

Executive Board – 21 February 2023

Subject:	Treasury Management Strategy 2023/24 and Capital Strategy 2023/24
Corporate Director(s)/Director(s):	Ross Brown, Corporate Director of Finance & Resources and S151 Officer
Portfolio Holder(s):	Adele Williams, Portfolio Holder for Finance and Resources
Report author and contact details:	Jacqueline Mundy, Interim Senior Accountant – Treasury Management Thomas Straw, Senior Accountant – Capital Programme Email: jacqueline.mundy@nottinghamcity.gov.uk & thomas.straw@nottinghamcity.gov.uk
Other colleagues who have provided input:	Debbie Middleton, Interim Deputy Director of Finance and Deputy S151 Officer Jean Stevenson, Interim Team Leader - Technical Finance Joanne Worster, Team Leader - Strategic Finance
Subject to call-in:	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Key Decision:	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Criteria for Key Decision:	
(a) <input type="checkbox"/> Expenditure <input type="checkbox"/> Income <input type="checkbox"/> Savings of £750,000 or more taking account of the overall impact of the decision	
and/or	
(b) Significant impact on communities living or working in two or more wards in the City <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
Type of expenditure: <input checked="" type="checkbox"/> Revenue <input checked="" type="checkbox"/> Capital If Capital, provide the date considered by Capital Board Date: 16 th January 2023	
Total value of the decision: Nil	
Wards affected: All	
Date of consultation with Portfolio Holder(s):	
Relevant Council Plan Key Outcome:	
Clean and Connected Communities	<input checked="" type="checkbox"/>
Keeping Nottingham Working	<input checked="" type="checkbox"/>
Carbon Neutral by 2028	<input checked="" type="checkbox"/>
Safer Nottingham	<input checked="" type="checkbox"/>
Child-Friendly Nottingham	<input checked="" type="checkbox"/>
Healthy and Inclusive	<input checked="" type="checkbox"/>
Keeping Nottingham Moving	<input checked="" type="checkbox"/>
Improve the City Centre	<input checked="" type="checkbox"/>
Better Housing	<input checked="" type="checkbox"/>
Financial Stability	<input checked="" type="checkbox"/>
Serving People Well	<input checked="" type="checkbox"/>
Summary of issues (including benefits to citizens/service users):	
<p>This report sets out the proposed Treasury Management Strategy (TMS) 2023/24 and Capital Strategy for 2023/24. The TMS sets out the Treasury Management, Treasury Investment, Borrowing and Debt Repayment strategies for 2023/24 and includes the associated Prudential Indicators and Treasury Management Policy Statement. The Capital Strategy for 2023/24 sets out the framework for the Council's capital investment and financing decisions aligned to the Council's corporate priorities over the medium terms, it also includes:</p> <ul style="list-style-type: none"> • the Voluntary Debt Reduction (VDR) policy which sets out the Council's plan to reduce debt to a sustainable level, and • the Flexible Use of Capital Receipt Policy applicable to 2022/23 for approval to fund Transformation Programme costs from capital receipts • the Flexible Use of Capital Receipts Policy applicable to 2023/24 for approval to fund Transformation costs from capital receipts. 	

Does this report contain any information that is exempt from publication?

No

Recommendation(s):

- 1** To recommend for approval by full City Council at its meeting on 6 March 2023 the overall Treasury Management Strategy for 2023/24 (Appendix 1), and, in particular:
- a.** the strategy for debt repayment (Minimum Revenue Provision Statement) in 2023/24 (section 5.2);
 - b.** the Borrowing Strategy including the Debt Policy (section 3.4);
 - c.** the Investment Strategy for 2023/24 (section 4);
 - d.** the Prudential Indicators and Limits for 2023/24 to 2025/26 (section 5.1); and
 - e.** the current Treasury Management Policy Statement (section 5.3).
- 2** To recommend for approval by City Council at its meeting on 6 March 2023 the Capital Strategy 2023/24 (Appendix 2), and in particular:
- a.** the Voluntary Debt Reduction policy (Appendix B);
 - b.** the Flexible Use of Capital Receipt policy 2022/23 (Appendix C);
 - c.** the Flexible Use of Capital Receipt policy 2023/24 (Appendix C).

1. Reasons for recommendations

1.1 Approval of a Treasury Management Strategy is a legal requirement, to comply with:

- Financial Regulations and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management by submitting a policy and strategy statement for the ensuing financial year;
- guidance issued by the Secretary of State under section 15(1) (a) of the Local Government Act 2003 in approving, at Council, an Annual Investment Strategy before 1 April;
- guidance issued by the Secretary of State under section 21 (1A) of the Local Government Act 2003 which requires the preparation of an annual statement of the Council's policy on making a Minimum Revenue Provision (MRP) for the repayment of debt.

1.2 The approval of a Capital Strategy is required to comply with:

- The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the Code of Practice on Treasury Management;
- regulations requiring the Council to have regard to the Code are issued under Part 1 of the Local Government Act 2003;
- guidance issued by the Secretary of State under section 15(1) (a) of the Local Government Act 2003 in approving, at Council, an Annual Investment Strategy before 1 April.

2. Background (including outcomes of consultation)

2.1 The Government commissioned a non-statutory review of the Council in November 2020 with the findings being published on the 17 December 2020. The published review highlighted the level of risk and planned further borrowing within

the capital programme, the high level of debt held by the Council and the reduction in the balances of reserves held which further reduces budget flexibility.

- 2.2 Following the review the council published the Nottingham City Council Recovery & Improvement Plan 2021 – 2024. This plan was refreshed and renamed as the Together for Nottingham plan and was approved at a meeting of Full City Council on the 10 January 2022, with the refreshed plan approved at Full Council October 2022. As part of this plan the Capital Strategy and this Treasury Management Strategy continue with the aim to support the Council returning to financial and operational stability.
- 2.3 The borrowing and debt management strategies intended to provide a sound framework for managing debt, to reduce the Council's future overall borrowing requirement (known as the Capital Financing Requirement (CFR)) and to reduce the level of debt held by the Council. The CFR is forecast to reduce by around **£195.5m** in the period 2023/24 to 2026/27 as covered by these strategies.
- 2.4 Treasury management is a term used to describe the management of an organisation's borrowing, investments and other financial instruments, their associated risks and the pursuit of optimum performance or return consistent with those risks.
- 2.5 The Treasury Management Strategy (TMS) sets the strategic context, within the Council's planning cycle, for how treasury management activity will take place. The various aspects of the strategy require approval by Full Council these include the Treasury Management and Treasury Investment strategies for 2023/24, the Debt Repayment Strategy, the Prudential Indicators and the associated treasury policies.
- 2.6 The CIPFA Treasury Management Code 2021 introduces changes governing local authority investments from 2023/24 which are required to be incorporated into the Council's policies and strategies going forward. These are set out in section 1 of the Treasury Management Strategy and have the effect of tightening regulation and restriction applicable to authorities making investments for commercial return. There is particular focus in relation to local authorities needing to ensure that investments are proportionate to the Council's financial capacity and critically that local authorities must not borrow to invest primarily for financial return.
- 2.7 The Capital Strategy provides the Council with a framework in which capital investment and financing decisions can be aligned with the Council's corporate priorities over the medium term and includes the Voluntary Debt Reduction Policy Statement. This strategy requires approval by Full Council.
- 2.8 The Together for Nottingham plan acknowledges that a well-managed capital programme is a critical contributor to the overall financial recovery of the City Council and the Capital Programme has been reviewed to ensure it is in a fully funded and on a sustainable footing for the longer term. Development of an effective Capital Strategy and a strengthened governance and control framework supports the Council in achieving this. Implementation of the Plan is a key priority of the Council and the Capital Strategy forms a key component part.

Key continuing activities include: -

- A full review of the capital programme to remove de-prioritised schemes and add in future liabilities.

- Compliance with the Council's Debt Reduction Policy to reduce Council debt to a sustainable level.
- A maturing of the capital prioritisation process and the separation of spending and funding decisions.
- Providing a strengthened Governance and Control Framework and ensuring that this is put into practice across the Council.

2.9 The treasury management and capital functions are governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the Council must have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The Council formally adopts the requirements of these codes (as updated in 2021) as part of its Treasury Management Policy Statement and its Capital Strategy.

2.10 The Treasury Management Strategy and the Capital Strategy will be considered by Audit Committee on 24 February 2023 as part of the scrutiny process required by the CIPFA Code of Practice. Any comments that require a change to the various strategies will be reflected in the reports to be considered by Full Council on the 6 March 2023.

3. Other options considered in making recommendations

3.1 The approval of a Treasury Management Strategy and Capital Strategy is a requirement of the CIPFA code. The Department of Levelling Up, Housing and Communities (DLUHC) Guidance and the CIPFA Code do not prescribe any particular strategies for local authorities to adopt. The Chief Financial Officer, having consulted the portfolio holder, believes that the proposed strategies represent an appropriate balance between risk management and cost effectiveness.

4. Consideration of Risk

4.1 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is maintained for the treasury function.

4.2 Risk inherent in the capital programme are mitigated through the strict implementation of the Capital Strategy, the Voluntary Debt Reduction Policy and the governance from the Capital Board. A key example of this is the capital principle that the Council will not commit to schemes until the resources such as capital receipt have been secured.

5. Finance colleague comments (including implications and value for money/VAT)

5.1 Net treasury management expenditure comprises interest charges, interest receipts and a revenue provision for debt principal repayment. A proportion of the Council's debt relates to capital expenditure on council housing and from 1 April 2012 separate arrangements have been established for the Housing Revenue Account (HRA). The remaining costs are included within the treasury management

section of the General Fund budget, although there are still some permitted recharges between the General Fund and the HRA.

- 5.2 The Treasury Management forecast outturn for 2022/23 is reflected within the Corporate Budget report on this agenda. The Treasury Management budget (the cost of servicing our debt) for 2023/24 is based on the financial implications of the various proposed strategies, as detailed in Appendix 1. The budget estimate excluding PFI for 2023/24 is **£43.3m** (including PFI **£71.4m**), see **Table 1** below for breakdown.

Element	£m
Annual MRP (exc. PFI)	31.642
General Fund interest incurred (exc. PFI)	19.573
General Fund interest received	(7.926)
Subtotal Treasury (exc. PFI)	43.289
PFI Annual MRP	12.034
PFI Annual Interest	16.070
Subtotal PFI	28.104
Total	71.393

- 5.3 The financial implications of the two strategies are intrinsically linked, as the Capital Strategy defines the capital expenditure plans of the Council including the element that is to be financed by borrowing. The Treasury Management Strategy defines how the associated cash flows from this borrowing requirement are to be managed.

Comments provided by Jean Stevenson, Interim Team Leader – Technical Accounting 8 February 2023.

6. **Legal colleague comments**

- 6.1 This report seeks authority to agree the Treasury Management Strategy Statement 2023/24 and the Capital Strategy for 2023/24 for approval by Full Council.
- 6.2 The City Council has power to invest in accordance with section 12 of the Local Government Act 2003 ('the Act').
- 6.3 Section 12 provides a power for Local Authorities to invest for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. "Investment" also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture or to a third party.
- 6.4 In accordance with section 15 of the Act, Local Authorities are required to "have regard" to "such guidance as the Secretary of State may issue". Statutory guidance on local authority investments has been issued by the Secretary of State in accordance with this provision.
- 6.5 That guidance sets out key principles to be followed by Local Authorities. One such key principle is transparency, and which requires the publication of the Local Authority's Investment Strategy. The Investment Strategy is required to

be approved by Full Council hence the requirement for this report. In addition Local authorities are required to have regard to the current editions of the CIPFA codes by regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146] as amended.

Advice provided by Malcolm R. Townroe, Director of Legal and Governance
10 February 2023

7. Equality Impact Assessment (EIA)

7.1 An EIA is not required as the report does not contain proposals for new or changing policies, services, or functions

8. Data Protection Impact Assessment (DPIA)

8.1 A DPIA is not required because the strategies within this decision do not themselves require a Data Protection Impact Assessment. Capital projects within the Capital Programme will be individually assessed as appropriate.

9. Carbon Impact Assessment (CIA)

9.1 A CIA is not required because the Capital Plan includes the Council's target of being Carbon Neutral by 2028, however when individual projects are developed and approved these project will be subject to CIAs.

10. List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)

10.1 None

11. Published documents referred to in this report

- 11.1 Money Market and PWLB loan rates
- 11.2 Treasury Management in the Public Services Code of Practice 2017–CIPFA
- 11.3 Prudential Code 2017-CIPFA
- 11.4 Treasury Management in the Public Services Guidance Notes 2018 – CIPFA
- 11.5 Statutory guidance on local government investments 3rd Edition 2018
- 11.6 Statutory guidance on Minimum Revenue Provision (MRP) 2018
- 11.7 Treasury Green Book
- 11.8 Corporate Asset Management Plan
- 11.9 The Revised Strategic Council Plan 2021-2023
- 11.10 Together For Nottingham plan
- 11.11 Non-Statutory Review of Nottingham City Council, led by Max Caller CBE, on behalf of MHCLG/DLUHC