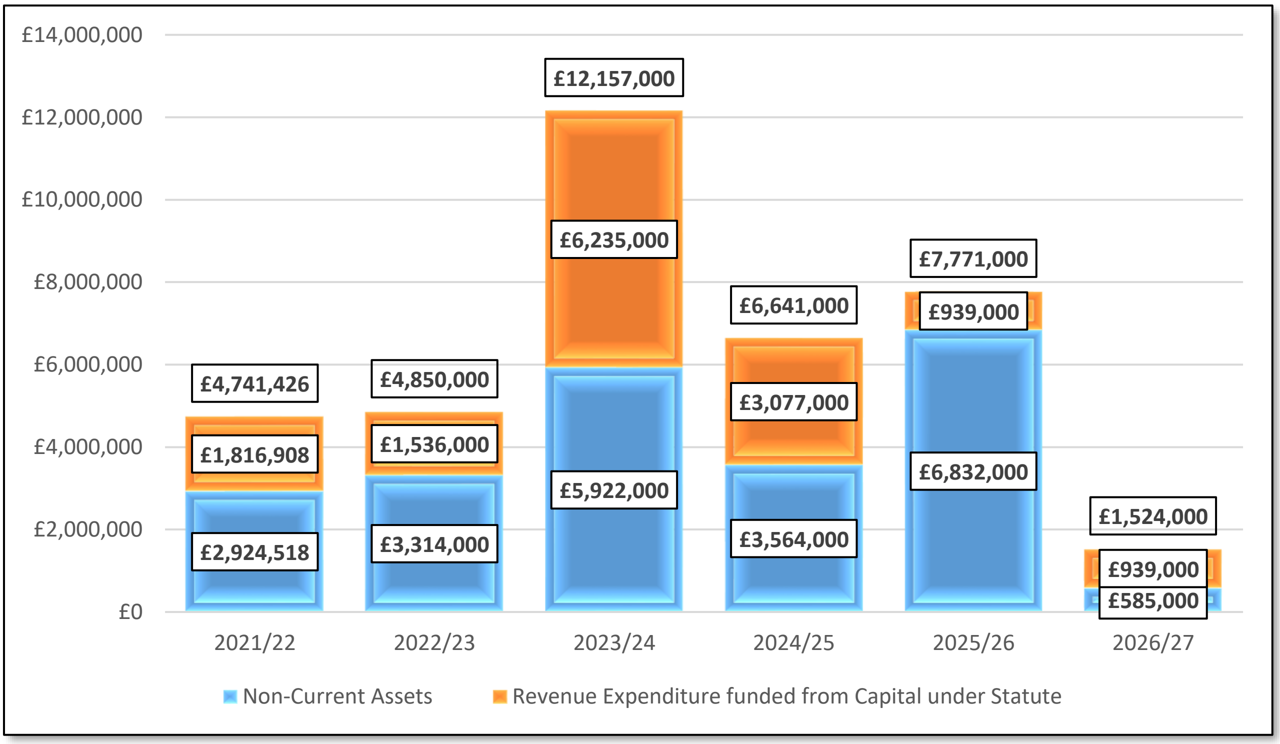
3.1 The Capital Strategy at **APPENDIX A** sets out the Council's framework for managing the Capital Programme including:

- **Capital expenditure**, including the approval process, long-term financing strategy, asset management, maintenance requirements, planned disposals and funding restrictions.
- **Debt and borrowing and treasury management**, including projections for the level of borrowing, capital financing requirement (Borrowing Need) and liability benchmark, provision for the repayment of debt, the authorised limit and operational boundary for the coming year and the authority's approach to treasury management.
- **Commercial activities**, including due diligence processes, the authority's risk appetite, proportionality in respect of overall resources, requirements for independent and expert advice and scrutiny arrangements.
- **Other long-term liabilities**, such as financial guarantees.
- **Knowledge and skills**, including a summary of that available to the authority and its link to the authority's risk appetite.

3.2 The Council's Chief Financial Officer has assessed the current risk for the Capital Strategy as **Tolerable (green)**.

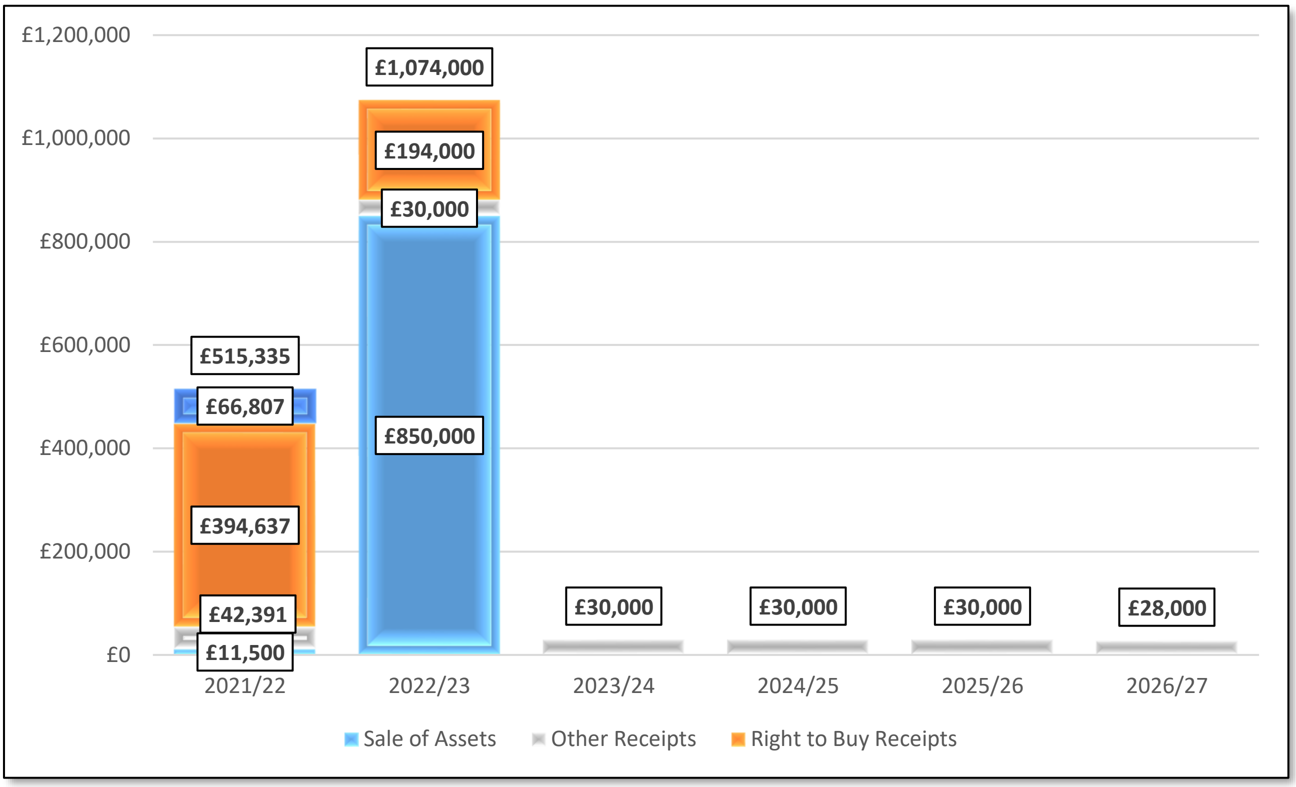
The Capital Programme

3.3 The Capital Programme (Revenue Expenditure Funded from Capital Under Statute relates to projects such as Disabled Facilities Grants) is shown in detail at **APPENDIX B** and below:



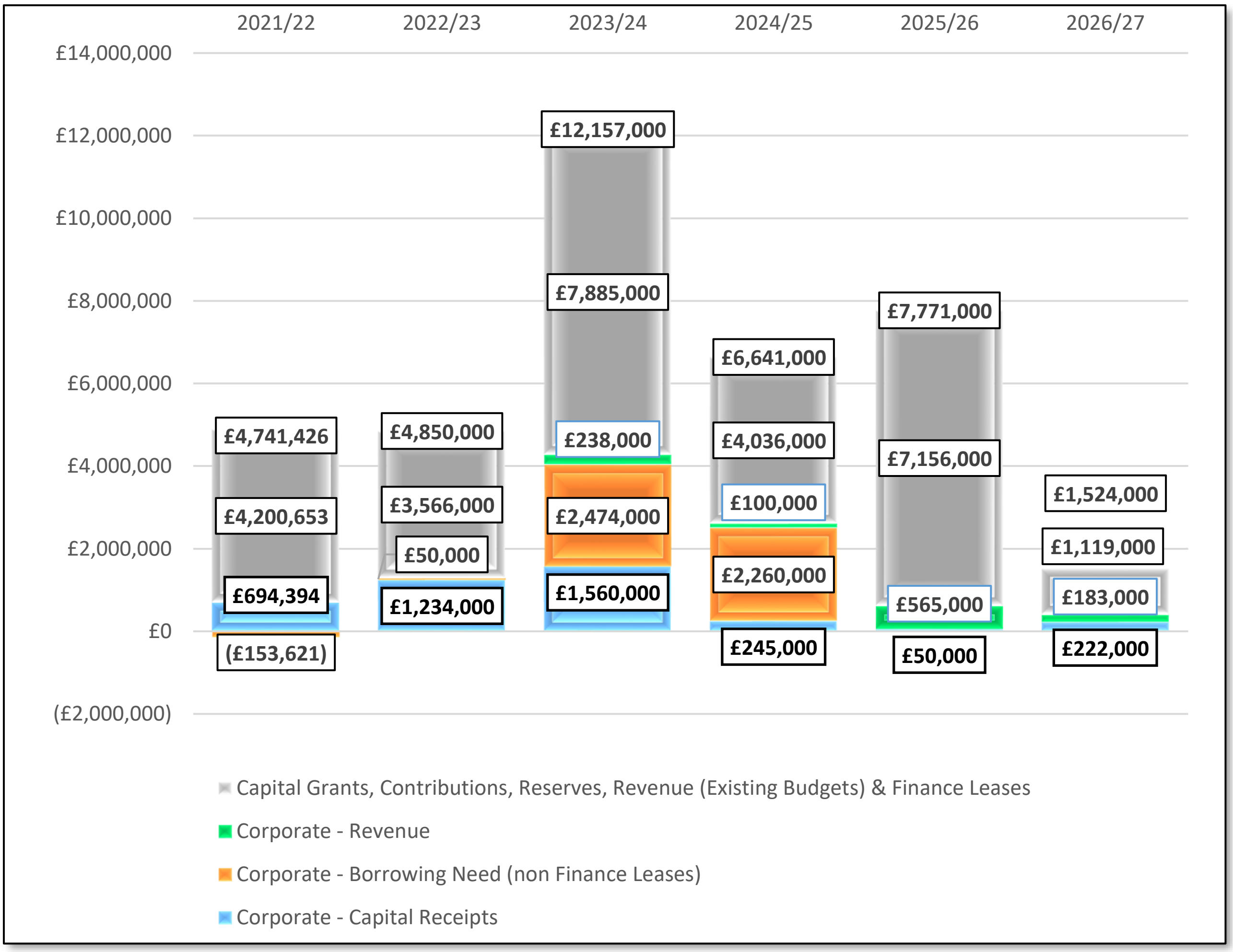
Capital Receipts

3.4 The projected Capital Receipts included in the Medium Term Financial Strategy are shown below:



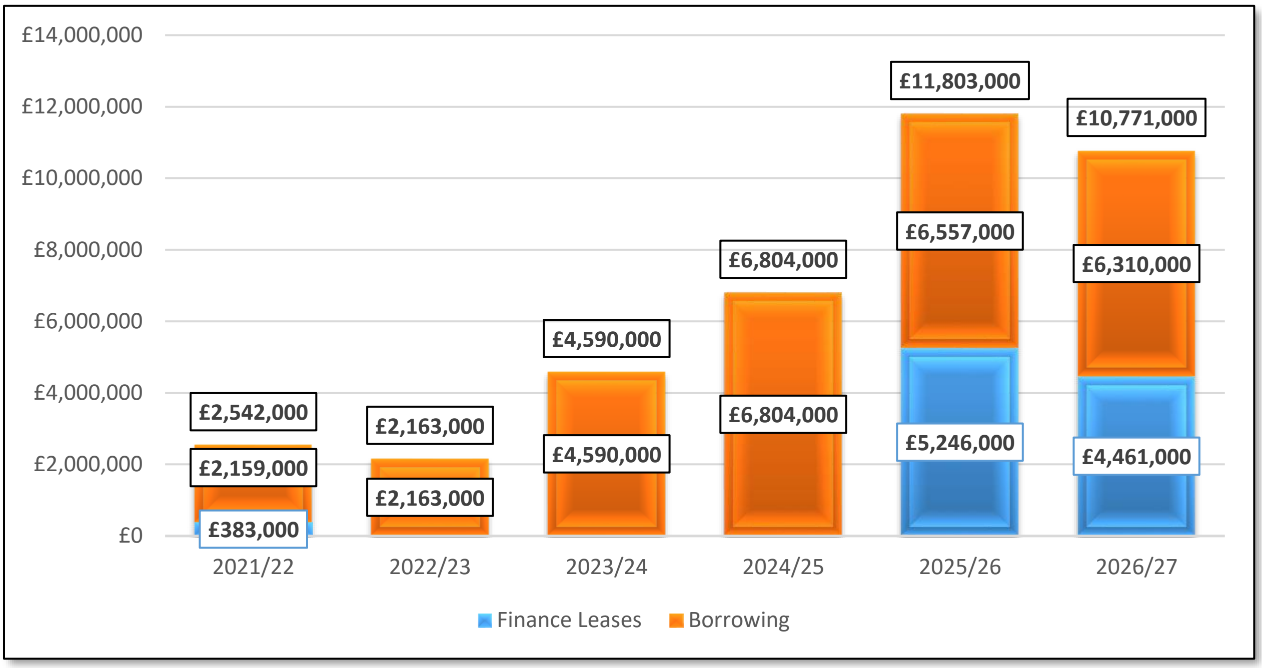
The Funding of the Capital Programme

3.5 The funding of the Capital Programme, including the element funded by the corporate sources of capital receipts, borrowing and revenue, is shown at **APPENDIX B** and below:

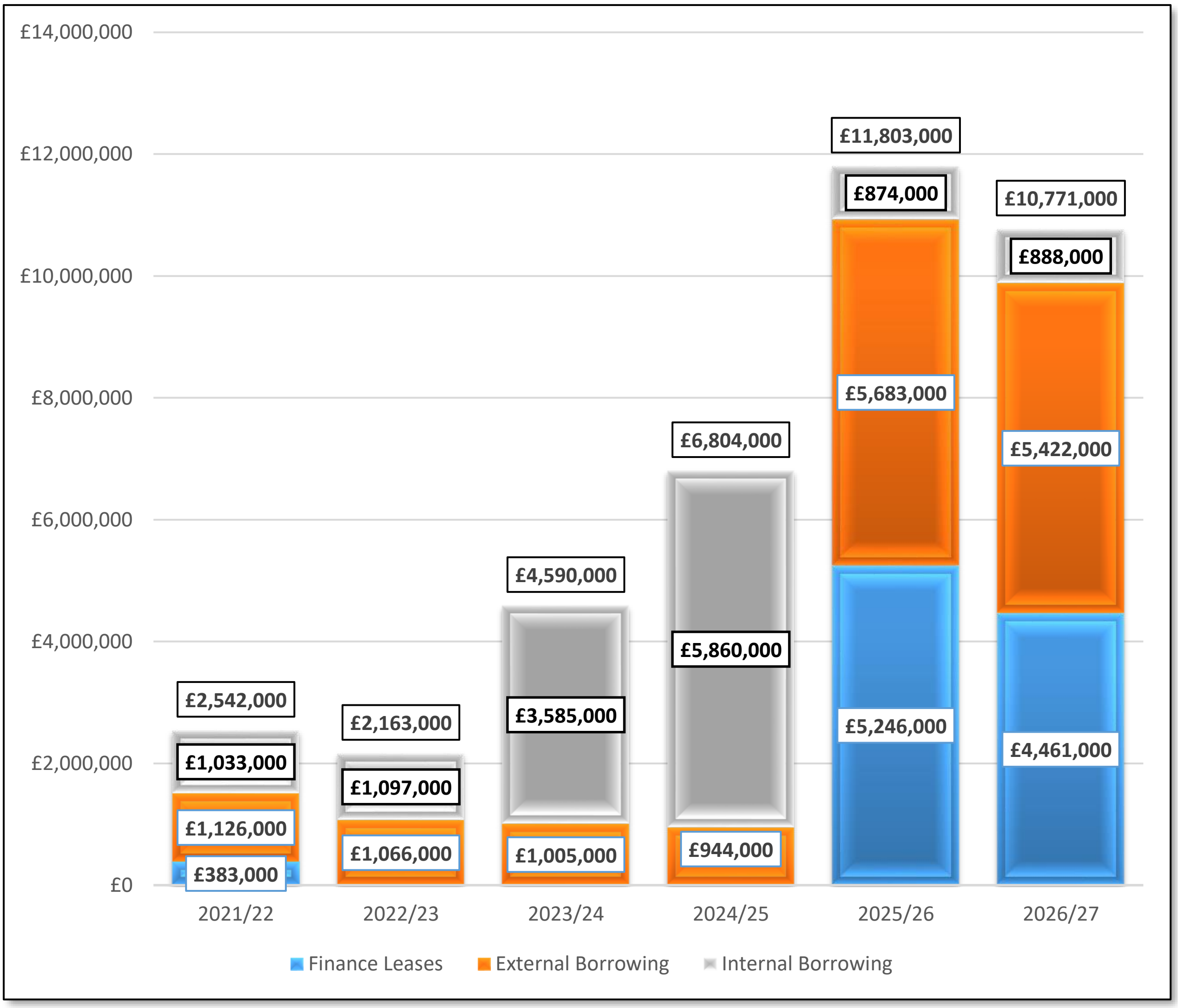


The Capital Financing Requirement (Borrowing Need) and its Financing

3.6 The projected Cumulative Borrowing Need related to the Capital Programme with increases from 2025/26 due to the planned new waste fleet and the planned new leisure centre is shown below:



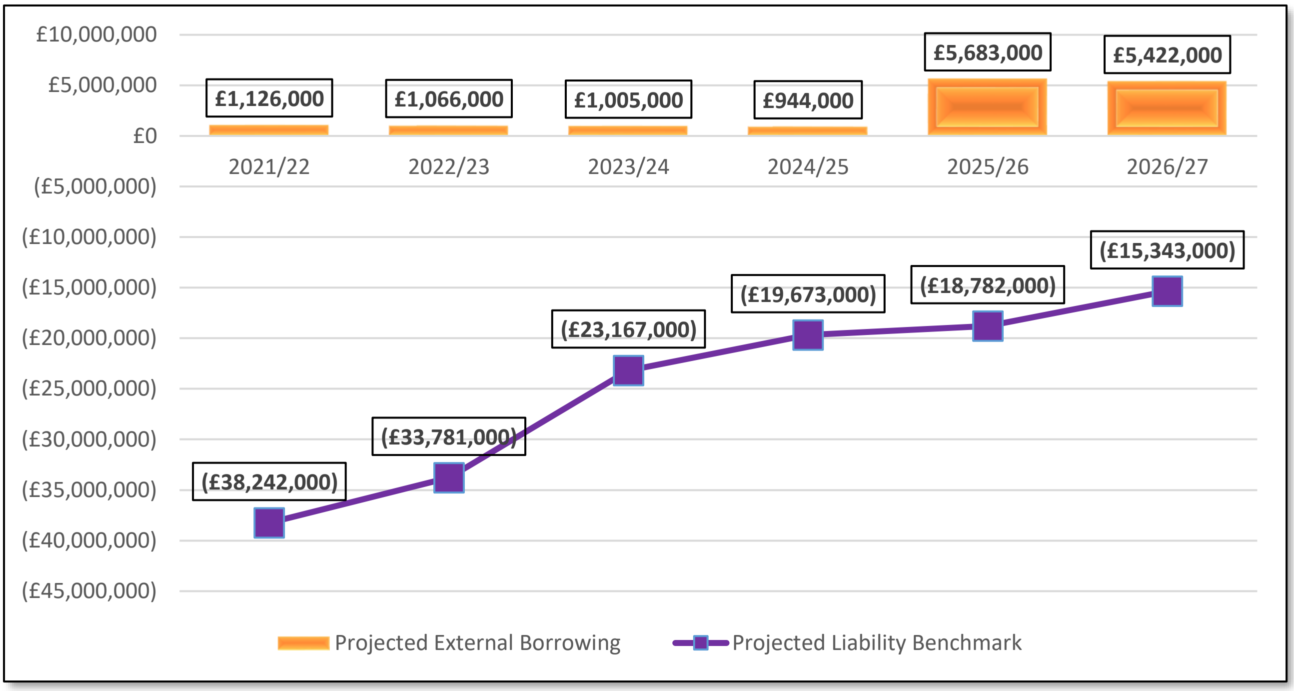
3.7 The projected financing of this Cumulative Borrowing Need is shown at **APPENDIX A** and below:



3.8 The Council currently has relatively low levels of external borrowing with one Public Works Loans Board Loan totalling **£1.066m** outstanding as at 31 March 2023.

3.9 The **liability benchmark** is the lowest risk level of external borrowing by keeping cash and investment balances to a minimum level of **£10m,** at each year end, to maintain liquidity but minimise credit risk.

3.10 The projected level of external borrowing together with the projected liability benchmark in the Medium Term Financial Strategy is shown at **APPENDIX A** and below:



3.11 The chart above indicates that based on current Balance Sheet projections where usable reserves are reducing, the Council has sufficient resources to fund additional internal borrowing.

3.12 The budget and approach to funding the leisure centre will be considered by Cabinet on 14 February 2023. The use of internal borrowing will be recommended as part of the funding strategy because it is currently lower cost, it can be repaid without penalty, and it reduces credit and counterparty risk because investments are reduced.

Current Revenue Implications of the Capital Programme

3.13 The Revenue Implications related to the Capital Programme are shown at **APPENDIX A** and below:

Revenue Implications	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**
Interest on Loan to the LA Company	0	(2)	(2)	(2)	(2)
Friary Grange - Refurbishment	135	135	135	0	0
Coach Park Operation Costs	0	50	50	50	50
Replacement Leisure Centre Debt Costs	0	0	0	447	437
Revenue Budget - Bin Replacement	150	150	150	150	0
Revenue Budget - Corporate	0	238	100	565	0
Sub Total - Approved Budget	**285**	**571**	**433**	**1,210**	**485**
Revenue Budget - Corporate	0	0	0	0	183
Revenue Budget - Bin Replacement	0	0	0	0	150
Sub Total - Service and Financial Planning	**0**	**0**	**0**	**0**	**333**
Capital Programme Total	**285**	**571**	**433**	**1,210**	**818**

Treasury Management

3.14 CIPFA has defined Treasury Management as:

"the management of the organisation's investments and cash flows, 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."

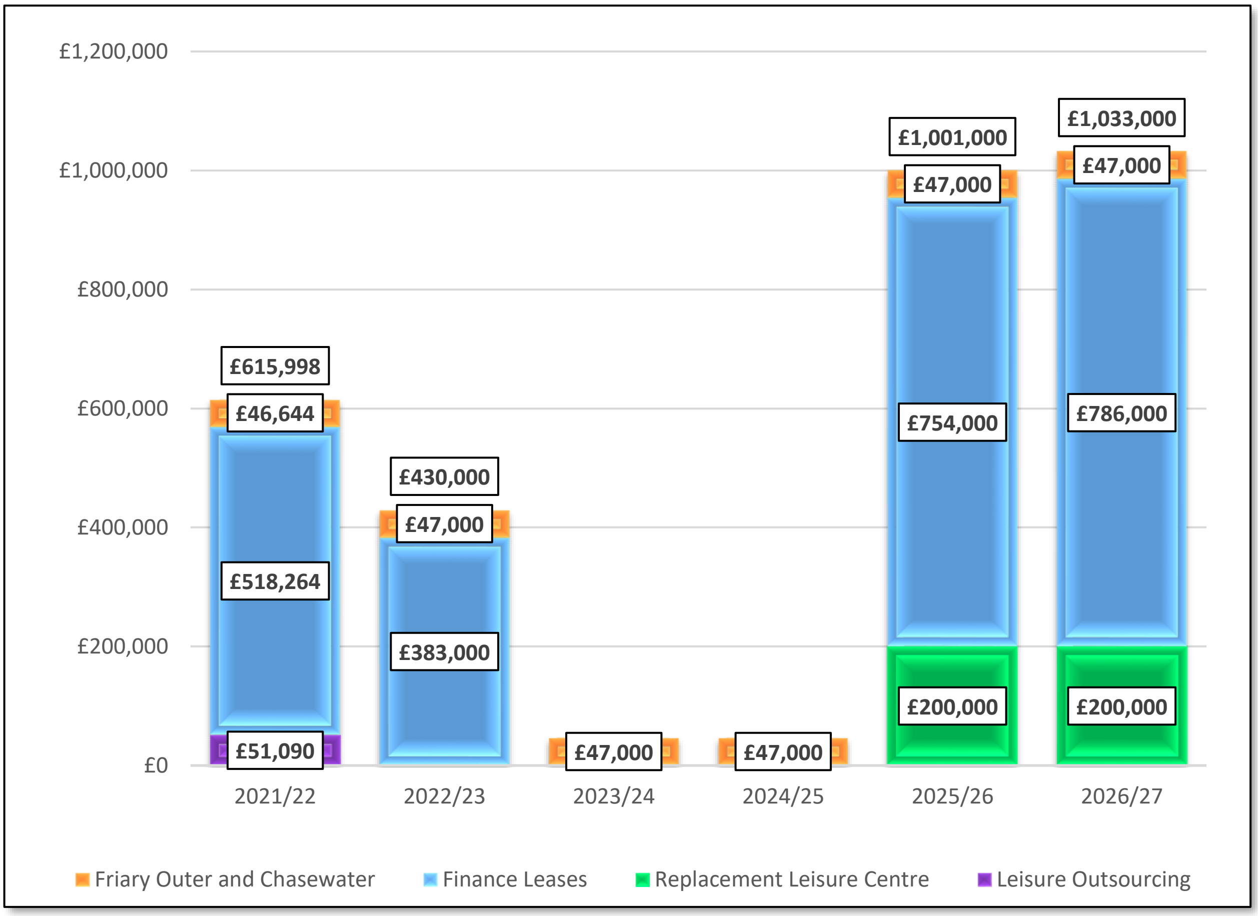
3.15 The Council is responsible for its treasury decisions and activity. No treasury management activity is without risk. The successful identification, monitoring and control of risk are an important and integral element of its treasury management activities. The main risks to the Council's treasury activities are:

- Liquidity Risk (Inadequate cash resources)
- Market or Interest Rate Risk (Fluctuations in interest rate levels)
- Inflation Risk (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risk (Impact of debt maturing in future years)
- Legal and Regulatory Risk

3.16 The Strategy also projects the impact of the Council's Revenue Budget and Capital Programme on the Balance Sheet position, the current and projected Treasury position, the Prudential Indicators and the outlook for interest rates.

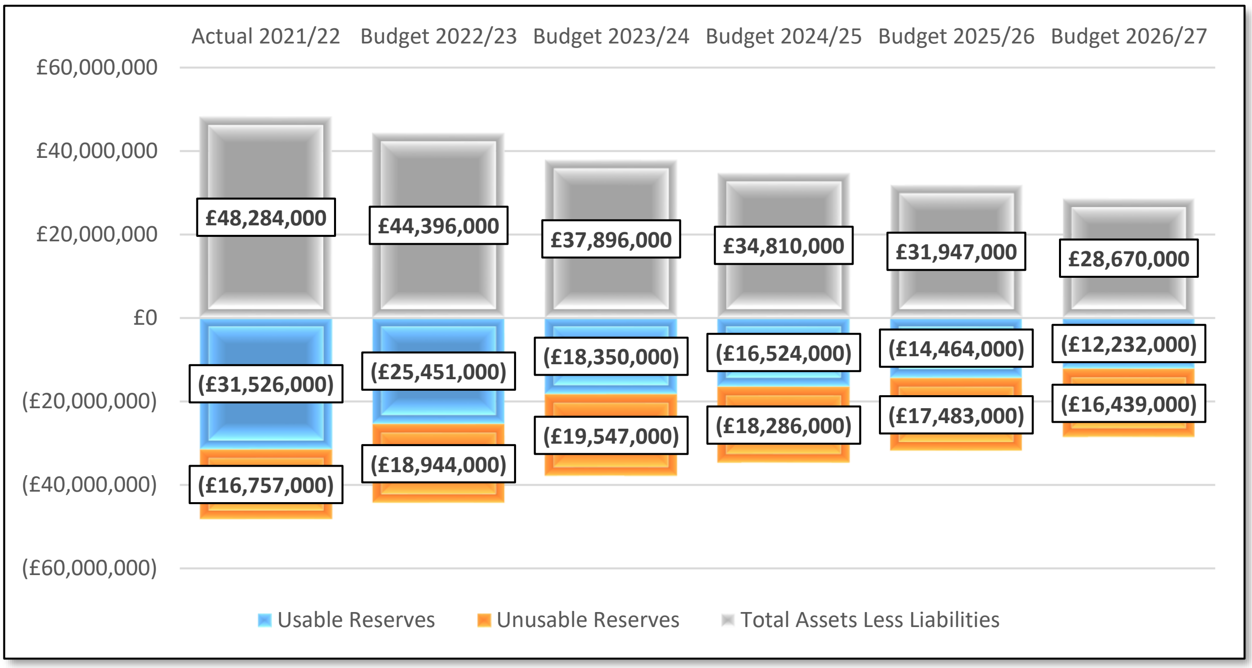
3.17 **Minimum Revenue Provision Statement 2023/24**

- The Council is required to make prudent provision for debt redemption (known as Minimum Revenue Provision (MRP)) and each year the Council must approve its MRP statement, and this will include an allowance for finance leases that appear on the Council's Balance Sheet.
- As in previous years, the Council proposes to base its MRP on the estimated life of the asset **(APPENDIX C)**. The estimated MRP chargeable during the MTFS is shown below:



3.18 **Balance Sheet Projections**

- Integrated Revenue Budgets and a Capital Programme budgets are prepared. These budgets together with the actual Balance Sheet from the previous financial year are used to prepare Balance Sheet projections.
- These Balance Sheet projections (**APPENDIX D**) are significant in assessing the Council's Treasury Management Position in terms of borrowing requirement, investment levels and the Investment Strategy.
- A summary of the budgeted Balance Sheet from 2022/23 to 2026/27 is:



<u>Non-Current Assets:</u>

- Non-Current Assets will increase mainly due to the replacement waste fleet and the capital provision for a replacement Leisure Centre (budget and funding to be considered).

<u>Borrowing and Leasing:</u>

- The capital investment in Non-Current Assets will partly be financed through an increase in external debt (borrowing and leases) although the use of internal borrowing for the leisure centre will be recommended.

<u>Long Term Debtors, Investments and Working Capital:</u>

- The levels are projected to reduce due to the financing of the Capital Programme from earmarked reserves, grants and contributions and the potential use of general reserves throughout the MTFS to ensure a balanced budget.

<u>Pension Fund Obligation:</u>

- This value is projected to increase in line with previous trends.

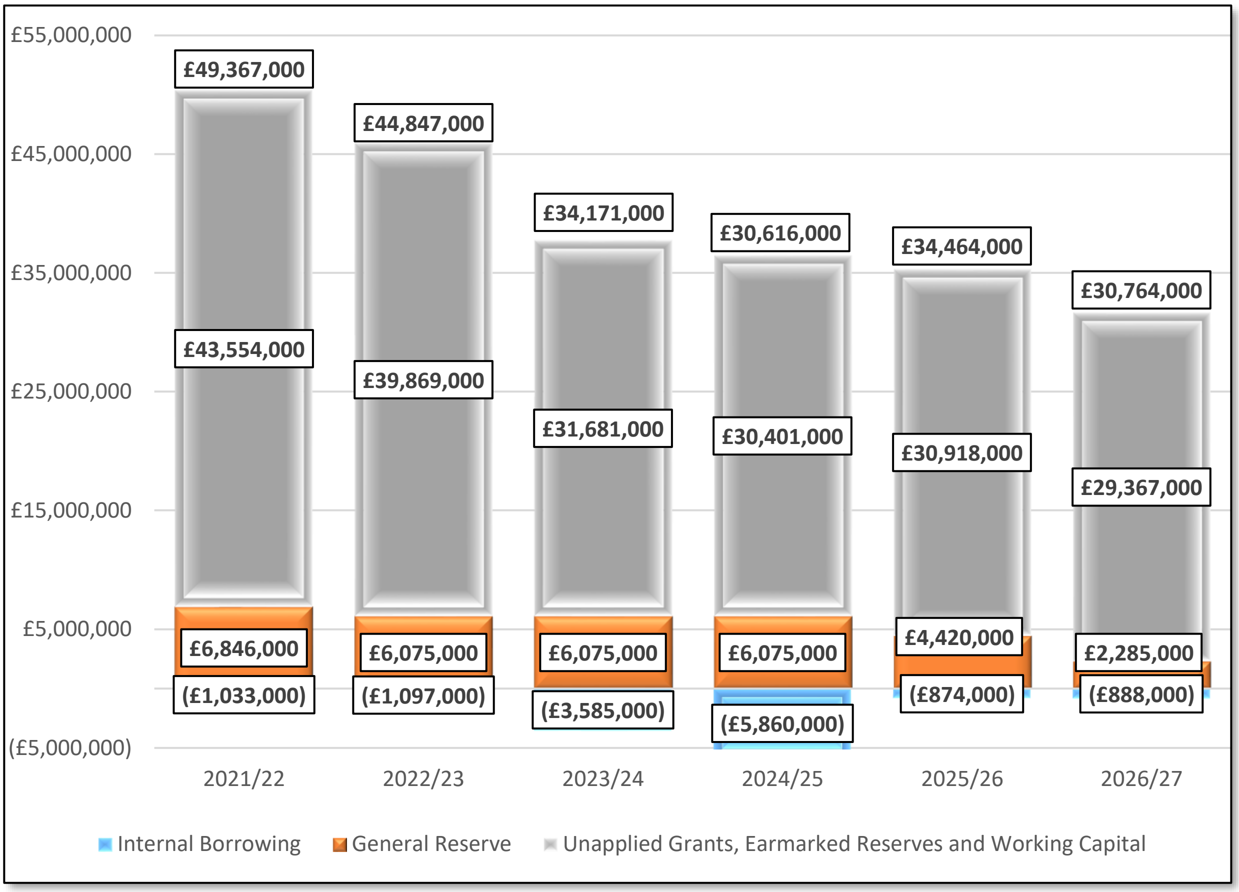
<u>Unusable Reserves:</u>

- **Pensions Reserve** – the negative value of this statutory reserve will increase to offset projected increases in the long-term liability for pensions.
- **Collection Fund** – the deficit on Council Tax and Business Rate collection because of COVID-19 is being transferred to the revenue budget in line with regulatory requirements.

<u>Usable Reserves:</u>

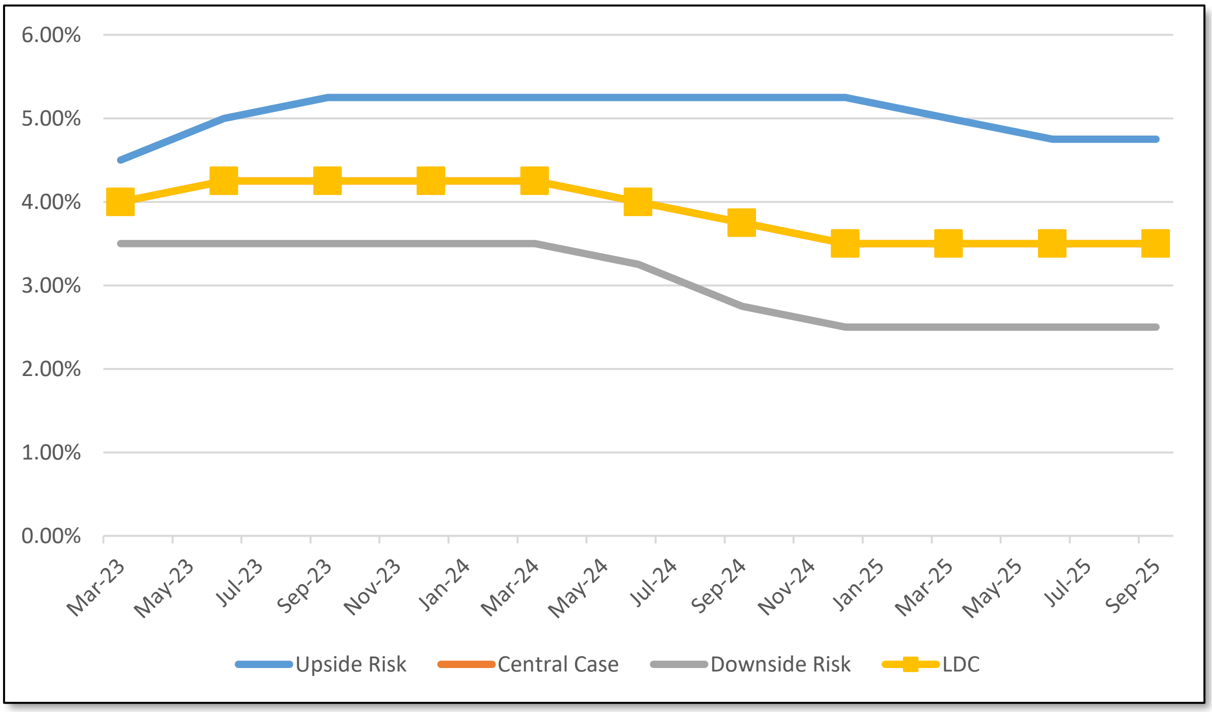
- **Earmarked Reserves** – these will reduce as they are used to fund both revenue expenditure and the Capital Programme. The Business Rates Volatility Reserve will reduce as it is transferred to the revenue budget to offset the COVID related deficit.
- **General Reserve** – there will be a projected reduction to reflect the potential use of general reserves throughout the MTFS to ensure a balanced budget.

- The Balance Sheet Projections **(APPENDIX D)** also show the projected year end investment levels and the sources of cash:



3.19 **Treasury Management Advice and the Expected Movement in Interest Rates**

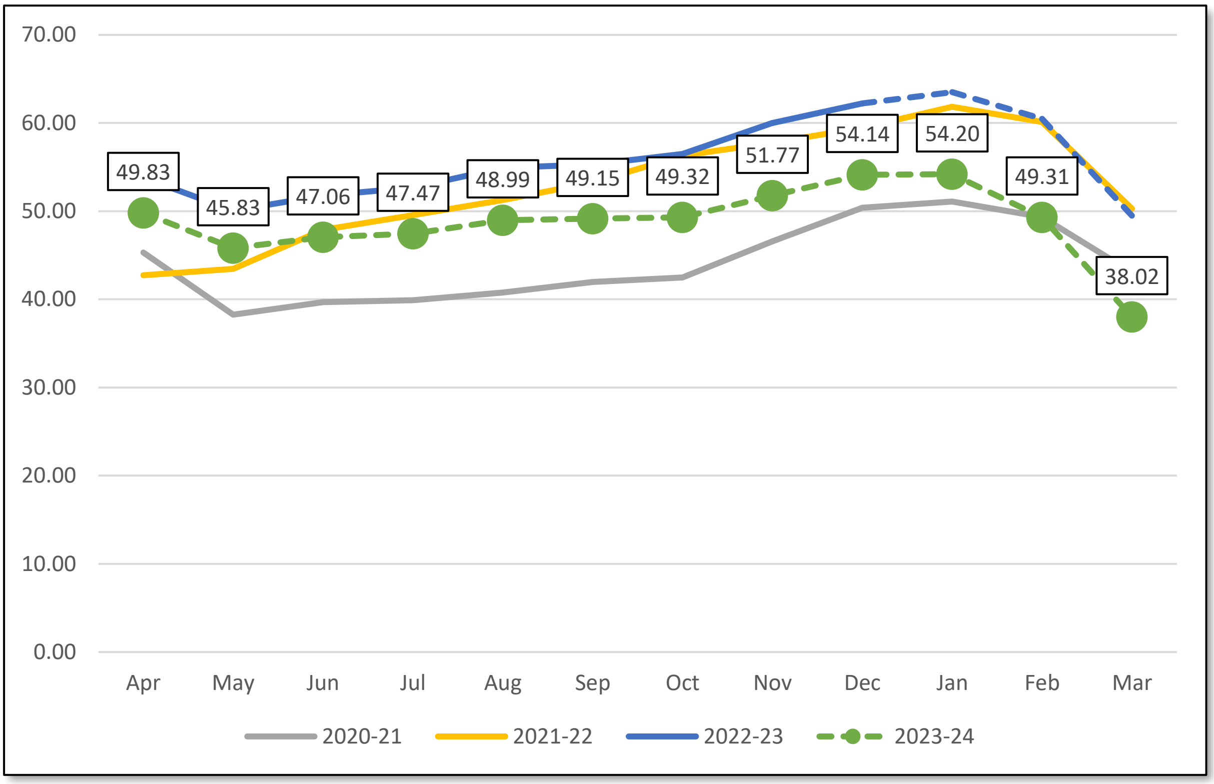
- The Official Bank Rate outlook provided by the Council's Treasury Advisor, together with the Council's assumption (also the central case) where interest rates will climb to **4.25%** in June 2023 and then gradually decrease, is shown below:



- The Council assumptions have been used as the basis for preparation of the investment income and borrowing budgets for 2023/24 and future years.

3.20 **Cash Flow Forecast**

- Treasury Management includes the management of the Council's cash flows as a key responsibility. The cash flow forecast takes account of the income the Council receives including Housing Benefits Grant, Council Tax and Business Rate income and expenditure such as payments to precepting bodies, employee costs and Housing Benefit Payments.
- The graph below shows average investment levels throughout the financial year with a significant reduction in February and March due to minimal Council Tax income being received.



- The planned monthly cash flow forecast for the 2023/24 financial year has been used to calculate the investment income budget. The key components of this calculation are the average level of investment balances and the rate or yield achieved.
- The Treasury Management estimates for 2023/24 for both investment income and borrowing are shown in the table below:

Treasury Management	2023/24 Original Budget	
	Investment Income	Borrowing
Average Balance	£48.76m	£1.08m
Average Rate[1]	4.09%	2.59%

Gross Investment Income	(£1,963,270)	
Property Fund Transfer to Reserves	£22,000	
DIF Transfer to Reserves	£132,000	
Corporate Revenue funding Capital		£238,000
External Interest		£29,000
Internal Interest		£1,000
Minimum Revenue Provision (Exc. Finance Leases)		£47,000
Net Treasury Position	**(£1,809,270)**	**£315,000**
	(£1,494,270)	

- The gross investment income been estimated as **(£1,963,270)** and this equates to **14%** of The Council's total funding of **(£13,815,000)** in 2023/24.

1 Budgeted average rate for the entire financial year.

3.21 **Treasury Management Strategy Statement (TMSS) and the Annual Investment Strategy**

- The Treasury Investments and their limits are shown in detail at **APPENDIX D**.

3.22 **Investment Strategy Report for 2023/24**

- The investment strategy that is shown at **APPENDIX E** meets the requirements of statutory guidance issued by the government in January 2018. It focuses on how the Authority invests its money to support local public services and earns investment income from any commercial investments.

3.23 **International Financial Reporting Standards Update**

IFRS 16 Leases

- The Council is planning to implement IFRS 16 Leases in 2023/24 in advance of mandatory provisions in 2024/25, applying the provisions as they have been adopted in the 2022/23 Accounting Code.
- This Standard will require more arrangements, where there is a right to use an asset, to be included on the Council's Balance Sheet. The level of non-current assets is likely to increase, and these will be matched by a liability to reflect the lease payments to be made. Our initial assessment is that this standard will have a relatively small impact on the Council's Balance Sheet with the most significant lease for the Joint Waste Fleet already being in line with the new Standard.

IFRS 9 Financial Instruments

- The Government announced in the Provisional Local Government Finance Settlement for 2023/24 that the IFRS 9 statutory override would be extended for a two-year period until 2024/25. This override currently means that any gain or loss on strategic fund investments is accounted for on the Balance Sheet until it is realised through a sale.
- In the event this statutory override is not renewed beyond 2024/25, any gain or loss will need to be transferred to revenue and managed through reserves until disposal. To manage the inherent volatility with these long-term investments, the Council had previously established a Strategic Investment Volatility Reserve.

Alternative Options	There are no alternative options.

Consultation	This Committee and the Overview and Scrutiny Committee.

Financial Implications

Prudential and Local Indicators (PIs)

The Prudential and Local Indicators are shown below (rounding may result in slight differences):

Capital Strategy Indicators							
Prudential Indicators							
Indicators	**2021/22 Actual**	**2022/23 Original**	**2022/23 Revised**	**2023/24 Original**	**2024/25 Original**	**2025/26 Original**	**2026/27 Original**
Capital Investment							
Capital Expenditure (£m)	£4.741	£7.953	£4.850	£12.157	£6.641	£7.771	£1.524
Capital Financing Requirement (£m)	£2.542	£4.637	£2.163	£4.590	£6.804	£11.803	£10.770
Gross Debt and the Capital Financing Requirement							
Gross Debt	(£1.509)	(£1.863)	(£1.066)	(£1.005)	(£0.944)	(£10.929)	(£9.882)
Borrowing in Advance - Gross Debt in excess of the Capital Financing Requirement	No	No	No	No	No	No	No
Total Debt							
Authorised Limit (£m)	£3.204	£15.238	£19.993	£19.932	£20.521	£25.415	£24.873
Operational Boundary (£m)	£3.204	£6.811	£7.565	£7.505	£7.444	£12.182	£11.922
Proportion of Financing Costs to Net Revenue Stream (%)	5%	4%	3%	0%	0%	10%	9%

Local Indicators

Indicators	2021/22 Actual	2022/23 Original	2022/23 Revised	2023/24 Original	2024/25 Original	2025/26 Original	2026/27 Original
Replacement of Debt Finance or MRP (£m)	(£0.616)	(£0.459)	(£0.429)	(£0.047)	(£0.047)	(£1.001)	(£1.033)
Repayment of Burntwood Leisure Centre Loan (£m)	(£0.306)	£0	£0	£0	£0	£0	£0
Capital Receipts (£m)	(£0.121)	(£0.010)	(£0.880)	(£0.030)	(£0.030)	(£0.030)	(£0.028)
Housing Capital Receipts (£m)	(£0.395)	£0.000	(£0.194)	£0.000	£0.000	£0.000	£0.000
Liability Benchmark (£m)	£38.242	£19.075	£33.781	£23.167	£19.673	£18.782	£15.343
Treasury Management Investments (£m)	£49.368	£30.936	£44.846	£34.171	£30.616	£34.464	£30.764

Treasury Management Indicators

Prudential Indicators

	Lower Limit	Upper Limit	As at 31/03/22	As at 31/12/22
Refinancing Rate Risk Indicator	0%	100%	5%	6%
Under 12 months	0%	100%	5%	6%
12 months and within 24 months	0%	100%	16%	17%
24 months and within 5 years	0%	100%	27%	29%
5 years and within 10 years	0%	100%	46%	43%
10 years and within 20 years	0%	100%	0%	0%
20 years and within 30 years	0%	100%	0%	0%
30 years and within 40 years	0%	100%	0%	0%
40 years and within 50 years	0%	100%	0%	0%
50 years and above	0%	100%	0%	0%

Investment Income - Interest Rate Exposure

	2023/24	2024/25
Investment Income	(£1,963,270)	(£1,597,270)
Budget subject to Interest Rate Exposure	**(£1,459,270)**	**(£1,057,270)**
Budget with a 1% fall in interest rates	(£1,615,692)	(£1,318,843)
Budget with a 1% rise in interest rates	(£2,311,000)	(£1,876,000)

External Borrowing - Interest Rate Exposure

	2023/24	2024/25
External Interest	£29,000	£27,000
Budget subject to Interest Rate Exposure	**£0**	**£0**
Budget with a 1% fall in interest rates	£29,000	£27,000
Budget with a 1% rise in interest rates	£29,000	£27,000

Indicators	2021/22 Actual	2022/23 Original	2022/23 Revised	2023/24 Original	2024/25 Original	2025/26 Original	2026/27 Original
Principal Sums invested for periods longer than a year (£m)	£10.000	£15.000	£15.000	£15.000	£15.000	£15.000	£15.000

Local Indicators

Indicators	2021/22 Actual	2022/23 Original	2022/23 Revised	2023/24 Original	2024/25 Original	2025/26 Original	2026/27 Original
	£m	£m	£m	£m	£m	£m	£m
Balance Sheet Summary and Forecast							
Borrowing Capital Financing Requirement	£2.160	£4.636	£2.163	£4.590	£6.803	£6.556	£6.310
Internal (over) Borrowing	£1.033	£2.773	£1.097	£3.585	£5.860	£0.874	£0.888
Investments (or New Borrowing)	(£49.368)	(£30.936)	(£44.846)	(£34.171)	(£30.616)	(£34.464)	(£30.764)
Liability Benchmark	(£38.242)	(£19.075)	(£33.781)	(£23.167)	(£19.673)	(£18.782)	(£15.343)

	Target
Security	
Portfolio average credit rating	A-
Liquidity	
Temporary Borrowing undertake	£0.000
Total Cash Available within 100 days (maximum)	90%

Approved by Section 151 Officer	Yes

Legal Implications	This report fulfils the Authority's legal obligation, under the Local Government Act 2003, to have regard to both the CIPFA Code and the Department of Levelling Up, Housing and Communities (DLUHC) Guidance.
Approved by Monitoring Officer	Yes

Contribution to the Delivery of Lichfield District Council's Strategic Plan	The report directly links to overall performance and especially the delivery of Lichfield District Council's Strategic Plan.

Equality, Diversity and Human Rights Implications	These areas are addressed as part of the specific areas of activity prior to being included in Lichfield District Council's Strategic Plan.

Crime & Safety Issues	These areas are addressed as part of the specific areas of activity prior to being included in Lichfield District Council's Strategic Plan.

Environmental Impact	None identified in this report.

GDPR/Privacy Impact Assessment	None identified in this report.

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
Strategic Risk SR1 - Non achievement of the Council's key priorities contained in the Strategic Plan due to the availability of Finance				
A	Council Tax is not set by the Statutory Date of **11 March 2023**	Likelihood : Green Impact : Red Severity of Risk : Yellow	Full Council set with reference to when major preceptors and Parishes have approved their Council Tax Requirements.	Likelihood : Green Impact : Red Severity of Risk : Yellow
B	Implementation of the Check, Challenge and Appeal Business Rates Appeals and more frequent revaluations	Likelihood : Yellow Impact : Red Severity of Risk : Red	To closely monitor the level of appeals. An allowance for appeals has been included in the Business Rate Estimates.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
C	The review of the New Homes Bonus regime	Likelihood : Red Impact : Red Severity of Risk : Red	The Council responded to the consultation. In the MTFS, no income is assumed beyond 2024/25.	Likelihood : Red Impact : Yellow Severity of Risk : Yellow
D	The increased Localisation of Business Rates and the Review of Needs and Resources	Likelihood : Red Impact : Red Severity of Risk : Red	To assess the implications of proposed changes and respond to consultations to attempt to influence the policy direction in the Council's favour.	Likelihood : Red Impact : Red Severity of Risk : Red
E	The affordability and risk associated with the Capital Strategy	Likelihood : Yellow Impact : Red Severity of Risk : Red	A property team has been recruited via the Company to provide professional expertise and advice in relation to property and to continue to take a prudent approach to budgeting.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
F	Sustained higher levels of inflation in the economy	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow	To maintain a watching brief on economic forecasts, ensure estimates reflect latest economic projections and where possible ensure income increases are maximised to mitigate any additional cost.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow

	Risk Description & Risk Owner	Original Score (RYG)	How We Manage It	Current Score (RYG)
Strategic Risk SR3: Capacity and capability to deliver / strategic plan to the emerging landscape				
G	The Council cannot achieve its approved Delivery Plan for 2023/24	Likelihood : Yellow Impact : Red Severity of Risk : Red	There will need to be consideration of additional resourcing and/or reprioritisation to reflect the ongoing impact of the pandemic.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
H	The resources available in the medium to longer term to deliver the Strategic Plan are diminished	Likelihood : Yellow Impact : Red Severity of Risk : Red	The MTFS will be updated through the normal review and approval process.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow
I	Government and Regulatory Bodies introduce significant changes to the operating environment	Likelihood : Red Impact : Red Severity of Risk : Red	To review all proposed policy changes and respond to all consultations to influence outcomes in the Council's favour.	Likelihood : Yellow Impact : Yellow Severity of Risk : Yellow

Background documents:

- CIPFA Code of Practice for Treasury Management in the Public Services.
- The Prudential Code for Capital Finance in Local Authorities.
- Medium Term Financial Strategy (Revenue and Capital) 2021-2026 (MTFS) – Cabinet 8 February 2022 and Council 22 February 2022
- Money Matters: 2021/22 Review of Financial Performance against the Financial Strategy – Cabinet 7 June 2022
- Local Council Tax Support Scheme Review – Cabinet 5 April 2022
- Medium Term Financial Strategy (MTFS) – Cabinet 11 July 2022
- Local Council Tax Support Scheme Permission to Consult – Cabinet 11 July 2022
- Annual Treasury Management Report – Audit and Member Standards Committee 21 July 2022
- Money Matters: 2022/23 Review of Financial Performance against the Financial Strategy – Cabinet 6 September 2022
- Money Matters: Review of Reserves – Cabinet 6 September 2022
- Lichfield District Youth Council – Policy Proposal – Cabinet 6 September 2022
- Joint Venture – A cinema for Lichfield District – Cabinet 11 October 2022
- Medium Term Financial Strategy (Revenue and Capital) 2023-27 – Cabinet 11 October 2022
- Mid Year Treasury Management Report – Audit and Member Standards Committee 30 November 2022
- Money Matters: 2022/23 Review of Financial Performance against the Financial Strategy – Cabinet 6 December 2022
- Money Matters : Calculation of Business Rates 2023/24, Council Tax Base for 2023/24 and the projected Collection Fund Surplus / Deficit for 2022/23 – Cabinet 6 December 2022

Relevant web link:

Recommended Capital Strategy

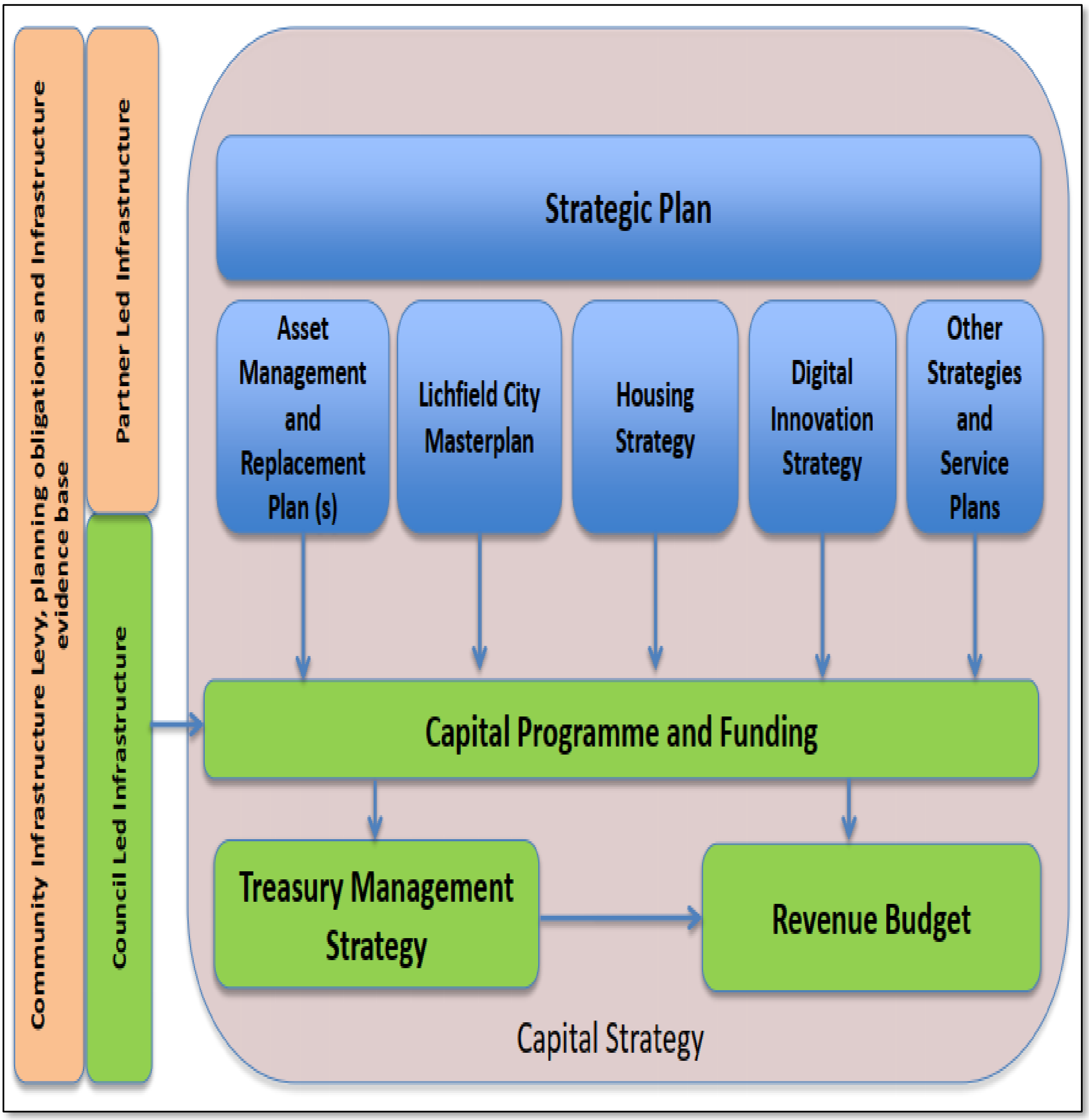
1. Introduction

1.1. The Prudential Code requires the completion of a Capital Strategy that is approved by Full Council.

1.2. The Capital Strategy provides a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

1.3. It forms part of the Councils integrated revenue, capital and balance sheet planning. The Council already undertakes elements of the requirements although some areas, such as Asset Management Planning, are subject to ongoing development.

1.4. The Prudential Code now requires all of this information to be brought together in a single place as shown below:



2. The Capital Programme

2.1. The financial planning process and its Governance is shown below:

The Financial Planning Timetable and Governance Responsibility

Service and Financial Planning	July	Medium Term Financial Strategy
	August	
Review Medium Term Financial Strategy	September	Money Matters as at 30 June
	October	Medium Term Financial Strategy
Review Medium Term Financial Strategy Mid Year Treasury Management Report	November	
	December	Money Matters as at 30 September Medium Term Financial Strategy Set Council Taxbase and approve Collection Fund Projections
Review Medium Term Financial Strategy	January	
Review Treasury Management and Capital Strategies Approve the Medium Term Financial Strategy and set the Council Tax	February	Money Matters as at 30 November Recommend Medium Term Financial Strategy and Council Tax to Council
	March	
	April	
Draft Statement of Accounts	May	
	June	Money Matters as at 31 March
Annual Treasury Management Report	July	
	August	
Statement of Accounts (was 31 July but for 2 years extended to 30 September)	September	

Key:
Pink = internal timelines
Blue = Cabinet
Salmon = Cabinet & Overview and Scrutiny Committee
Amber = Overview and Scrutiny Committee
Green = Audit & Member Standards Committee
Purple = Council

The Capital Programme Process

2.2. Given our current financial position, our priorities and responsibilities and as Asset Management Plans are developed, it is probable that capital needs will be identified that exceed resources available thus necessitating a more transparent and robust process to inform Members during the development of the MTFS.

2.3. The capital bid process has been incorporated into the service and financial planning process to provide a holistic approach. The capital bid element of the process has been designed to ensure consistency, objectivity, equity and transparency to the prioritisation and allocation of capital funding, while ensuring maximum value for money.

2.4. A summary of the process is identified below:

- Service identifies a budget requirement and consults with the Finance and Procurement Team.
- Service requests funding by completing and submitting a funding bid form.
- Service completes a funding bid financial profile form and submits this with their bid.
- Service completes a funding bid assessment form and submits this with their bid.
- The Finance and Procurement Team reviews all bids and assessments and requests clarification where required.
- The Finance and Procurement Team reviews bids using the assessment criteria and ensure the bids are included in the relevant service and financial planning submission.
- Leadership Team review all service and financial planning submissions before recommending the allocation of funding either through a Cabinet Report or through the MTFS.
- Finance and Procurement monitor funding allocations and spend, reporting to Leadership Team as part of Money Matters Reports.
- Where the project budget or annual allocation is **£500,000 or more**, a review of performance is not already separately monitored, and the service completes the work / project outlined within the bid, the service will undertake a review (i.e. post-project review) within 6 months of work being completed, providing this to Finance and Procurement to include in a report to Leadership Team.

Planning Obligations - Section 106 and Community Infrastructure Levy (CIL)

2.5. As part of the planning process, financial contributions from planning obligations, including the Community Infrastructure Levy, are received from new developments. The vast majority is spent directly on infrastructure works or will be spent in line with the Infrastructure Delivery Plan (IDP).

2.6. In some cases there is an element of discretion on how they are allocated. These contributions towards social and community facilities are linked to the development proposed.

2.7. The Council's Capital Programme includes a number of projects that are to be funded by Section 106 and CIL; this is a significant source of funding and there is a significant level of interest from the community in relation to the allocation of sums to projects.

2.8. The **Draft Capital Programme** and its **funding** by Strategic Priority is summarised below:

Strategic Priority	Draft Capital Programme 2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000	Corporate £000
Enabling People	£1,585	£5,959	£3,575	£939	£959	£13,017	£360
Shaping Place	£864	£819	£397	£6,367	£150	£8,597	£245
Developing Prosperity	£1,405	£4,831	£2,329	£0	£10	£8,575	£1,138
Good Council	£996	£548	£340	£465	£405	£2,754	£2,654
Capital Expenditure	**£4,850**	**£12,157**	**£6,641**	**£7,771**	**£1,524**	**£32,943**	**£4,397**

Funding Source	Draft Capital Programme 2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
Capital Receipts	£1,234	£1,200	£245	£50	£222	£2,951
Capital Receipts - Housing	£0	£360	£0	£0	£0	£360
Revenue - Corporate	£0	£238	£100	£565	£183	£1,086
Corporate Council Funding	**£1,234**	**£1,798**	**£345**	**£615**	**£405**	**£4,397**
Grant	£1,523	£2,572	£2,261	£939	£939	£8,234
Section 106	£135	£184	£0	£0	£0	£319
CIL	£44	£895	£0	£0	£0	£939
Reserves	£1,714	£4,015	£1,625	£67	£30	£7,451
Revenue - Existing Budgets	£150	£150	£150	£150	£150	£750
Sinking Fund	£0	£69	£0	£0	£0	£69
Leases	£0	£0	£0	£6,000	£0	£6,000
Internal Borrowing	£0	£0	£0	£0	£0	£0
Total	**£4,800**	**£9,683**	**£4,381**	**£7,771**	**£1,524**	**£28,159**
External Borrowing	**£50**	**£2,474**	**£2,260**	**£0**	**£0**	**£4,784**
Grand Total	**£4,850**	**£12,157**	**£6,641**	**£7,771**	**£1,524**	**£32,943**

2.9. The Revenue implications of the Capital Programme are shown below:

Revenue Implications	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Interest on Loan to the LA Company	0	(2)	(2)	(2)	(2)
Friary Grange - Refurbishment	135	135	135	0	0
Coach Park Operation Costs	0	50	50	50	50
Replacement Leisure Centre Debt Costs	0	0	0	447	437
Revenue Budget - Bin Replacement	150	150	150	150	0
Revenue Budget - Corporate	0	238	100	565	0
Sub Total - Approved Budget	**285**	**571**	**433**	**1,210**	**485**
Revenue Budget - Corporate	0	0	0	0	183
Revenue Budget - Bin Replacement	0	0	0	0	150
Sub Total - Projections	**0**	**0**	**0**	**0**	**333**
Capital Programme Total	**285**	**571**	**433**	**1,210**	**818**

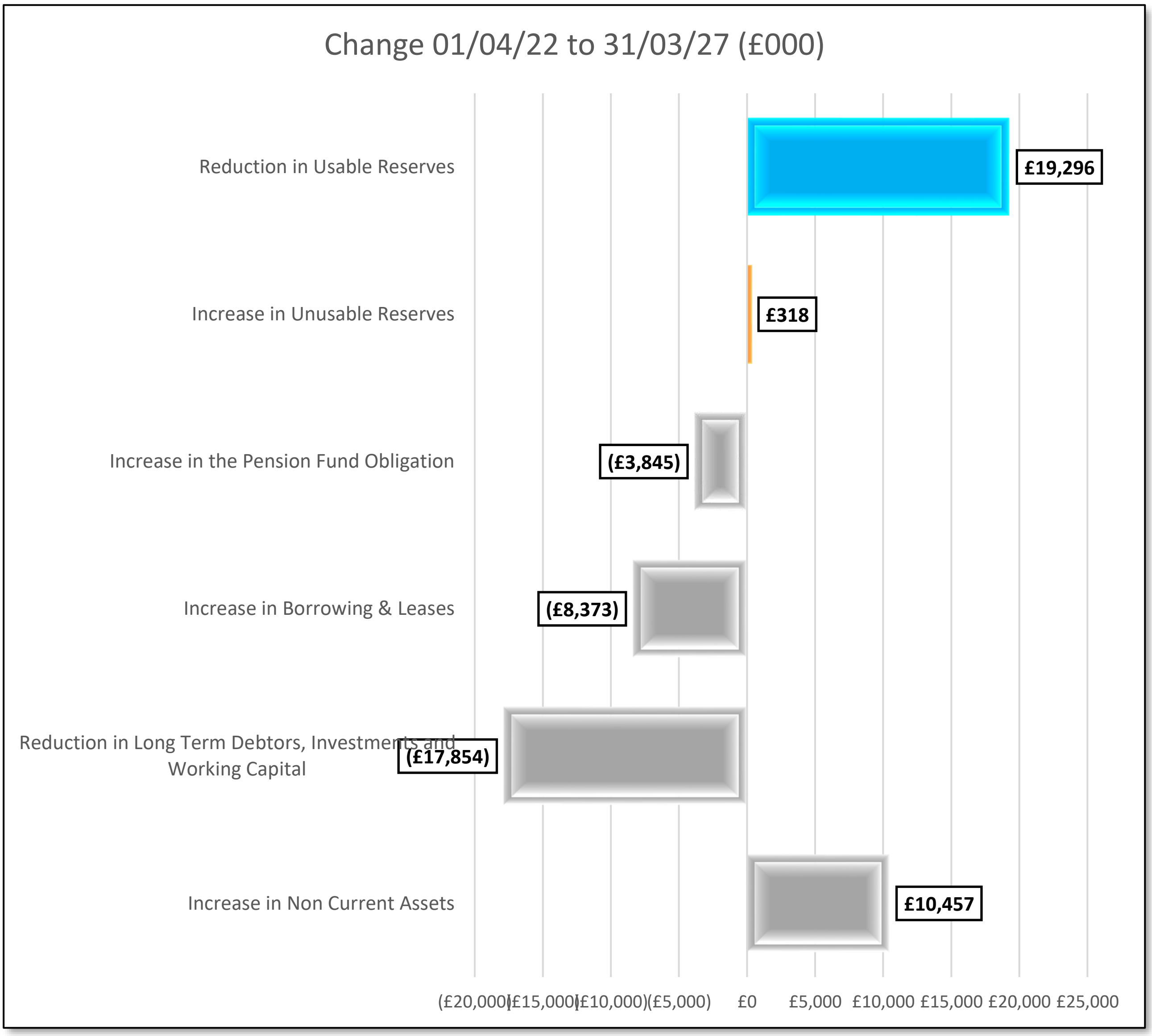
2.10. Projected Capital Receipts are shown in the table below:

General Capital Receipts	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
Opening Balance	**(2,005)**	**(1,651)**	**(481)**	**(266)**	**(246)**	**(2,005)**
Sale of Venture House	(850)					(850)
Other Receipts	(30)	(30)	(30)	(30)	(28)	(148)
Utilised in Year	1,234	1,200	245	50	222	2,951
Closing Balance	**(1,651)**	**(481)**	**(266)**	**(246)**	**(52)**	**(52)**

Housing Receipts						
Opening Balance	**(829)**	**(1,023)**	**(663)**	**(663)**	**(663)**	**(829)**[2]
Right to Buy Receipts	(194)					(194)
Utilised in Year	0	360	0	0	0	360
Closing Balance	**(1,023)**	**(663)**	**(663)**	**(663)**	**(663)**	**(663)**

3. The Balance Sheet (in £000s)

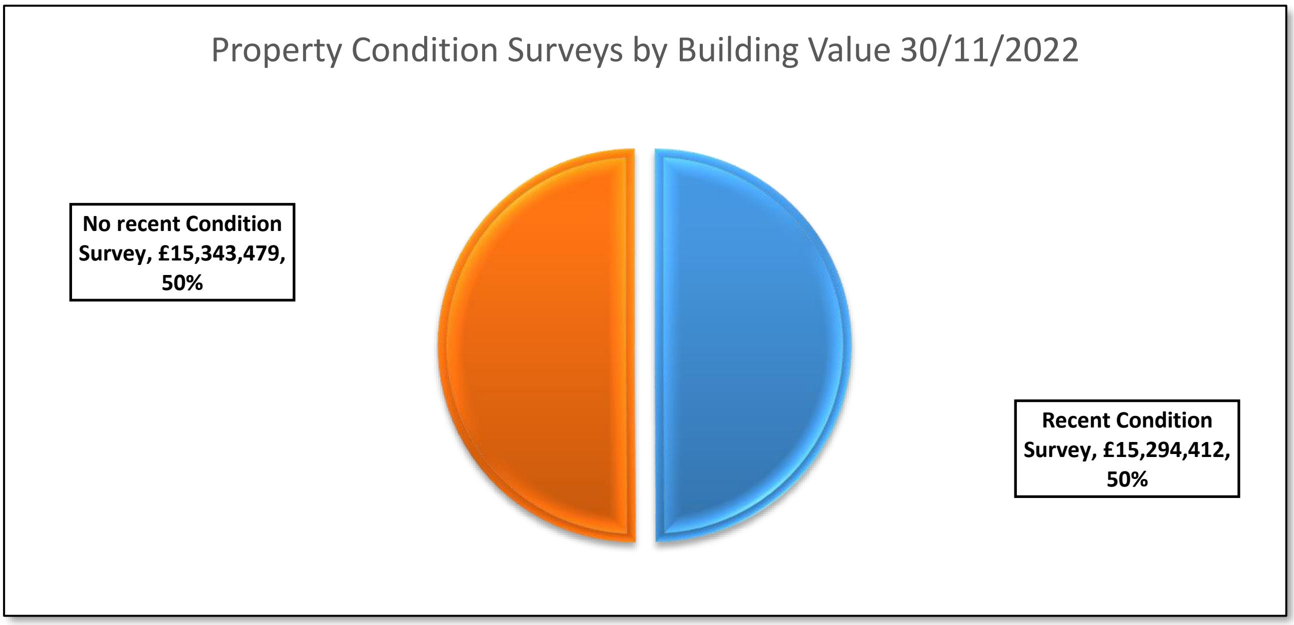
3.1. The Revenue Budget, Capital Programme and its funding will impact on the Council's Balance Sheet:



2 Updated from the Overview and Scrutiny Committee Version.

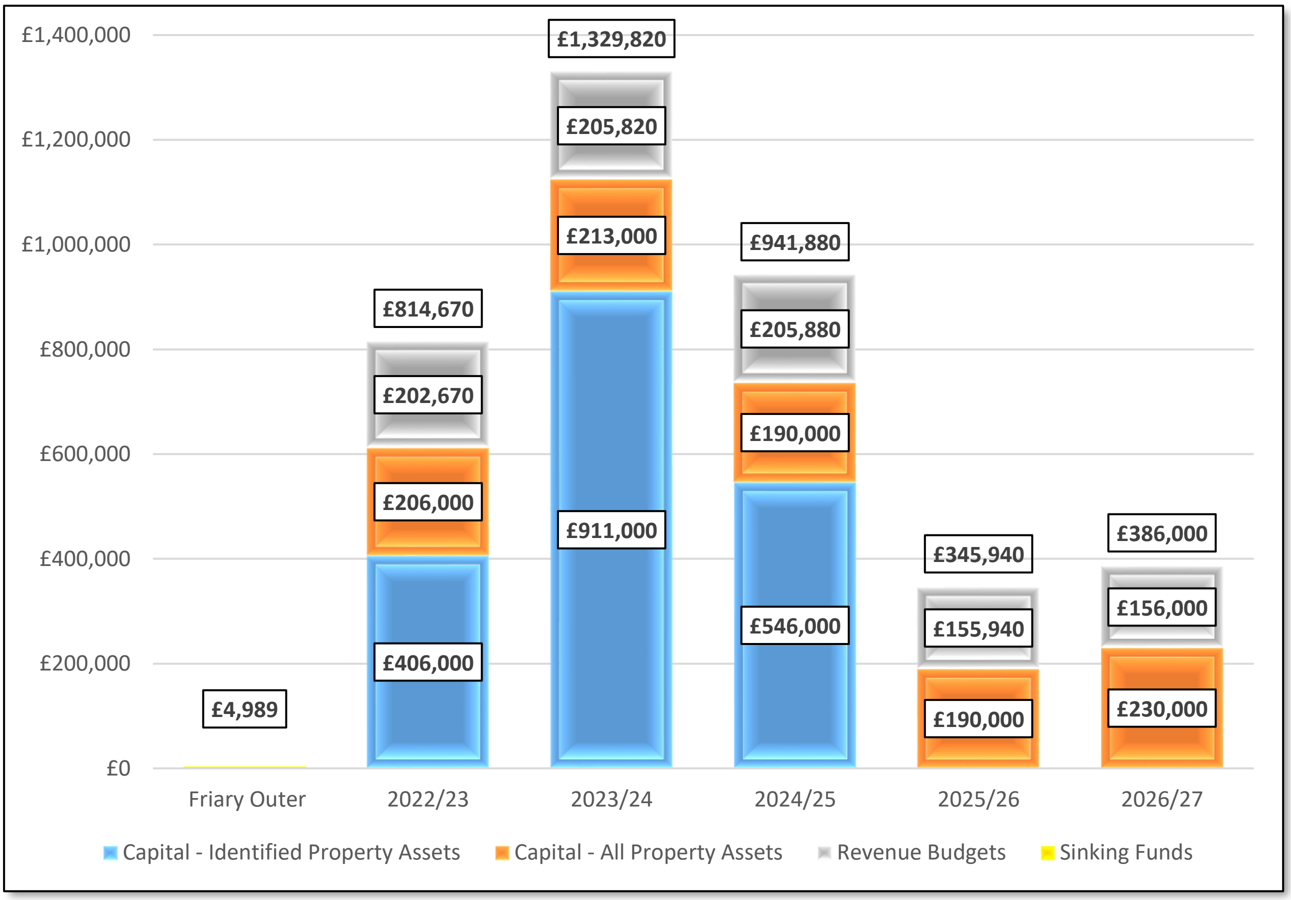
4. Asset Management Planning

4.1. The Property Team is currently in the process of undertaking Property Condition Surveys for Property Assets owned by the Council. Progress to date is shown below:

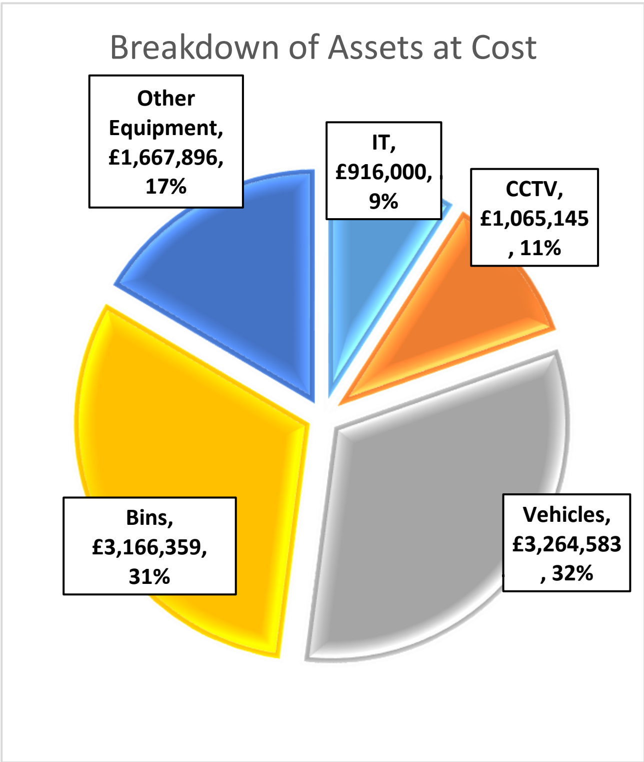


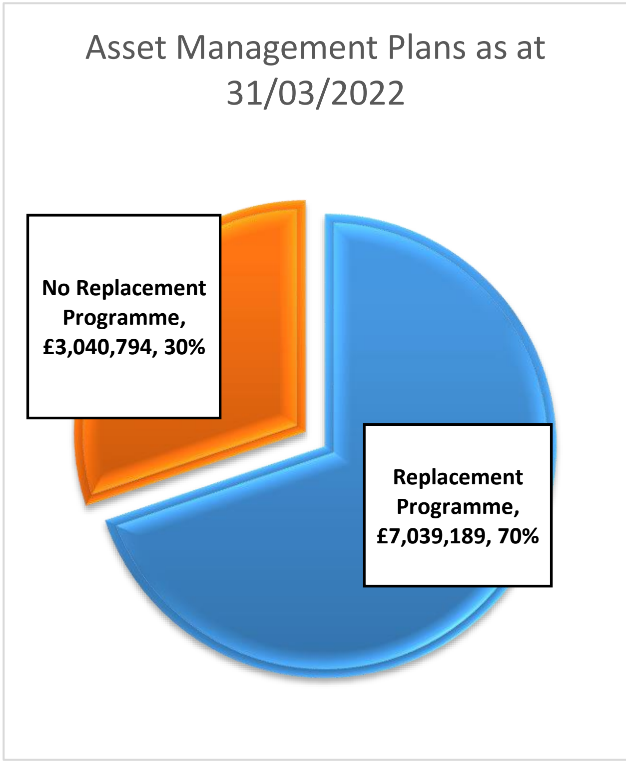
4.2. For financial planning purposes, a budget (based on a % of projected asset value) has been included in the Capital Programme and Longer Term Capital Investment Plan.

4.3. The resources identified for enhancement and maintenance of property assets are:

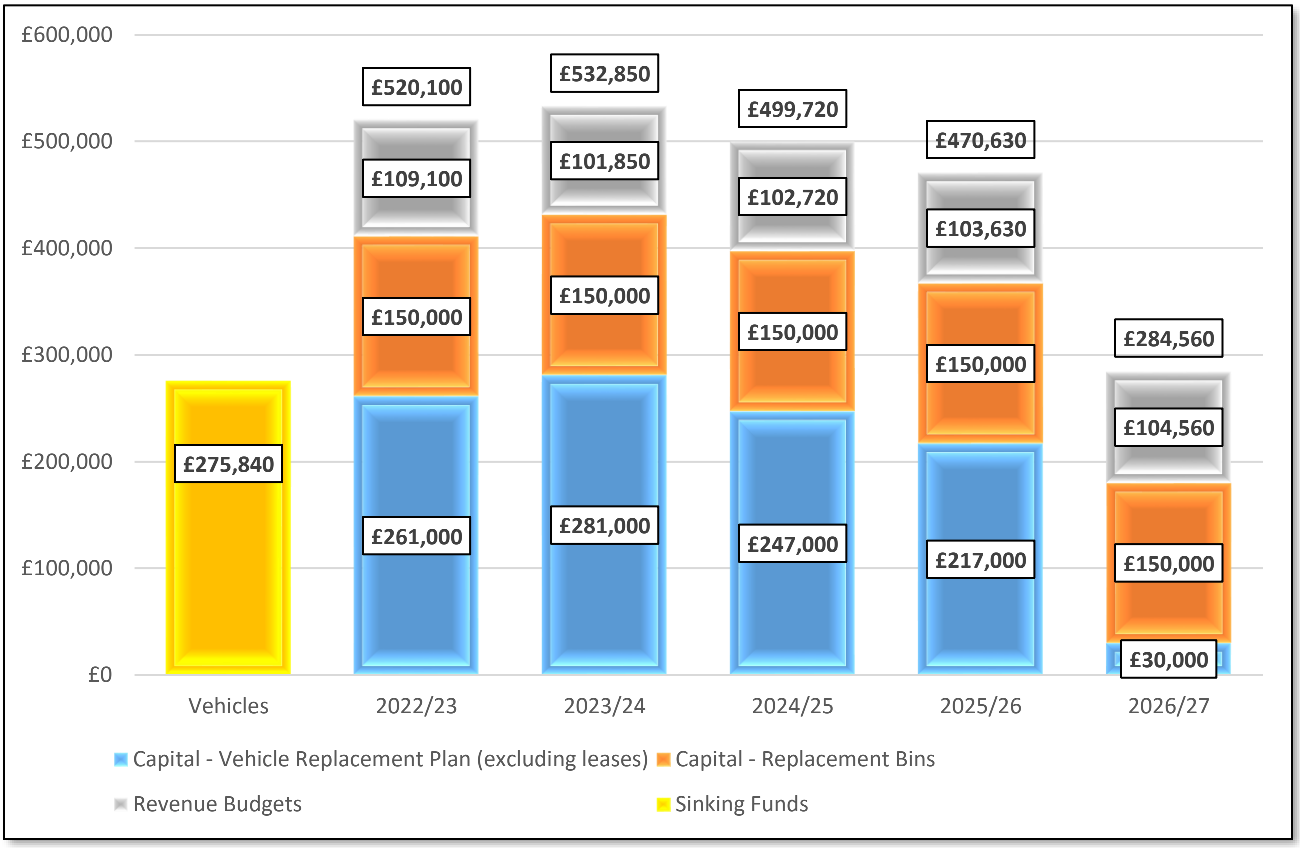


4.4. The Asset Management Plans in place for vehicles, plant and equipment assets are:





4.5. The resources identified for replacement and maintenance of vehicles, plant and equipment are:



4.6. There is also a proposed Capital Programme budget of **£6,000,000** in 2025/26 for a new fleet of waste vehicles assumed to be funded through a lease type arrangement.

5. Longer Term Capital Investment Planning

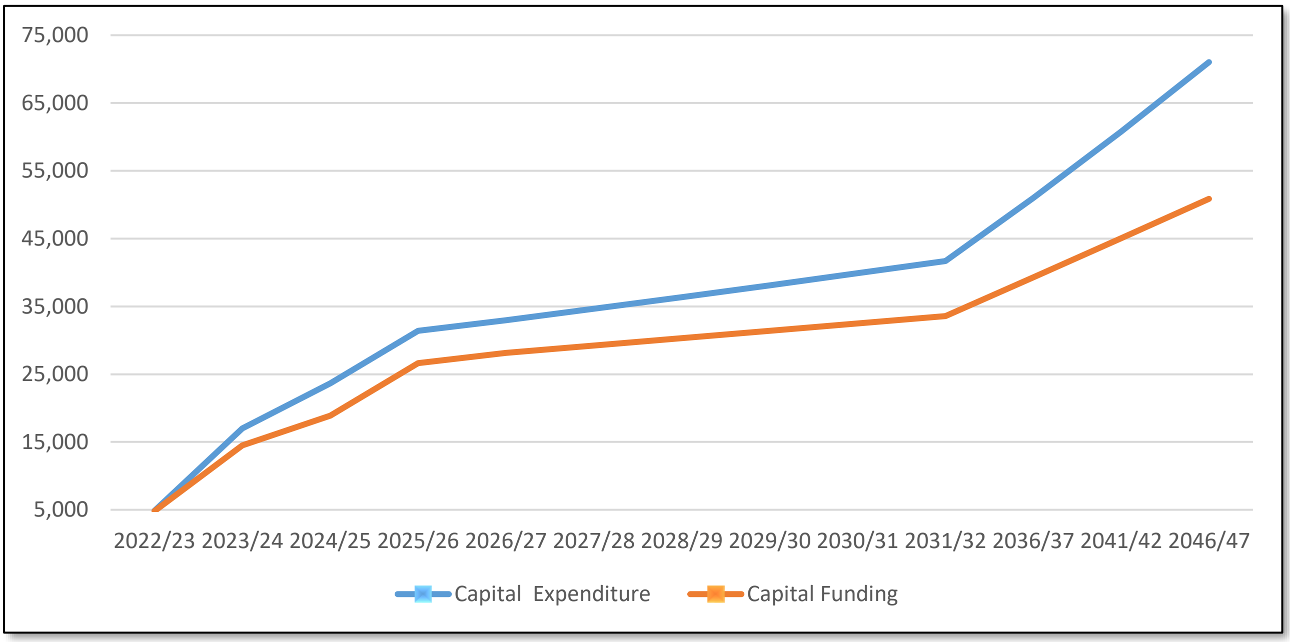
5.1. The Medium Term Financial Strategy covers a relatively short period of time (current financial year plus the next four years) and this short horizon is not reflective of the longer term investment needs associated with asset ownership.

5.2. Therefore it is prudent to also produce financial plans that cover a longer term financial planning horizon such as 25 years.

5.3. The following key assumptions have been utilised in producing the longer term financial plan:

- Annual core inflation of **2%**.
- Population in Lichfield District increases by an annual average of **0.33%**.
- The proportion of the population aged 65 and over increases from **25%** in 2021/22 to **28%** by 2046/47.
- The value of building assets increases from **£32m** in 2021/22 to **£42m** in 2025/26 with the building of a new Leisure Centre.
- An assessment of Property Planned Maintenance budgets at a percentage of building value or **£230,000** per annum has been utilised with annual inflationary increases.
- An assessment of ICT investment using the average level of investment in the last Capital Bid submitted of **£175,000** from 2025/26 has been utilised with annual inflationary increases.

5.4. The longer term capital investment plan is shown in detail at **ANNEX 1** and in the chart below:



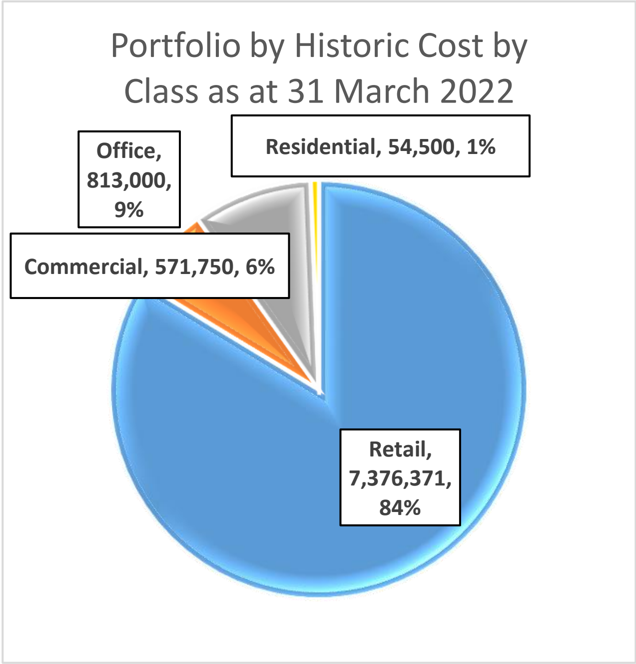
5.5. The difference between capital expenditure and funding would result in an increase in the cumulative level of borrowing need of **£20m** (including £5m approved for the new Leisure Centre).

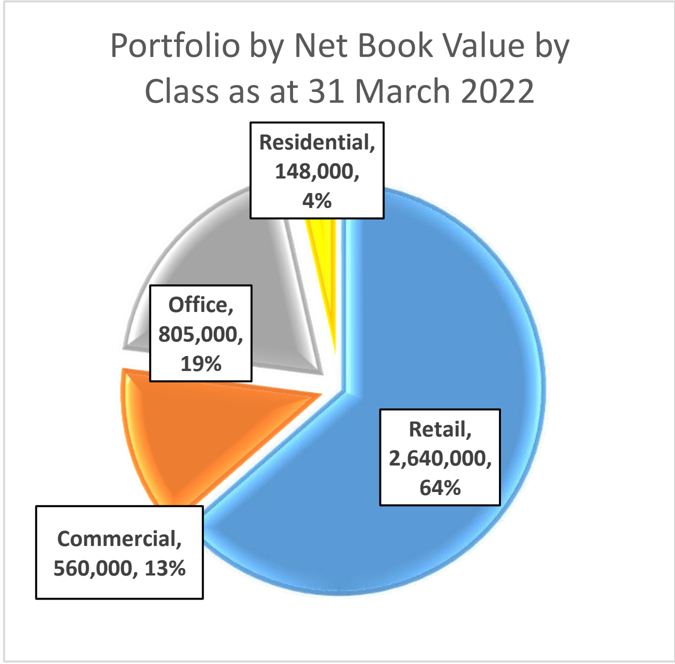
5.6. This additional borrowing need would result in additional and increasing debt repayment costs in the revenue budget thereby further increasing the Funding Gap.

5.7. However the borrowing need can be reduced through actions such as the receipt of external funding or sale of assets.

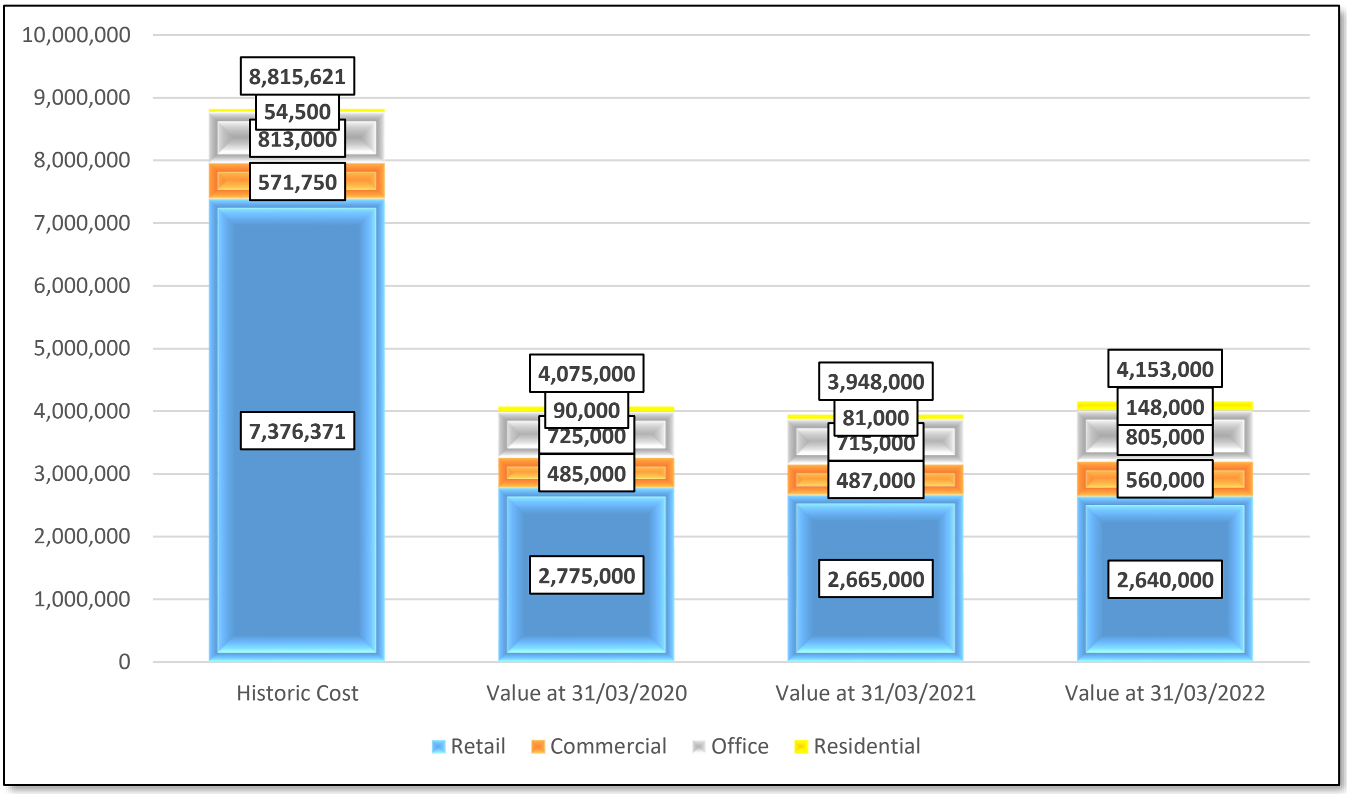
6. Current Investment in Property

6.1. The Council also owns a number of properties that provide an income return and the composition of the portfolio at 31 March 2022 is shown below:





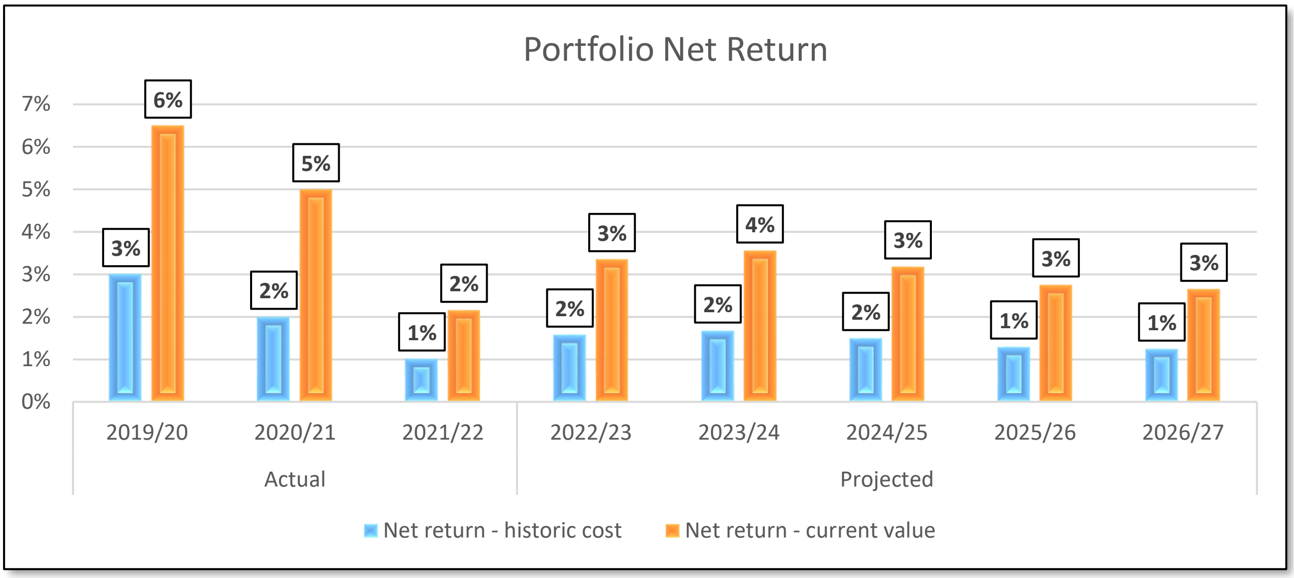
6.2. The value of these properties over the last three years is shown below:



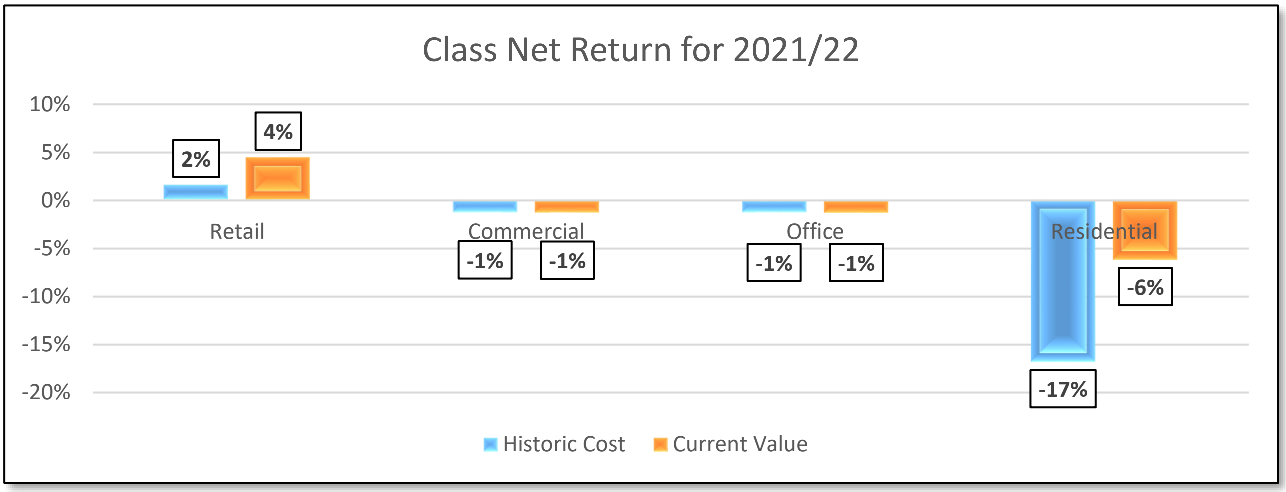
6.3. The value of these properties (mainly those classed as retail) have reduced because the value assessed by the external valuer is based on prevailing rental levels.

6.4. These properties were acquired without the need for borrowing and therefore the loan to value ratio for the portfolio is **0%**.

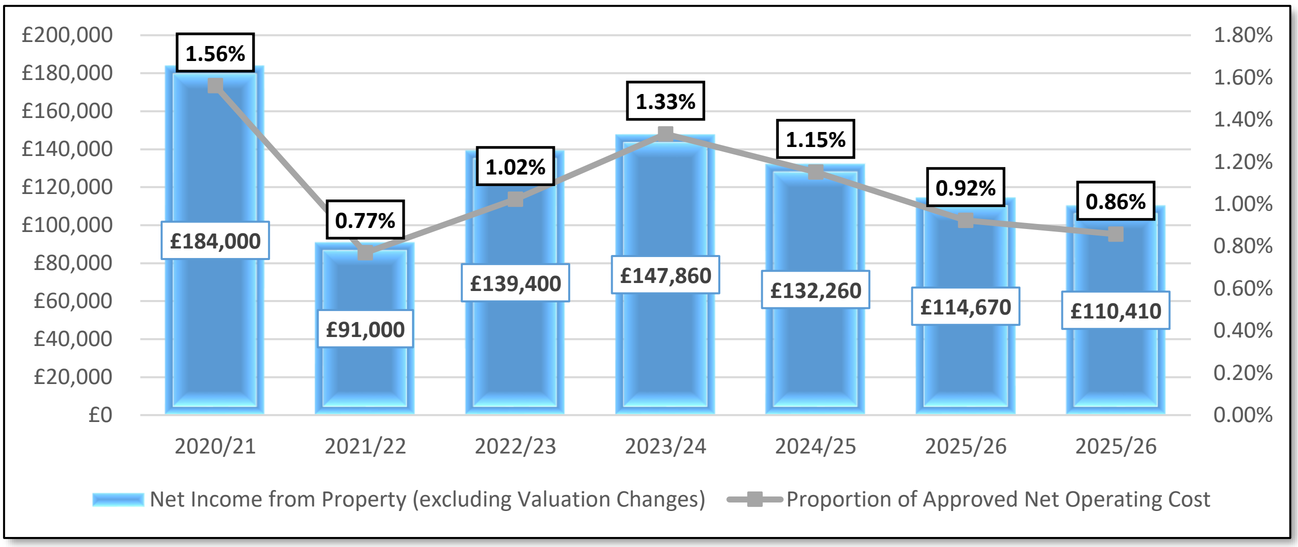
6.5. The portfolio net return based after taking account of management costs using historic asset cost and current value is shown in the chart below:



6.6. The net return is further analysed for 2021/22 by class of investment within the portfolio:



6.7. The proportion of the Revenue Budget supported by income from these properties is shown below:



6.8. The ratio of Treasury Management investments to property asset investments is shown below:

6.9. The Council has a Local Authority Trading Company Lichfield West Midlands Trading Services (LWMTS) Limited, which was incorporated in September 2019 with an aim to support local services.

6.10. The Council undertook an equity investment of **£225,000** in 2020/21 and plans to advance a loan of up to **£150,000** to LWMTS in 2022/23 for a period of up to **5 years,** to support local services.

6.11. The loan to the Company has a budgeted income stream of **4%** from the company (Arlingclose have recently revised the fixed rate based range to between **5.52%** and **5.76%**) the accounting treatment of the loan repayment will need to reflect the loan's purpose in the Company. A budget for dividend income has now been assumed to be received from the Company from 2023/24 onwards.

6.12. In addition, Council has approved a capital loan of **£5,349,000** to the Joint Venture to deliver the Cinema development in Lichfield City.

7. Debt Management

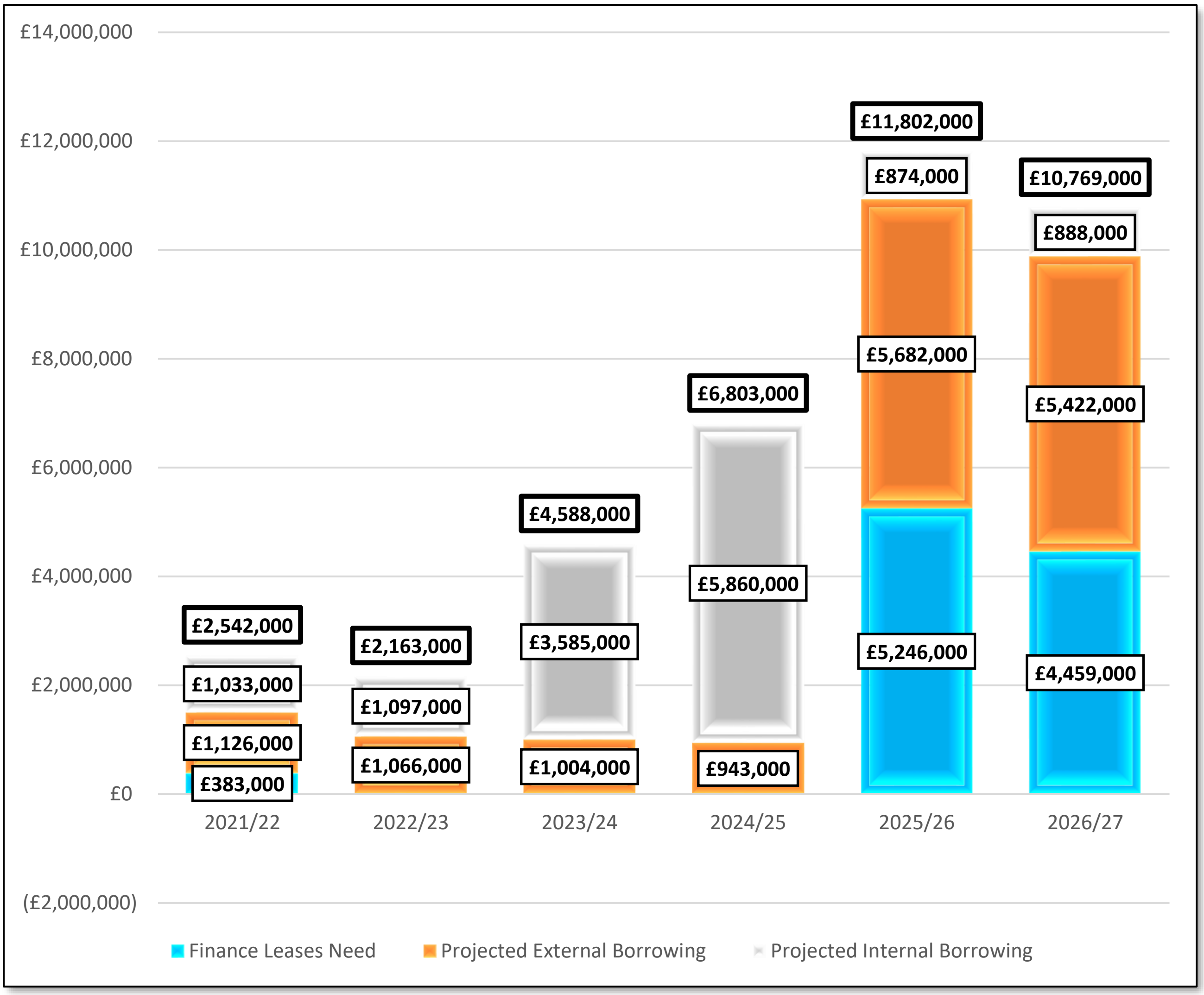
7.1. The Capital Programme is funded from a variety of sources. A number of these sources such as capital receipts, the revenue budget, grants, contributions and reserves utilise resources that are immediately available or are receivable. However, when capital expenditure is approved, and these resources are not available, then a **Capital Financing Requirement** (CFR) or borrowing need results.

7.2. The CFR is managed through the approval by Council of the Medium Term Financial Strategy including the Capital Programme and Prudential Indicators.

7.3. The CFR must be financed through borrowing or finance leases (external debt) or by temporarily utilising internal resources (internal borrowing).

7.4. At 31 March 2022 the Council had a relatively low level of external debt outstanding of **£1.126m**. The new leisure centre and the renewal of the waste fleet will mean external debt is projected to increase to **£10.77m** by 31 March 2027.

7.5. The projected CFR (the total for each column), **external debt** (finance leases and external borrowing) and **internal borrowing** is shown below:



7.6. The CFR is related to:

- Historic capital expenditure for the Chasewater Dam, Friary Outer Car Park and vehicles funded by finance leases.
- Planned capital expenditure for the new Leisure Centre and the renewal of the waste fleet funded by a lease type arrangement.

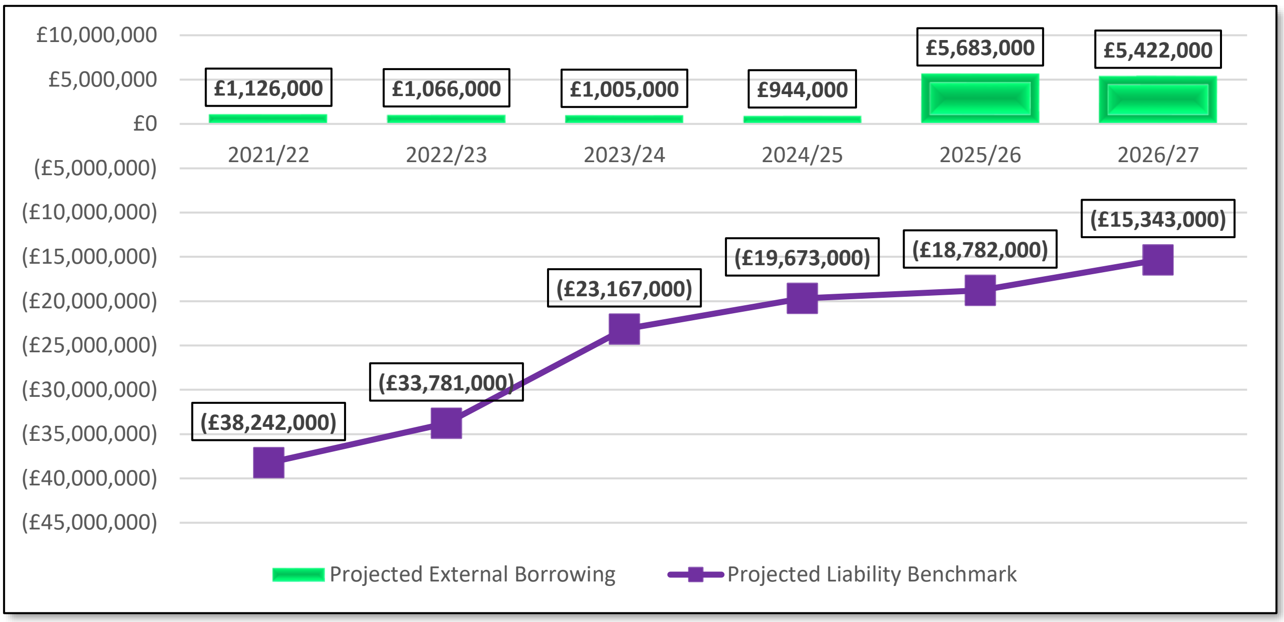
7.7. The Council manages its external debt through setting Prudential Indicators, related to the statutory maximum, known as the **Authorised Limit** and a lower warning level known as the **Operational Boundary**.

7.8. The external debt projections are based on the approved Capital Programme however to manage unforeseen events, an element of flexibility or 'headroom' is included in the Prudential Indicators:

- **Operational Boundary** – flexibility is included to enable internal borrowing to be converted to external debt or for example, to ensure accounting changes such as those proposed for all leases to be classed as finance leases, to be incorporated without breaching the limit.
- **Authorised Limit** – this provides additional flexibility to manage unusual cash flows that necessitate temporary borrowing such as Government Grants not being paid.

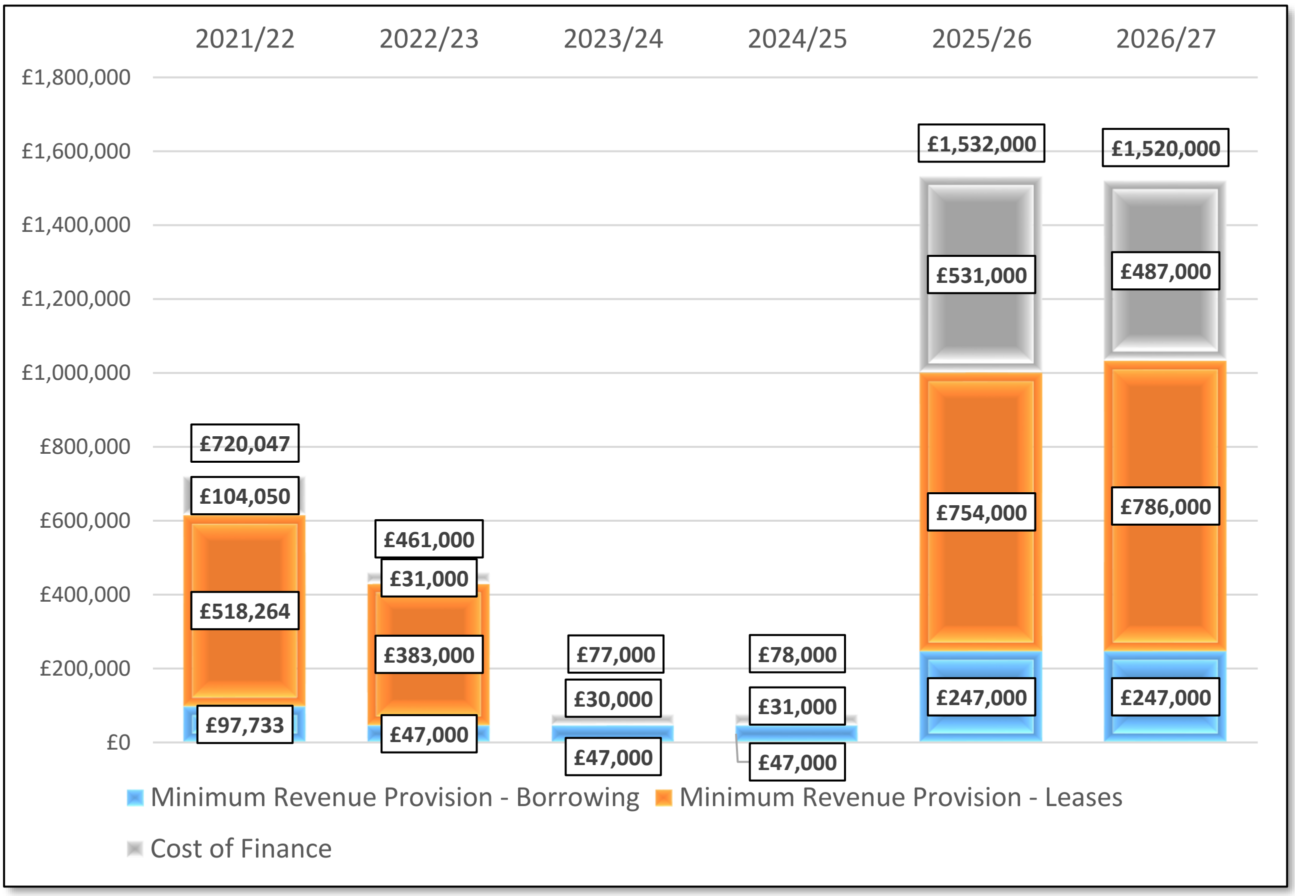
7.9. The **liability benchmark** is the lowest risk level of <u>external borrowing</u> by keeping cash and investments to a minimum of **£10m** at each year end to maintain liquidity but minimise credit risk.

7.10. The projected level of external borrowing, together with the projected liability benchmark is:

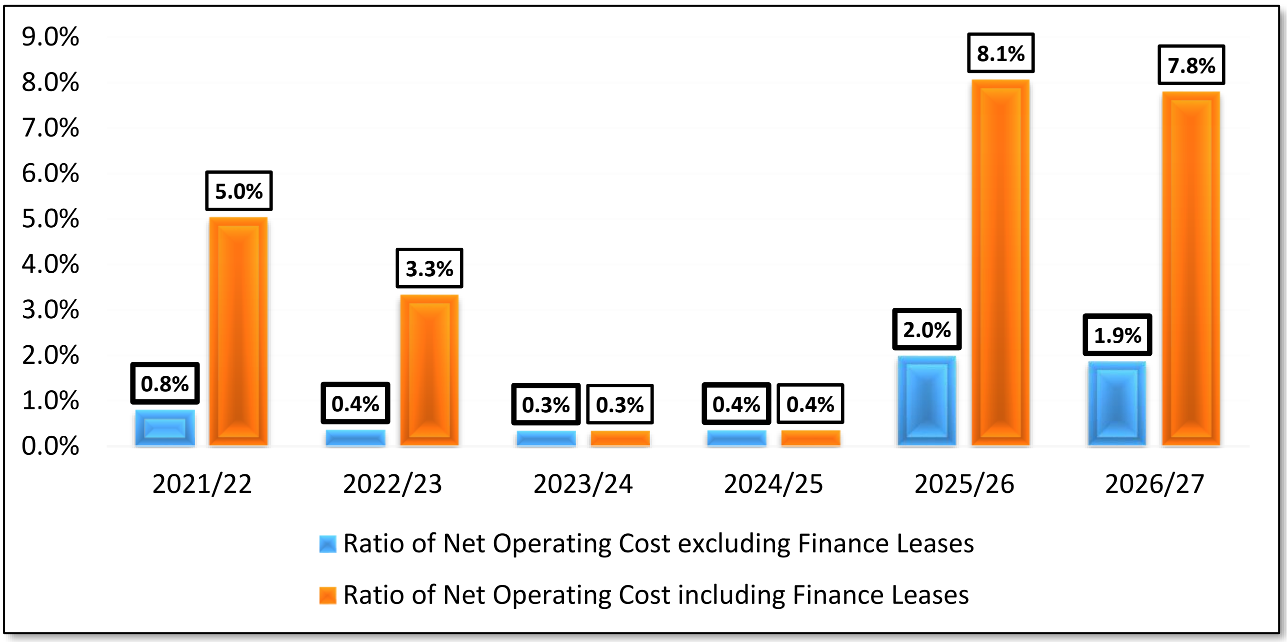


7.11. The chart above indicates that based on current Balance Sheet projections where usable reserves are reducing, the Council has sufficient resources to fund additional internal borrowing.

7.12. The cost of debt servicing includes the cost of finance and Minimum Revenue Provision (MRP). Debt is only a temporary source of finance since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as MRP:



7.13. The proportion of the net budget allocated to financing costs is:



7.14. The Minimum Revenue Provision and therefore the financing costs ratio increases in 2025/26 due to the inclusion of the debt costs for the new leisure centre and the new waste fleet assumed to be funded through a contract hire arrangement.

8. Financial Guarantees

8.1. In addition to the debt projections shown above, in relation to external borrowing and finance leases, the Council also acts as a guarantor for an admitted body that delivers services on behalf of the Council.

8.2. If it is probable that these guarantees will be required a financial provision is created to mitigate the risk. The guarantee identified in the Statement of Accounts under the Contingent Liabilities note is:

- On 1 February 2018, **Freedom Leisure** took over the management of the **Council's Leisure Centres**. 96 staff were transferred by TUPE via a pass through agreement. An assessment has been carried out by management of the risk and potential financial consequences should the Council be called to settle these liabilities. For 2021/22, the risk is assessed as low, between **1%** or **£22,455** and **5%** or **£112,274**. This is based on the operating environment nationally, the overall financial position of Freedom Leisure, the contract between Freedom and the Council, and the support provided both by the Government and Lichfield District Council.

8.3. This guarantee is assessed throughout the year, in terms of the financial viability of the organisations for which the guarantee is provided, to determine whether a financial provision will need to be created.

9. The Authority's Risk Appetite, Knowledge and Skills

9.1. The Council's risk appetite, along with the majority of Local Government, is increasing due to the need to offset funding reductions from Central Government with income from alternative sources.

9.2. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Assistant Director - Finance and Commissioning is a qualified accountant with 30 years' experience, the Council uses the Property Team that forms part of the services provided by the Company to the Council to optimise the management of existing property. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA and the Association of Accounting Technicians.

9.3. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and has access to property professionals through the Estates Team. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.

9.4. The Council plans to utilise the flexible use of capital receipts for transformation projects such as the Being a Better Council Programme.

10. Prudential and Local Indicators

10.1. The Prudential and Local Indicators in relation to the Capital Strategy are included in the Treasury Management Strategy Statement.

11. Chief Finance Officer Assessment of the Capital Strategy

11.1. I have assessed the current overall risk as **25** out of **64** based on the following factors:

	Likelihood	Impact	2023/24	2022/23
Minimum			**0**	**0**
Capital Strategy				
Slippage Occurs in the Capital Spend	4	2	8	8
Planned Capital Receipts are not received	2	2	4	4
The Capital Programme does include investment to realise all of the Council's Strategic aims	3	3	9	16
Actual Cashflows differ from planned Cashflows	2	2	4	4
Assessed Level of Risk			**25**	**32**
Maximum			**64**	**64**

11.2. Therefore, I believe the level of risk is Tolerable (Green).

Capital Programme – 25 Year Model (1 to 10 years, 15 years, 20 years and 25 years)

Key Assumptions													
Year	**2022/23** **1**	**2023/24** **2**	**2024/25** **3**	**2025/26** **4**	**2026/27** **5**	**2027/28** **6**	**2028/29** **7**	**2029/30** **8**	**2030/31** **9**	**2031/32** **10**	**2036/37** **15**	**2041/42** **20**	**2046/47** **25**
Population Projections	107,070	107,398	107,724	108,040	108,335	108,639	108,963	109,301	109,651	110,002	111,955	113,955	115,460
% Increase in Population		0.31%	0.30%	0.29%	0.27%	0.28%	0.30%	0.31%	0.32%	0.32%	0.37%	0.33%	0.33%
% of population 65 and over	25.31%	25.57%	25.80%	26.09%	26.44%	26.69%	26.90%	27.14%	27.33%	27.49%	27.90%	27.63%	27.63%
Projected Council Tax Base							43,047	43,376	43,705	44,034	45,679	47,324	48,969
Asset Values (£000)													
Buildings	32,182	36,326	38,550	37,948	37,285	42,285	42,285	42,285	42,285	42,285	42,285	42,285	42,285
Leisure Centre Cost above £5m					5,000								
Land	12,992	12,992	12,992	12,992	12,992								
Vehicles, Plant and Equipment	4,370	5,256	5,703	12,245	12,600								
Other Assumptions													
Core Budget Inflation Allowance						2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Asset Management Condition Allowance						0.54%							

Key Assumptions	**Medium Term Financial Strategy**					**Additional Projections**							
	2022/23 **£000**	**2023/24** **£000**	**2024/25** **£000**	**2025/26** **£000**	**2026/27** **£000**	**2027/28** **£000**	**2028/29** **£000**	**2029/30** **£000**	**2030/31** **£000**	**2031/32** **£000**	**2036/37** **£000**	**2041/42** **£000**	**2046/47** **£000**
Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**15**	**20**	**25**
Council Assets													
New Assets													
Loan in Council Company	57	93											
Replacement Leisure Centre	50	2,474	2,260										
Housing Investment	4	260	21										
New Coach Park	50	300											
New Coach Park - Land													
Sub Total	**161**	**3,127**	**2,281**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Existing Property													
Property Planned Maintenance	206	213	190	190	230	230	235	239	244	249	275	303	335
BRS Enabling Works	385	685											
Play Areas	165												
Equipment Storage													

ANNEX 1

Burntwood Leisure Centre	18	69											
Beacon Park Pathway													
Bore Street	34	542											
District Council House	354	300	546										
Construction Inflation Contingency	100	100	100	100									
Public Conveniences	147												
Sub Total	**1,409**	**1,909**	**836**	**290**	**230**	**230**	**235**	**239**	**244**	**249**	**275**	**303**	**335**
<u>Vehicles, Plant and Equipment</u>													
Bin Purchases/Dual Stream Recycling	417	150	150	150	150	150	151	152	153	155	160	166	172
Vehicles - Waste	0	0	0	6,000	0					0			
Vehicles - Other	261	281	247	217	30	207	211	216	220	224	248	273	302
ICT Investment	115	235	50	175	175	175	179	182	186	190	209	231	255
Building a Better Council	490												
Car Park Strategy	376	220											
Car Park Barriers													
Committee Audio-Visual Hybrid Platform	85												
Sub Total	**1,744**	**886**	**447**	**6,542**	**355**	**532**	**541**	**550**	**559**	**569**	**617**	**671**	**729**
<u>Other Capital Investment</u>													
Disabled Facilties Grants	1,000	1,615	1,272	914	914	914	924	935	944	953	984	992	1,005
Home Repair Assistance / Energy Insulation	0	22	22	25	25	25	25	25	25	25	25	25	25
Other Projects	536	4,598	1,783	0	0								
Sub Total	**1,536**	**6,235**	**3,077**	**939**	**939**	**939**	**949**	**960**	**969**	**978**	**1,009**	**1,017**	**1,030**
Total Modelled Expenditure	**4,850**	**12,157**	**6,641**	**7,771**	**1,524**	**1,701**	**1,725**	**1,749**	**1,773**	**1,796**	**1,902**	**1,992**	**2,094**

Key Assumptions	**Medium Term Financial Strategy**					**Additional Projections**							
	2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**2028/29**	**2029/30**	**2030/31**	**2031/32**	**2036/37**	**2041/42**	**2046/47**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
<u>Corporate Funding</u>													
Capital Receipts	(1,234)	(1,200)	(245)	(50)	(222)								
Capital Receipts - Housing	0	(360)	0	0	0								
Revenue - Corporate	0	(238)	(100)	(565)	(183)								
<u>Other Funding</u>	0	0	0	0	0								
Disabled Facilities Grant - New	(914)	(914)	(914)	(914)	(914)	(914)	(924)	(935)	(944)	(953)	(984)	(992)	(1,005)

Disabled Facilities Grant - Existing	(86)	(701)	(358)	0	0								
Home Repair Assistance / Energy Insulation	0	(22)	(22)	(25)	(25)								
Other Grants	(523)	(935)	(967)	0	0								
Section 106	(135)	(184)	0	0	0								
CIL	(44)	(895)	0	0	0								
Reserves	(1,714)	(4,015)	(1,625)	(67)	(30)								
Revenue - Existing Budgets	(150)	(150)	(150)	(150)	(150)	(150)	(151)	(152)	(153)	(155)	(160)	(166)	(172)
Burntwood Leisure Centre Sinking Fund	0	(69)	0	0	0								
Finance Leases	0	0	0	(6,000)	0	0	0	0	0	0	0	0	0
Total Modelled Funding	**(4,800)**	**(9,683)**	**(4,381)**	**(7,771)**	**(1,524)**	**(1,064)**	**(1,075)**	**(1,087)**	**(1,098)**	**(1,108)**	**(1,145)**	**(1,158)**	**(1,177)**

Annual Borrowing Need	**50**	**2,474**	**2,260**	**0**	**0**	**637**	**650**	**662**	**675**	**688**	**757**	**833**	**917**
Cumulative Borrowing Need	**50**	**2,524**	**4,784**	**4,784**	**4,784**	**5,421**	**6,071**	**6,733**	**7,408**	**8,096**	**11,740**	**15,750**	**20,165**

Key Assumptions	**Medium Term Financial Strategy**					**Additional Projections**							
	2022/23 £000	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**	**2027/28 £000**	**2028/29 £000**	**2029/30 £000**	**2030/31 £000**	**2031/32 £000**	**2036/37 £000**	**2041/42 £000**	**2046/47 £000**
Capital Receipts Year Start	**2,005**	**1,651**	**481**	**266**	**246**	**52**	**62**	**62**	**62**	**62**	**62**	**62**	**62**
Repayment of Loan from Company													
Other Receipts	30	30	30	30	28	10							
Sale of Venture House	850												
Utilised in Year	(1,234)	(1,200)	(245)	(50)	(222)	0	0	0	0	0	0	0	0
Capital Receipts Year End	**1,651**	**481**	**266**	**246**	**52**	**62**	**62**	**62**	**62**	**62**	**62**	**62**	**62**

Key Assumptions	**Medium Term Financial Strategy**					**Additional Projections**							
	2022/23 £000	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**	**2026/27 £000**	**2027/28 £000**	**2028/29 £000**	**2029/30 £000**	**2030/31 £000**	**2031/32 £000**	**2036/37 £000**	**2041/42 £000**	**2046/47 £000**
Capital Receipts Year Start	**829**	**1,023**	**663**	**663**	**663**	**663**	**663**	**663**	**663**	**663**	**663**	**663**	**663**
Right to Buy Receipts	194												
Utilised in Year	0	(360)	0	0	0	0	0	0	0	0	0	0	0
Capital Receipts Year End	**1,023**	**663**	**663**	**663**	**663**	**663**	**663**	**663**	**663**	**663**	**663**	**663**	**663**

APPENDIX B

Recommended Capital Programme

Project		Recommended Capital Programme (R=>500k, A=250k to 500k and G=<250k) 2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000	Corporate
New Build Parish Office/Community Hub	R	62	30	0	0	0	92	0
Burntwood Leisure Centre Sinking Fund Projects	A	0	69	0	0	0	69	0
Friary Grange - Short Term Refurbishment	R	158	0	0	0	0	158	0
Replacement Leisure Centre	A	50	2,474	2,260	0	0	4,784	0
Burntwood Leisure Centre - Decarbonisation Scheme	A	18	0	0	0	0	18	0
Accessible Homes (Disabled Facilities Grants)	R	1,000	1,615	1,272	914	914	5,715	0
Decent Homes Standard	R	0	97	0	0	0	97	0
Energy Insulation Programme	R	0	22	22	25	25	94	0
Unallocated S106 Affordable Housing Monies	A	4	260	21	0	0	285	0
Vehicle Replacement Programme - Env Health	A	0	0	0	0	20	20	0
Burntwood Park Play Equipment	A	75	0	0	0	0	75	0
Conversion of 36a Bore Street	A	34	542	0	0	0	576	360
Streethay Community Centre	R	0	600	0	0	0	600	0
Changing Places Fund	A/R	94	0	0	0	0	94	0
Zip Wire in Burntwood	A	30	0	0	0	0	30	0
Burntwood Community Hub	R	0	250	0	0	0	250	0
Play Equipment at Chase Terrace Park	A	25	0	0	0	0	25	0
Play Area at Burntwood Leisure Centre	A	35	0	0	0	0	35	0
Enabling People Total		**1,585**	**5,959**	**3,575**	**939**	**959**	**13,017**	**360**
Loan to Council Dev Co.	A	57	93	0	0	0	150	0
Lichfield St Johns Community Link (CIL)	R	0	35	0	0	0	35	0
Staffordshire Countryside Explorer (CIL)	R	44	0	0	0	0	44	0
Lichfield Public Conveniences	A	40	0	0	0	0	40	40
Vehicle Replacement Programme (Waste)	A	0	0	0	6,000	0	6,000	0
Bin Purchase	A	150	150	150	150	150	750	0
Dual Stream Recycling	A	267	0	0	0	0	267	0
Vehicle Replacement Programme (Other)	A	261	281	247	217	0	1,006	205
Burntwood Public Conveniences	A	45	0	0	0	0	45	0
Falkland Road Fosseway Canal Walk	R	0	260	0	0	0	260	0
Shaping Place Total		**864**	**819**	**397**	**6,367**	**150**	**8,597**	**245**
Vehicle Replacement Programme (Car Parks)	A	0	0	0	0	10	10	0
Coach Park	A	50	300	0	0	0	350	288
Car Parks Variable Message Signing	A	150	0	0	0	0	150	0
Pay on Exit System at Friary Multi Storey	A	93	0	0	0	0	93	0
Card Payment in All Car Parks	A	123	0	0	0	0	123	0
Pay on Exit System at Lombard Street	A	0	150	0	0	0	150	0
Electric Vehicle Charge Points	A	10	70	0	0	0	80	0
BRS Enabling Works	A	385	685	0	0	0	1,070	0
Cinema Development	R	240	3,326	1,783	0	0	5,349	850
Incubator Space	A	354	300	546	0	0	1,200	0
Developing Prosperity Total		**1,405**	**4,831**	**2,329**	**0**	**10**	**8,575**	**1,138**
Property Planned Maintenance	A	206	213	190	190	230	1,029	1029
IT Infrastructure	A	115	235	50	0	175	575	475
ICT Hardware	A	0	0	0	175	0	175	175
Building a Better Council	A	490	0	0	0	0	490	490
Committee Audio-Visual Hybrid Meeting Platform	A	85	0	0	0	0	85	85
Construction Inflation Contingency	A	100	100	100	100	0	400	400
Good Council Total		**996**	**548**	**340**	**465**	**405**	**2,754**	**2,654**
Recommended Capital Programme		**4,850**	**12,157**	**6,641**	**7,771**	**1,524**	**32,943**	**4,397**

		2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000	Corporate
Asset	A	3,314	5,922	3,564	6,832	585	20,249	3,547
REFCUS	R	1,536	6,235	3,077	939	939	12,694	850
Total		**4,850**	**12,157**	**6,641**	**7,771**	**1,524**	**32,943**	**4,397**

APPENDIX B

Funding Source	Draft Capital Programme 2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
Capital Receipts	1,234	1,200	245	50	222	2,951
Capital Receipts - Housing	0	360	0	0	0	360
Revenue - Corporate	0	238	100	565	183	1,086
Corporate Council Funding	**1,234**	**1,798**	**345**	**615**	**405**	**4,397**
Grant	1,523	2,572	2,261	939	939	8,234
Section 106	135	184	0	0	0	319
CIL	44	895	0	0	0	939
Reserves	1,714	4,015	1,625	67	30	7,451
Revenue - Existing Budgets	150	150	150	150	150	750
Sinking Fund	0	69	0	0	0	69
Finance Leases	0	0	0	6,000	0	6,000
Internal Borrowing	0	0	0	0	0	0
Total	**4,800**	**9,683**	**4,381**	**7,771**	**1,524**	**28,159**
External Borrowing	**50**	**2,474**	**2,260**	**0**	**0**	**4,784**
Recommended Capital Programme	**4,850**	**12,157**	**6,641**	**7,771**	**1,524**	**32,943**

Reconciliation of Original Capital Programme to this Recommended Capital Programme

	Cabinet or Decision Date	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	Total £000
Original Budget Council 22/02/2022		**7,953**	**7,247**	**1,926**	**1,745**	**0**	**18,871**
Approved Changes							
Slippage from 2021/22	07/06/2022	1,650					1,650
Allocation of CIL Monies	08/02/2022	860					860
36A Bore Street Briefing note	20/12/2021	360					360
MTFS	05/07/2022	(37)	50	50			63
Burntwood Zip Line	25/07/2022	30					30
Money Matters Qtr 1	06/09/2022	548	532	905	(41)		1,944
Updated Projections	06/09/2022	(50)					(50)
Money Matters Review of Reserves	06/09/2022	77	1,000				1,077
Play Equipment Chase Terrace Park	06/10/2022	25					25
A Cinema for Lichfield District	11/10/2022	427	2,209	1,383			4,019
Play Area Burntwood Leisure Centre	27/10/2022	35					35
Money Matters Qtr 2	06/12/2022	(271)	23			30	(218)
Money Matters Period 8	14/02/2022	(6,582)	6,595				13
Projections							
Long Term Model	22/02/2022					1,659	1,659
Building a Better Council IT Provision	This meeting	(175)					(175)
Leisure Centre Reprofiling			(2,260)	2,260			0
Removal of Grant from Coach Park			(500)				(500)
Waste Fleet Replacement			(2,818)		6,000		3,182
Vehicle Replacement Programme			79	117	67	(165)	98
Draft Capital Programme		**4,850**	**12,157**	**6,641**	**7,771**	**1,524**	**32,943**

Minimum Revenue Provision Statement 2023/24

Where the Council finances capital expenditure by debt (finance leases, internal and external borrowing), it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). Although there has been no statutory minimum since 2008. The Local Government Act 2003 requires this Council to have regard to the Department of Levelling Up, Housing and Communities (DLUHC) guidance on MRP most recently issued in 2018.

The broad aim of the DLUHC Guidance is to ensure that capital expenditure is financed over the period that is reasonably commensurate with that over which the capital expenditure provides benefits.

The DLUHC Guidance requires the Council to approve an annual MRP Statement each year, and recommends a number of options for calculating a prudent amount of MRP.

- For capital expenditure incurred after 1 April 2008 where no financial support is provided by the Government through the Finance Settlement, MRP will be determined by charging the expenditure over the expected useful life of the relevant asset in equal instalments starting in the year after the asset becomes operational. MRP on purchases of **freehold land** will be charged over a maximum of **50 years**. MRP on expenditure not related to assets but that has been **capitalised by regulation or direction** (Revenue Expenditure Funded by Capital under Statute or REFCUS) will be charged over a maximum of **20 years**.
- For assets acquired by **leases**, MRP will be determined as being equal to the **element of the rent or charge that is used to write down the Balance Sheet liability**.
- Where former operating leases have been brought onto the balance sheet due to the adoption of the *IFRS 16 Leases* accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or incentives, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.
- For **capital expenditure loans to third parties that are repaid** in annual or more frequent instalments of principal, the Council will make **nil MRP**, but instead apply the capital receipts arising to reduce the Capital Financing Requirement or Borrowing Need. In years where there is no principal repayment, MRP will be charged in accordance with the MRP policy for the assets funded by the loan, including where appropriate delaying the MRP until the year after the assets become operational.

Capital expenditure funded by debt incurred during 2023/24 will not be subject to a MRP charge until 2024/25 or later.

Based on the Authority's latest estimate of its Capital Financing Requirement (CFR) on 31 March 2023, the budget for MRP has been set as follows:

	Estimated CFR 31/03/2023 £000	**Estimated MRP 2023/24 £000**
Capital Expenditure after 31/03/2008	2,163	47
Leases	0	0
Total	**2,163**	**47**

Treasury Management

Introduction

Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Council's prudent financial management.

Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2018 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

Investments held for service purposes or for commercial profit are considered in a different report, the Investment Strategy.

As part of the MTFS, we prepare integrated Revenue Budgets and a Capital Programme. These budgets, together with the actual Balance Sheet from the previous financial year, are used to also prepare Balance Sheet projections. These Balance Sheet Projections are shown on the next page.

These Balance Sheet projections are significant in assessing the Council's Treasury Management Position in terms of borrowing requirement (including comparison to a **Liability Benchmark** explained below), investment levels and our Investment Policy and Strategy.

A Liability benchmark compares the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as used in the Balance Sheet projections, but that cash and investment balances are kept to a minimum level (**£10m**) to maintain sufficient liquidity but minimise credit risk through the use of Internal Borrowing.

CIPFA's *Prudential Code for Capital Finance in Local Authorities* recommends that the Council's total debt should be lower than its highest forecast Capital Financing Requirement (CFR) or Borrowing Need over the next three years. The table shows that the Council expects to comply with this recommendation.

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000
Capital Financing Requirement (Borrowing)	2,158	2,163	4,590	6,804	6,556	6,310
Capital Financing Requirement (Finance Leases)	384	0	0	0	5,246	4,460
Total	**2,542**	**2,163**	**4,590**	**6,804**	**11,803**	**10,770**

External Borrowing	1,126	1,065	1,004	943	5,682	5,422
Finance Leases	384	0	0	0	5,246	4,460
Total	**1,509**	**1,065**	**1,004**	**943**	**10,928**	**9,882**

Liability Benchmark	38,242	33,781	23,167	19,673	18,782	15,343

APPENDIX D

Balance Sheet Projections 2022-27

(Rounding may result in slight differences in figures in the wider Report)

	Type	2021/22 Actual £000s	2022/23 Budget £000s	2023/24 Budget £000s	2024/25 Budget £000s	2025/26 Budget £000s	2026/27 Budget £000s	2021/27 Change £000s
Non-Current Assets	ASSET	48,033	48,820	52,864	54,643	59,690	58,490	10,457
Equity Investment in Local Authority Company	ASSET	225	225	225	225	225	225	0
Long Term Debtors	CRED	143	143	143	143	143	143	0
Long Term Investment (Company Loan)	LOAN	0	57	150	150	150	150	150
Investments	INV	49,367	44,846	34,171	30,616	34,464	30,764	(18,603)
Borrowing	BOLE	(1,126)	(1,065)	(1,004)	(943)	(5,682)	(5,422)	(4,296)
Finance Leases	BOLE	(383)	(0)	(0)	(0)	(5,246)	(4,460)	(4,077)
Working Capital	CRED	(23,176)	(23,107)	(22,562)	(22,390)	(22,576)	(22,576)	600
Pensions	CRED	(24,799)	(25,523)	(26,090)	(27,633)	(29,220)	(28,644)	(3,845)
TOTAL ASSETS LESS LIABILITIES		**48,284**	**44,396**	**37,896**	**34,810**	**31,947**	**28,670**	**(19,613)**

Unusable Reserves								
Revaluation Reserve	REV	(11,897)	(11,897)	(11,897)	(11,897)	(11,897)	(11,897)	0
Capital Adjustment Account	CAP	(33,819)	(35,042)	(36,752)	(36,317)	(36,365)	(36,198)	(2,379)
Deferred Credits	CRED	(47)	(47)	(47)	(47)	(47)	(47)	0
Pension Scheme	CRED	25,962	26,741	27,543	28,369	29,220	30,097	4,135
Benefits Payable During Employment Adjustment Account	CRED	409	409	409	409	409	409	0
Collection Fund	CRED	2,863	(305)	0	0	0	0	(2,863)
Available for Sale Financial Instruments Reserve	CRED	(228)	1,197	1,197	1,197	1,197	1,197	1,425
Usable Reserves								0
Unapplied Grants and Contributions	UGER	(4,057)	(4,353)	(3,147)	(3,354)	(3,579)	(3,804)	253
Usable Capital Receipts	UGER	(2,859)	(2,699)	(1,169)	(954)	(934)	(740)	2,119
Burntwood Leisure Centre Sinking Fund	UGER	(69)	(69)	0	0	0	0	69
Earmarked Reserves - Unrestricted	UGER	(12,653)	(7,968)	(4,016)	(2,325)	(1,818)	(1,775)	10,878
Earmarked Reserves - Restricted	UGER	(5,043)	(4,287)	(3,942)	(3,816)	(3,713)	(3,627)	1,415
General Fund Balance	GEN	(6,846)	(6,075)	(6,075)	(6,075)	(4,420)	(2,285)	4,561
TOTAL EQUITY		**(48,284)**	**(44,396)**	**(37,896)**	**(34,810)**	**(31,947)**	**(28,670)**	**19,613**

Reserves Available to cover Investment Losses	**(19,499)**	**(14,043)**	**(10,091)**	**(8,400)**	**(6,238)**	**(4,060)**	**15,439**

Summary								
Capital Funding	CAP	(33,819)	(35,042)	(36,752)	(36,317)	(36,365)	(36,198)	(2,379)
Revaluation Reserve	REV	(11,897)	(11,897)	(11,897)	(11,897)	(11,897)	(11,897)	0
Borrowing and Leasing	BOLE	(1,509)	(1,066)	(1,005)	(944)	(10,929)	(9,882)	(8,373)
Non-Current Assets	ASSET	48,258	49,045	53,089	54,868	59,915	58,715	10,457
Investments	INV	49,367	44,846	34,171	30,616	34,464	30,764	(18,603)
Unapplied Grants & Earmarked Reserves	UGER	(24,681)	(19,377)	(12,275)	(10,449)	(10,044)	(9,947)	14,734
General Reserve	GEN	(6,846)	(6,075)	(6,075)	(6,075)	(4,420)	(2,285)	4,561
Long Term Debtors	DEBT	143	143	143	143	143	143	0
Long Term Investment (Company Loan)	LOAN	0	57	150	150	150	150	150
Working Capital & Pensions	CRED	(19,016)	(20,635)	(19,550)	(20,095)	(21,017)	(19,564)	(548)
Total		**0**	**0**	**0**	**0**	**0**	**0**	**0**
Internal Borrowing		**1,033**	**1,097**	**3,585**	**5,860**	**874**	**888**	**(145)**

Liability Benchmark								
Capital Financing Requirement (Borrowing)		2,158	2,162	4,590	6,803	6,556	6,310	4,152
Working Capital, Pensions & Long Term Debtors		(18,873)	(20,492)	(19,407)	(19,952)	(20,874)	(19,421)	(548)
Usable Reserves		(31,527)	(25,452)	(18,350)	(16,524)	(14,464)	(12,232)	19,295
Minimum Level of Investments		10,000	10,000	10,000	10,000	10,000	10,000	0
Total		**(38,242)**	**(33,781)**	**(23,167)**	**(19,673)**	**(18,782)**	**(15,343)**	**22,899**

The funding of the leisure centre through internal borrowing would reduce the projected level of borrowing from 2025/26 and will also reduce the projected level of investments by the same level.

Borrowing Strategy

The Council currently projects **£1.065 million** of loans outstanding at the 31 March 2023, a decrease of **£0.061 million** on the previous year, as part of its strategy for funding previous years' capital programmes. The balance sheet forecast on the previous page shows that the Council does not expect to need to borrow in 2023/24. The Council may however borrow to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing of **£19.932 million**.

Objectives: The Council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

Strategy: Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the Council can reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The Council has previously raised its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity to retain its access to PWLB loans.

Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the Council may borrow short-term loans to cover unplanned cash flow shortages.

Sources of borrowing: The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments (see below)
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except Staffordshire County Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leasing
- hire purchase
- Private Finance Initiative
- sale and leaseback

Municipal Bonds Agency: UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

Short-term and variable rate loans: These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk (see section below).

Debt rescheduling: The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk. The recent rise in interest rates means that more favourable debt rescheduling opportunities should arise than in previous years.

Treasury Investment Strategy

The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's treasury investment balance has ranged between **£38.02 million** and **£54.20 million** and similar levels are expected in the forthcoming year.

Objectives: The CIPFA Code requires the Council to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, to maintain the spending power of the sum invested. The Authority aims to be a responsible investor and will consider environmental, social and governance (ESG) issues when investing.

Strategy: Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to further diversify into more secure and/or higher yielding asset classes during 2023/24. This is especially the case for the estimated £15m that is available for longer-term investment. A reducing proportion of the Council's surplus cash remains invested in short-term unsecured bank deposits and money market funds. This diversification will represent a continuation of the strategy adopted in 2019.

ESG policy: Environmental, social and governance (ESG) considerations are increasingly a factor in global investors' decision making, but the framework for evaluating investment opportunities is still developing. At present the Authority's investment approach does not currently include ESG scoring or other real-time ESG criteria at an individual investment level. Therefore, when investing in banks and funds, the Authority will prioritise banks that are signatories to the UN Principles for Responsible Banking and funds operated by managers that are signatories to the UN Principles for Responsible Investment, the Net Zero Asset Managers Alliance and/or the UK Stewardship Code.

Business models: Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved counterparties: The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the limits shown (recommended changes are in red).

Sector	**Time limit**	**Counterparty limit**	**Sector limit**
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£2m	Unlimited
Secured investments *	25 years	£2m	Unlimited
Banks (unsecured) *	13 months	£1m	Unlimited
Building societies (unsecured) *	13 months	£1m	£2m
Registered providers (unsecured) *	5 years	£1m	£5m
Money market funds *	n/a	£4m	Unlimited
Strategic pooled funds	n/a	£5m	£15m
Real estate investment trusts	n/a	£1m	£5m
Other investments *	5 years	£0.5m	£2m

This table must be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than **A-**. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of **£500,000 per counterparty** as part of a diversified pool e.g. via a peer-to-peer platform.

Government: Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Secured investments: Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (unsecured): Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Registered providers (unsecured): Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds: Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds: Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real estate investment trusts: Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments: This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Council's investment at risk.

Operational bank accounts: The Council may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below **£500,000 per bank**. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk assessment and credit ratings: Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the security of investments: The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment limits: The Council's revenue reserves available to cover investment losses are forecast to be **£14.043 million** on 31st March 2023. In order that no more than 10% of available reserves will be put at risk in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government and pooled funds) will be **£2 million**. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than **£500,000** in operational bank accounts count against the relevant investment limits.

Limits are also placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

Investment limits

	Cash limit
Any group of pooled funds under the same management	£15m per manager
Negotiable instruments held in a broker's nominee account	£12m per broker
Foreign countries	£2m per country

Liquidity management: The Council uses an excel spreadsheet for cash flow forecasting to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council's medium-term financial plan and cash flow forecast.

The Council will spread its liquid cash over a number of providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

The CIPFA Code requires the Council to include the following in its treasury management strategy.

Financial derivatives: Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in section 1 of the *Localism Act 2011* removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

Markets in Financial Instruments Directive: The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Assistant Director - Finance and Commissioning believes this to be the most appropriate status.

APPENDIX D

Financial Implications

The budget for investment income in 2023/24 is **£1.963 million**, based on an average investment portfolio of **£48.76 million** at an interest rate of **4.09%**. The budget for external debt interest paid in 2023/24 is **£0.029 million**, based on an average external debt portfolio of **£1.08 million** at an average interest rate of **2.59%**. If actual levels of investments and borrowing, or actual interest rates, differ from those forecast, performance against budget will be correspondingly different.

Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then yield in excess of **3.6%** of the revenue savings will be transferred to treasury management volatility reserves to cover the risk of capital losses or lower interest rates payable in future years.

Other Options Considered

The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Assistant Director - Finance and Commissioning, having consulted the Cabinet Member for Finance, Procurement, Customer Services, Revenues and Benefits, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Investment Strategy Report 2023/24

Introduction

The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as **treasury management investments**),
- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

This investment strategy meets the requirements of statutory guidance issued by the government in January 2018 and focuses on the second and third of these categories.

Treasury Management Investments

The Council typically receives its income in cash (e.g. from taxes and grants) before it pays for its expenditure in cash (e.g. through payroll and invoices). It also holds reserves for future expenditure and collects local taxes on behalf of other local authorities and central government. These activities, plus the timing of borrowing decisions, lead to a cash surplus which is invested in accordance with guidance from the Chartered Institute of Public Finance and Accountancy. The balance of treasury management investments is expected to fluctuate between **£38.02 million** and **£54.20 million** during the 2023/24 financial year.

Contribution: The contribution that these investments make to the objectives of the Council is to support effective treasury management activities.

Further details: Full details of the Council's policies and its plan for 2023/24 for treasury management investments are covered in a separate document in this report, the treasury management strategy.

Service Investments: Loans

Contribution: The Council lends money to its employees for car loans, inherited housing loans from Birmingham City Council, makes loans to individuals to reduce the risk of homelessness and will lend to its subsidiary and the joint venture.

Security: The main risk when making service loans is that the borrower will be unable to repay the principal lent and/or the interest due. To limit this risk, and ensure that total exposure to service loans remains proportionate to the size of the Council, upper limits on the outstanding loans to each category of borrower have been set as follows:

Category of borrower	31.3.2022 actual			2022/23	2023/24
	Balance owing	Loss allowance	Net figure in accounts	Projection	Proposed Limit
Subsidiaries	£0	£0	£0	£57,000	£150,000
Employees – car loans	£0	£0	£0	£0	£100,000
Housing Loans - secured	£44,320	£0	£44,320	£44,320	£45,000
Housing Loans - unsecured	£2,771	£0	£2,771	£2,771	£3,000
Homelessness Loans	£12,708	(£12,708)	£0	£0	£50,000
Joint Venture – Cinema Development	£0	£0	£0	£240,000	£5,349,000
TOTAL	**£59,799**	**(£12,708)**	**£47,091**	**£344,091**	**£5,697,000**

Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Council's statement of accounts are shown net of this loss allowance. However, the Council makes every reasonable effort to collect the full sum lent including placing charges on properties for housing loans (secured) and has appropriate credit control arrangements in place to recover overdue repayments.

Risk assessment: The most significant loans for service purposes are:

- The **£150,000** loan for up to **5 years** to the Council Company. The Board of Directors of the Company will initially include Council employees and therefore the Council will be able to manage the repayment risk through project due diligence and the monitoring of selected projects.
- The **£5,349,000** loan to the Joint Venture for the cinema development. The Council will have directors on the board of the joint venture and therefore the Council will be able to monitor and manage the repayment risk through the Business Plan.

Service Investments: Shares

Contribution: The Council has invested **£225,000** in shares of its Company to support local services.

Security: One of the risks of investing in shares is that they fall in value, meaning that the initial outlay may not be recovered. In order to limit this risk, upper limits on the sum invested in each category of shares have been set as follows:

Category of borrower	31.3.2022 actual			2022/23	2023/24
	Amount Invested	Gains or Losses	Value in accounts	Projection	Proposed Limit
Subsidiaries	225,000	0	225,000	225,000	225,000
Joint Venture[3]	0	0	0	1	1
TOTAL	**225,000**	**0**	**225,000**	**225,001**	**225,001**

3 The level of equity investment is still to be agreed.

Risk Assessment: The Council assesses the risk of loss before entering into and whilst holding shares by regular approval of the Business Plan and review of the Annual Report.

Liquidity: The equity investment has no time limit and will be monitored through approval of the Business Plan.

Non Specified Investments: Shares are the only investment type the Council has identified that meets the definition of a non-specified investment in the government guidance, The limits on share investments above are also therefore the upper limits on non-specified investments.

Commercial Investments: Property

See the Capital Strategy at **APPENDIX A**.

Loan Commitments and Financial Guarantees

See the Capital Strategy at **APPENDIX A**.

Proportionality

See the Capital Strategy at **APPENDIX A**.

Borrowing in Advance of Need

Government guidance is that local authorities must not borrow more than or in advance of their needs purely to profit from the investment of the extra sums borrowed. The Council does not currently plan to undertake this type of activity.

Capacity, Skills and Culture

See the Capital Strategy at **APPENDIX A**.

Investment Indicators

The Council has set the following quantitative indicators to allow elected members and the public to assess the Council's total risk exposure as a result of its investment decisions.

Total risk exposure: The first indicator shows the Council's total exposure to potential investment losses. This includes amounts the Council is contractually committed to lend but have yet to be drawn down and guarantees the Council has issued over third party loans.

Total Investment Exposure	31/03/22 Actual £000	31/03/23 Forecast £000	31/03/24 Forecast £000	31/03/25 Forecast £000	31/03/26 Forecast £000	31/03/27 Forecast £000
Treasury Management Investments	£49,367	£44,846	£34,171	£30,616	£34,464	£30,764
Service Investments - Loans	£0	£0	£0	£0	£0	£0
Service Investments - shares	£225	£225	£225	£225	£225	£225
Commercial Investments: Property	£4,153	£3,468	£3,468	£3,468	£3,468	£3,468
TOTAL INVESTMENTS	**£53,745**	**£48,179**	**£37,864**	**£34,309**	**£38,157**	**£34,457**
Loan to the Council owned Company	£0	£57	£150	£150	£150	£150
Joint Venture Capital Advance	£0	£240	£3,566	£5,349	£5,349	£5,349
TOTAL EXPOSURE	**£53,745**	**£48,476**	**£41,580**	**£39,808**	**£43,656**	**£39,956**

How investments are funded: Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the Council does not currently intend purchasing any service or commercial type investments. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure

Rate of return received: This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested. Note that due to the complex local government accounting framework, not all recorded gains and losses affect the revenue account in the year they are incurred.

Investment rate of return (net of all costs)

Investments Net Rate of Return	**31/03/22 Actual %**	**31/03/23 Forecast %**	**31/03/24 Forecast %**	**31/03/25 Forecast %**	**31/03/26 Forecast %**	**31/03/27 Forecast %**
Treasury Management Investments	0.80%	2.55%	4.09%	3.69%	3.50%	3.50%
Service Investments - Loans						
Service Investments - shares						
Loan to Council Owned Company[4]	0.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Joint Venture Capital Advance[5]	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
ALL INVESTMENTS	**0.80%**	**2.55%**	**4.09%**	**3.69%**	**3.50%**	**3.50%**

Other Investment Indicators	**31/03/22 Actual %**	**31/03/23 Forecast %**	**31/03/24 Forecast %**	**31/03/25 Forecast %**	**31/03/26 Forecast %**	**31/03/27 Forecast %**
Investment Property Income as a proportion of Net Operating Cost	0.77%	1.02%	1.33%	1.15%	0.92%	0.86%

See the Capital Strategy at **APPENDIX A**.

4 Gross figure budgeted to be 4% less investment income foregone.
5 To be agreed and in compliance with Subsidy Control Requirements.