

Audit Committee – 23 February 2024

Title of paper:	Treasury Management and Capital Strategy 2024/25	
Director(s)/ Corporate Director(s):	Ross Brown, Corporate Director of Finance and Resources and Section 151 Officer Shabana Kausar, Director of Finance and Deputy Section 151 Officer	Wards affected: All
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Other colleagues who have provided input:	Patrick Kilgallen, Interim Senior Accountant (Treasury Management) Tom Straw, Senior Accountant (Capital Programmes)	
Does this report contain any information that is exempt from publication? No		
Recommendation(s):		
1.	To note the Draft Treasury Management Strategy for 2024/25 (Appendix 1) and provide any feedback to City Council, in particular: <ul style="list-style-type: none"> a) the Borrowing Strategy (section 3.4); b) the Annual Treasury Investment Strategy (section 4); c) the Prudential Indicators and Limits (section 5.1); d) the strategy in relation to debt repayment i.e. Annual Minimum Revenue Provision Statement 2024/25 (section 5.2); e) the Treasury Management Policy Statement (section 5.3). 	
2.	To note the Draft Capital Strategy 2024/25 (Appendix 2) and provide any feedback to City Council, in particular: <ul style="list-style-type: none"> a) Voluntary Debt Reduction Policy (Annex B); b) Non-Treasury Investment Strategy (Annex C). 	
3.	To note the council has repaid £58m of long-term loans early during the year 2023/24 which has been authorised under the Section 151 Officers delegated treasury authority. Further details will be published in the Treasury Outturn report 2023/24 (Section 5).	

1. Reasons for recommendations

- 1.1 The 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 Capital Strategy is a requirement 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 section 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.

- 1.3 As set out in Article 9 of the Council's Constitution the Committee are required to 'effectively scrutinise, review and monitor treasury management strategies and policies in accordance with guidance issued to local authorities, and make appropriate recommendations to the responsible body.'
- 1.4 To discharge this responsibility the Committee are requested to scrutinise the proposed Treasury Management Strategy 2024/25, to note it, and to provide any comments to City Council ahead of its consideration at will provide for approval at Council on 4 March 2024 as part of the Council's Budget.
- 1.5 The proposed Capital Strategy 2024/25 is also included for the Committee to review due to its linkages with the Treasury Management Strategy 2024/25, in particular, the aspects relating to the Voluntary Debt Reduction Policy and Non-Treasury Investments.

2. Background

- 2.1 During November 2023 Nottingham City Council issued a Section 114 Report due to being unable to meet its statutory requirement to deliver a balanced budget for 2023/24. Following the issue of the Section 114 Report the Council has requested Emergency Financial Support (EFS) for both 2023/24 and 2024/25.
- 2.2 The Section 114 and the Council's Financial Recovery Plan was considered by Full Council on the 16 December 2023.
- 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 £233m in the period 2024/25 to 2027/28 as covered by these strategies.
- 2.4 The Treasury Management Strategy and Capital Strategy have been fundamentally reviewed as part of the 2024/25 budget process. This is to ensure compliance, to promote best practice and ensuring they reflect the Council's strategic objectives. They both reflect the draft General Fund and Housing Revenue Account 2024/25 budgets and capital programmes. The key changes to each strategy are:

Key Changes Proposed Treasury Management Strategy 2024/25	Key Changes Proposed Capital Strategy 2024/25
<ul style="list-style-type: none"> • To reflect the application for Exception Financial Support (EFS) from Government and its potential impact on the Council's: <ul style="list-style-type: none"> ○ Capital Financing Requirement ○ Temporary borrowing requirements ○ Cashflows 	<ul style="list-style-type: none"> • To reflect the application for Exception Financial Support (EFS) from Government. • Prioritisation of the use of capital receipts to support the repayment of EFS. • Voluntary Debt Reduction Policy temporarily updated to be flexible if

	<p>there are any short-term borrowing requirements arising from EFS.</p> <ul style="list-style-type: none"> • Non-Treasury Investment appendix updated to reflect best practice and internal audit recommendations.
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2.5 The proposed Treasury Management Strategy and the Capital Strategy have been considered by Executive Board on 13 February 2024 as part of the review process required by the CIPFA Code of Practice. Any proposed changes must be in accordance with the Directions issues by the Improvement and Assurance Board in January 2024.

3. **Proposed Treasury Management Strategy 2024/25**

3.1 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.

3.2 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 2024/25, the Debt Repayment Strategy, the Prudential Indicators and the associated treasury policies.

3.3 The CIPFA Treasury Management Code introduces the framework which for governing local authority investments from 2024/25 which are required to be incorporated into the Council's policies and strategies going forward. These are set out in 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.

3.4 The proposed Treasury Management Strategy is at Appendix 1.

4. **Proposed Capital Strategy 2024/25**

4.1 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.

4.2 A key change to the Capital Strategy is the impact of the Exceptional Financial Support on the use of capital receipts and the Voluntary Debt Reduction Policy. The changes are set out below:

4.2.1 The Council's available capital resources are heavily reliant on the level of capital receipts available. This is due to the low level of non-ringfenced Government funding and the Council's strategy to reduce its level of debt through its Voluntary Debt Reduction Policy.

- 4.2.2 The Section 151 Officer's professional opinion is the priority order in the application of available capital receipts should ensure the financial sustainability and mitigate tangible risks of the Council.
- 4.2.3 The capital receipts from the High Value Investment Properties have historically been used to reduce the Capital Financing Requirement (CFR) in accordance with the Council's approved Capital Strategy, due to these assets having underlying debt (i.e., purchase funded from Prudential Borrowing). This approach will continue in 2024/25.
- 4.2.4 The priority order of application for capital receipts, after the repayment of the CFR and debt from capital receipts arising from high value investment properties, is as follows:
- Financing of Exceptional Financial Support
 - Transformation (Flexible Use of Capital Receipt)
 - Capital Schemes classed as Health and Safety, Statutory or Legally required,
 - Reduction of the Council's CFR through repayment of external or internal borrowing.
 - Other capital investment schemes
- 4.2.5 For clarity the priority order set out above is relating to the prioritisation for the utilisation of capital receipts only. It is not a prioritisation methodology for capital schemes which should follow the existing process as set out elsewhere in this Strategy.
- 4.2.6 The Voluntary Debt Reduction Policy scope is being broadened to allow for borrowing in exceptional financial circumstances for a short-term period.
- 4.3 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.

5. Update on Treasury Management Activity 2023/24

- 5.1 It should be noted by Audit Committee that the Council repaid loans totally £58m during the year 2023/24. Two of these loans were repaid at par and two of these loans were repaid at a discount which has beneficial to the Council. This decision was taken under the delegated authority that the Section 151 Officer has with respect to Treasury activities. Further details will be reported in the Treasury outturn report for 2023/24.

6. Consideration of Risk

- 6.1 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.
- 6.2 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.
- 6.3 The application for Exception Financial Support (EFS), if successful, brings additional risk to the Council's treasury and capital activities. The draft budget assumes the EFS is repaid from capital receipts. There is a risk the realisation of capital receipts to repay the EFS does not materialise to the forecast timeline. If this is the case there would be an additional short term borrowing requirement which would need to be financed and ensure it was compliant with the proposed prudential indicators.

7. Background papers other than published works or those disclosing exempt or confidential information

- 7.1 PWLB records, working papers
- 7.2 Nottingham City Council Project Management Handbook

8. Published documents referred to in compiling this report

- 8.1 Money Market and PWLB loan rates
- 8.2 Treasury Management in the Public Services Code of Practice – CIPFA
- 8.3 Prudential Code – CIPFA
- 8.4 Treasury Management in the Public Services Guidance Notes – CIPFA
- 8.5 Statutory guidance on local government investments
- 8.6 Statutory guidance on Minimum Revenue Provision (MRP)