2 February 2023	ITEM: 6
Corporate Overview and Scrutiny Committee	
Treasury Management Strategy 2023/24	
Wards and communities affected: All	**Key Decision:** Key
Report of: Gareth Moss, Chief Finance Officer	
Accountable Assistant Director: N/A	
Accountable Director: Gareth Moss, Chief Finance Officer	
This report is Public	

Executive Summary

The Treasury Management Strategy included in Annex 1 has been prepared in the context of the intervention initiated by the Department of Levelling Up, Housing and Communities (DLUHC) on 02 September 2022. It is presented following the issue of a Section 114 notice to Council members on 19 December 2022 which confirmed that exceptional financial support would be required by the Council in 2022/23 and 2023/24. The financial support required will enable the Council to mitigate the wider financial pressures that have arisen from the issues attached to the Council's investment strategy.

The Secretary of State's statutory directions included the requirement that Thurrock Council implements action plans to ensure that its capital, investment and treasury management strategies are sustainable and affordable, debt is strictly reduced and the MRP policy is revised.

The Treasury Management Strategy has been produced within context with a specific focus of reducing debt as part of delivering future financial sustainability. The strategy includes the capital and investment strategies and supersedes all existing strategies. The strategy is based on assumptions that are reasonable to support the current positions set out the but remain subject to significant change and so it is expected a further update to the strategy will be required during the 2023/24 financial year.

The Treasury Management Strategy is a critical component of the way the Council manages cash-flow and provides the framework for the management of borrowing and investments. The strategy also sets out the projected funding of the Council's capital plans, which is a key driver for the borrowing needs of the Council.

The intervention has led directly to focussed activity to review all commercial investments held by the Council. Key decisions have been taken in respect of specific investments which support the plans to move to a more sustainable financial footing and to also reduce debt significantly.

The projected financial outturn for 2022/23 reported to Cabinet on 14 December 2022 confirmed the need for exceptional financial support of £452m in respect of 2022/23 and £184m in respect of 2023/24. This support is expected to be in the form of a capitalisation direction and the strategy includes consideration of these balances.

The Council is considering all the levers available to repay the exceptional support required from government. It is clear that holding existing commercial investments continues to create significant financial pressures and leaves the Council exposed to significant financial risk. Hence, the divestment of investments is a priority for the Council and the strategy considers assumptions that support the reduction of debt through asset sales including property sales under the '3Rs' programme.

The Council has been exposed to a higher level of financial risk through the MRP policy that was in place which did not write down the borrowing funding the investment strategy over an appropriate period. Consequently, the MRP policy has been revised to include a full write down of the borrowing that funds the capital investment assets appropriately. While this has created significant additional financial pressures, it also ensures the Council's exposure to financial risk is reduced.

The wider investment portfolio is now under review and it is clear that most of the commercial Investments previously generating a net income stream are now being held at a net cost to the Council. This is set out in the strategy and is as a consequence of both the revised MRP policy and higher interest rates attached to the borrowing required to fund the investments.

Due to the Council's financial position, this is a holding Treasury Management Strategy and a revised strategy to be presented during 2023/24. This version includes all information known to date but there are areas that will be worked on over the coming months which will affect many of the assumptions included in the current version.

1. Recommendation(s):

1.1 That the Committee comment on the 2023/24 Treasury Management Strategy for consideration by Cabinet at their meeting on 8 February 2023.

1.2 That the Committee consider the current assumptions (set out on page 3 of the strategy) underpinning the Treasury Management Strategy and note that this will be subject to further updates in 2023/24.

1.3 That the Committee consider the strategy in the context of the directions issued by the Secretary of State for Levelling Up, Homes and

Communities and specifically the need for a strict debt reduction plan.

1.4 That the Committee note the increase in the Council's Capital Financing Requirement (CFR) in 2022/23 as a result of the expected support from DLUHC in the form of a capitalisation direction, as set out in section 3.16.

1.5 That the Committee note the divestment of investments and the sale of property assets are required to repay the Exceptional Financial Support from DLUHC and this is a key assumption supporting the strategy.

1.6 The Committee note the Council's borrowing level will exceed the CFR in 2022/23 but is planned to be managed within this from 23/24 and onwards, as set out in section 3.16.

1.7 That the Committee note the Prudential indicators included within the strategy that show commercial capital investments are generating net losses to the Council in the context of the revised MRP charges and current and projected interest rates, as set out in section 3.6.

1.8 That the borrowing strategy supporting the commercial investment portfolio will be reset alongside wider revisions to the strategy in 2023/24

2. Introduction and Background

2.1 The Treasury Management - Strategy has been produced in accordance with revised guidance contained in The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services and the Prudential Code (The Code).

2.2 The issue of a Section 114 notice places limits on what the Council can spend with an assessment against strict criteria to support ongoing spend. All new spending and new agreements are reviewed on a case-by-case basis by formal spending review panels. This covers both revenue and capital expenditure and extends to all forms of service delivery including the Housing Revenue Account and to all Council owned entities

2.3 The Treasury Management Strategy sets out the strategic framework underpinning capital expenditure and the associated financing at the Council. The Treasury Management Strategy is a critical component of the way Thurrock Council manages cash-flow and also supports the management of investments and borrowing.

2.4 The Treasury Management Strategy sets out the Council's approach to ensuring cashflows are adequately planned to ensure the Council's capital programme and corporate investment plans are adequately funded, with cash being available when it is needed to discharge the Council's legal obligations and deliver Council services.

2.5 The strategy sets out a Treasury Management policy statement which define the policies and objectives of its treasury management activities as:

- the management of the authority's borrowing, investments, and cash flows including 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.
- the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the Authority and any financial instruments entered into manage these risks.
- the acknowledgement that effective treasury management will provide support towards achievement of its business and service objectives. Therefore, the Council is committed to the principles of achieving best value for money in treasury management, and to employing suitable, comprehensive performance measurement techniques within the context of effective risk management

3. Issues, Options and Analysis of Options

The Strategy sets out in detail sections of capital expenditure, borrowing, cash flow management, prudential indicators and the wider legal implications of the strategy. Further detail is set out below:

Capital Expenditure

3.1 The existing capital programme has been scaled back as part of an initial high-level review of capital activities. As part of this exercise, several projects have been put 'on hold'. Further reviews will be undertaken to determine the future of these schemes and 'a further wider review of the existing programme will be undertaken in 2023/24 New bids for capital projects have been reviewed on a case-by-case basis and proposals are part of the wider report on the agenda. There are further capital considerations set out in the strategy in respect of the exceptional financial support from DLUHC, in the form of a capitalisation direction required to support the financial position in 2022/23 and continuing in subsequent years. Table 1 below summarises the Council's capital expenditure plans and financing.

Table 1 - Capital spending and funding plans

	2021/22 actual	2022/23 forecast	2023/24 forecast	2024/25 forecast	2025/26 forecast	2026/27 forecast	2027/28 forecast
	£m	£m	£m	£m	£m	£m	£m
Capital Expenditure							
General Fund services	74	60	47	19	7	7	7
Council housing (HRA)	44	49	25	76	48	12	12
Total Capital Expenditure	**118**	**109**	**72**	**95**	**55**	**19**	**19**
'Projects for yield' investment	-	-	-	-	-	-	-
Total Capital Expenditure (including Investments)	**118**	**109**	**72**	**95**	**55**	**19**	**19**
Capital Financing							
External sources	17	15	26	19	5	5	5
Own resources	30	13	10	18	16	12	12
Total Financing	**47**	**28**	**36**	**37**	**21**	**17**	**17**
Net financing - Borrowing	**71**	**81**	**36**	**58**	**34**	**2**	**2**
- Net financing HRA	**13**	**36**	**12**	**55**	**32**	**-**	**-**
- Net financing GF	**58**	**45**	**24**	**3**	**2**	**2**	**1**
Net financing - Borrowing	**71**	**81**	**36**	**58**	**34**	**2**	**1**
Capitalisation Direction - GF		462	182	162	75	73	69
Total Financing Need for the Year including Capitalisation Direction	**71**	**543**	**218**	**220**	**109**	**75**	**71**

3.2 The table above confirms the total financing need and the strategy notes that a key lever to address the financing requirements of the Council is asset sales including the divestment of investments. Capital receipts generated from asset sales will be used:

- to finance any expenditure capitalised under any Capitalisation Direction granted by the Government; and
- to repay existing debt and to reduce the Capital Financing Requirement (CFR) and reducing the Minimum Revenue Provision (MRP) in subsequent years.

Investments

3.3 The investment strategy was largely paused strategy since Oct 2020 following changes to the regulations governing the use of Public Works Loan Board funding. Since that point there has been limited activity and the total of commercial investments is set out in the table below:

	31-Mar-22 £m	31-Dec-22 £m
Non Treasury Investments		
Non Treasury Investment (Capital):		
Service type investments	**30**	**29**
Subsidiary - Loan	23	22
Subsidiary - Equity	6	6
Loan to Third Party	1	1
Commercial type investments	**787**	**786**
Corporate Bonds	670	670
Equity	97	97
Corporate Bond - converted largely to Equity	20	19
Non Treasury Investment (Revenue):		
Commercial type investments	**234**	**232**
Pooled fund	103	103
Corporate Bonds	95	91
Other funds	31	33
Loans to Businesses	5	5
Total Investments	**1,051**	**1,047**

3.4 As noted, further rises in interest rates and hence increasing borrowing costs, combined with the revised MRP charges means these investments are no longer generating net income streams for the Council. In fact, the loss of income in relation to specific investments and the net cost of the wider remaining portfolio is driving the budget deficit identified in 2022/23 and will continue to be an issue for years to come without appropriate action. This can be seen in the table below:

Investment	14/15 £m	15/16 £m	16/17 £m	17/18 £m	18/19 £m	19/20 £m	20/21 £m	21/22 £m	22/23 £m
Gross Investment Income	(358)	(1,887)	(3,506)	(10,315)	(26,352)	(45,008)	(45,344)	(17,679)	(13,102)

3.5 As part of a wider assessment of the investment portfolio, a number of commercial investments are not considered revenue in nature and hence the associated borrowing funding these investments is not supporting the capital plans of the Council. This is not considered compliant with the requirements of the Prudential Code and further action will be considered to address this in 2023/24.

3.6 The Code requires local authorities to determine the Treasury Management Strategy and Capital Strategy and the associated Prudential Indicators on an annual basis in accordance with the requirements of the Prudential Code. The basis for the investment indicators is set out on page 44 of the strategy. The Table below summarises the indicators which, in all cases, demonstrate the ongoing financial concerns over holding the commercial investment portfolio.

	Benchmark	Performance
Gross Debt to net service expenditure	300%	938%
Commercial income to net service expenditure	5%	(74.14%)
Investment cover ratio (interest covered by investment income)	>3	0.66
Loan to value ratio	<80%	134%
Benchmark returns	5%	(8%)

3.7 The Strategy sets out the wider investments in Thurrock Regeneration Ltd (TRL) and Thurrock Regeneration Homes Ltd (TRHL). Both companies are owned by the Council and TRL delivers revenue returns through interest repayments on loans made to the companies. These loans are funded by borrowing and, consequently, returns have been significantly reduced by the increase in interest rates. The strategy confirms the wider repayment of borrowing remains linked to the sale of the property held by TRHL.

Borrowing levels

3.8 The borrowing levels set out in the report reflect the current planned capital programme in both the General Fund and the HRA. Borrowing is also required in respect of the exceptional support funding from government that relates to addressing revenue deficits arising. It is noted the associated interest costs arising from borrowing to support the capital programme will be met from the General Fund and HRA respectively

The Council is currently maintaining a fully borrowed position (excluding the capitalisation direction). This means that the capital borrowing need (the Capital Financing Requirement), has been fully funded with loan debt. This means the Council is having to use a significant percentage of the net revenue budget to meet MRP and interest costs. Thus, reducing the ability of the Council to spend on service delivery.

3.9 From September 2022 the council has agreed a planned refinancing of Local Authority temporary borrowing with PWLB borrowing. This has a maturity of one year to enable wider consideration of the borrowing strategy going forwards.

3.10 With the conversion of borrowing from temporary loans to PWLB, the council is projecting an increase in interest costs of £14m in 2022-23. If interest rates increase in line with expectations as borrowing is replaced by PWLB borrowing, then interest charges on borrowing could increase by a further £23m in 2023/24.

3.11 The capital programme will be subject to further review in 2023/24 and any revisions will need to be included fully in further updates to the strategy.

3.12 If the Council is granted exceptional financial support in the form of capitalisation direction from the Department for Levelling Up, Housing and Communities (DLUHC) as part of the recovery measures, the value of this will become part of a further increase to the capital programme and relevant elements will need to be financed from borrowing alongside an MRP charge for the entire balance. Consequently, the Council will incur interest costs and a provision for the repayment of principal (MRP). The strategy currently estimates a position for this.

3.13 There is no new capital investment activity planned and the overall level of debt for investments is projected to start reducing by 2024/25 and may happen prior to this. The expectation is that borrowing levels will be managed down in line with agreed redemption dates or sooner where the opportunity to do so is made available and can be managed in a financially sustainable way.

Capital Financing Requirement

3.14 The Capital Financing Requirement (CFR) sets out the level of borrowing required to support the planned capital activity of the Council. The report sets out the levels through to 2027/28 and confirms the level of borrowing will be within this limit throughout this period from 2023/24.

3.15 The CFR represents all unfinanced capital activity (i.e., that which cannot be funded from internal resources), regardless of its purpose. This forms a comparator for the levels of debt that the Council holds. Measures are being worked on with a view to bringing down the CFR for the Council, which is currently significant as it reflects the quantum of commercial investments the Council has purchased under the investment strategy. A key way to bring the CFR down is through the disposal of assets which also provides a funding source to repay debt. The value and timing of these receipts remains uncertain, but projections are included in the strategy to demonstrate a current assessment of the impact to the Council going forward. As plans for the sale of assets develop an updated position will be reported along with a revised strategy.

3.16 The CFR is expected to fall following asset disposals however will increase due to the capital programme but largely due to the expected capitalisation direction as set out below:

Capital Financing Requirement

	31.3.2022 actual £m	31.3.2023 forecast £m	31.3.2024 forecast £m	31.3.2025 forecast £m	31.3.2026 forecast £m	31.3.2027 forecast £m	31.3.2028 forecast £m
General Fund services	258	296	312	305	296	287	278
Council housing (HRA)	208	244	256	311	343	342	342
Loans	1	1	1	1	1	1	1
Capital investments	525	450	327	71	39	36	33
TRL Investments	25	23	23	22	21	20	19
Capitalisation Direction	0	452	612	340	390	408	424
CFR - Borrowing	**1,017**	**1,467**	**1,531**	**1,050**	**1,089**	**1,094**	**1,097**
CFR - Other Liabilities	12	12	12	12	11	11	11
TOTAL CFR	**1,029**	**1,479**	**1,542**	**1,062**	**1,101**	**1,105**	**1,108**
Reason for change							
Net financing		81	36	58	34	2	1
MRP charge		(82)	(106)	(100)	(34)	(36)	(37)
Repayment of debt		(11)	(49)	(600)	(36)	(34)	(31)
Capitalisation Direction		462	182	162	75	73	69
Annual change		**450**	**64**	**(480)**	**39**	**5**	**3**

3.17 Borrowing levels are expected to fall by using capital receipts from the disposal of asset and investments to repay back borrowing. Table below demonstrates the borrowing levels falling in line with the Capital Financing Requirement.

Borrowing Levels compared to Capital Financing Requirement:

	31.3.2022 actual £m	31.3.2023 forecast £m	31.3.2024 forecast £m	31.3.2025 forecast £m	31.3.2026 forecast £m	31.3.2027 forecast £m	31.3.2028 forecast £m
Gross Projected Debt	1,449	1,511	1,504	945	985	990	993
Capital Financing Requirement	1,017	1,467	1,531	1,050	1,089	1,094	1,097
Under/(over) Borrowing	**(432)**	**(45)**	**27**	**105**	**104**	**104**	**104**

Minimum Revenue Provision (MRP)

3.18 Regulations require local authorities to make "prudent provision" for the repayment of debt. Statutory guidance was issued by the Secretary of State in 2008 and updated in 2018 concerning the "minimum revenue provision" (MRP), which is the minimum amount authorities are now required to set aside from revenue each year for this purpose. Authorities are free to set aside a greater amount than MRP, from revenue or capital resources.

3.19 It should be noted that changes to the statutory guidance on MRP requires the Council to make a provision retrospectively for activities that were not previously provided for, which has added to the overall request for government support. This is in respect of the additional provision required to write down all capital investments over their expected useful economic lives. Previously there was no amount calculated for this provision on the basis that the investments were expected to be repaid in full. Given the wider issues with the Council's investments, a prudent approach has been taken to ensure the provision reflects the exposure to financial risk that has become clear. It is important going forward that the Council complies fully with all guidance and regulations in this area. The repayment of debt is crucial to the financial sustainability of the Council as once debt is repaid, there is no longer a need to make the provision for it.

3.20 The proposed detailed policy for MRP is included in the attached strategy under para 66-93.

Prudential Indicators

3.21 The purpose of prudential indicators (PIs) is to highlight whether the Council's capital financing and borrowing strategy is affordable, prudent and sustainable. They also provide a reference point or "dashboard" so that senior officers and Members can easily identify whether approved treasury management policies are being applied correctly in practice and take corrective action as required.

3.22 These are set out on page 44 of the strategy and show the increase in capital expenditure associated with the grant of a capitalisation direction, the balance between the debt of the authority and the CFR and the ongoing impact of finance costs on the financial position of the authority. This confirms the need for further action to reduce debt as soon as practicable.

Managing Cash Balances

3.23 The Council's policy on treasury investments is to prioritise security (safeguarding invested sums from loss) and liquidity over yield (ensuring cash is available when needed) - that is to focus on minimising risk rather than maximising returns. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). All investments to be less than 12 months, aligned with the debt reduction policy.

3.24 As at 31 December 2022 core cash and short-term (treasury) investments totalled £53m. With a current debt reduction strategy, investing for longer period is not an option for the Council as any surplus cash is only maintained for cashflow purposes only. Any excess cash balances above what is required for cashflow purposes will be applied to reducing the Council's borrowing levels.

3.25 For its cash flow generated balances, the Council will seek to utilise its own bank accounts, Money Market Funds and short-dated deposits.

Summary Considerations

3.26 The following points are noted:

a) The capital programme has been scaled back and continues to be reviewed in compliance with the requirements of the s114 notice.

b) The Council currently holds significant levels of short-term borrowing as it determines the longer-term borrowing strategy. The cost of this borrowing is no longer affordable following significant increases in interest rates and therefore needs to be reduced significantly;

c) Commercial investments are driving increased costs to the Council through the revised approach to the MRP and increased borrowing costs.

d) The updated MRP policy will be applied retrospectively, and this created a £129m of the pressure reported to Cabinet in the Q2 financial report on the 14 December 2022.

e) The Treasury Management Strategy including the Capital Strategy reflects the requirements of The Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management in Public Services and the Prudential Code (The Code). These documents were updated in December 2021, and the broad focus of the changes are to ensure the capital programme, investment activity and the associated borrowing is proportionate to the financial capacity of the organisation. This strategy reflects the detailed requirements of the code and how the Council continues to manage capital, investment and borrowing activity. It is noted this strategy is based in underlying significant assumptions which are subject to change and a revision to this strategy is expected to be required during the next financial year.

4. Reasons for Recommendation

4.1 There is a statutory requirement for the Capital and Treasury Management Strategy, including the Annual Minimum Revenue Provision Statement to be ratified by Full Council. This report and appendices have been written in line with best practice and the Council's current spending plans.

5. Consultation (including Overview and Scrutiny, if applicable)

4.2 Consultation has been undertaken with the Commissioners to support the completion of the updated strategy.

6. Impact on corporate policies, priorities, performance and community impact

6.1 The issues identified in the commercial investment portfolio have driven intervention at the Authority and, subsequently, the issue of a Section 114 notice. This will fundamentally impact on how services are delivered in Thurrock and this forms part of the delivery of the wider improvement and recovery plan.

7. Implications

7.1 Financial

Implications verified by: **Jonathan Wilson**

Acting Director of Finance and s151 Officer

The financial implications are included in the main body of the report and appendix. The strategy is set in the context of the intervention ordered by the Secretary of State on 2 September 2022. The completion of the strategy addresses a specific direction to the Council and is a key document supporting the wider assessment of a path to financial sustainability.

7.2 Legal

Implications verified by: **Gina Clarke**

Corporate Governance Lawyer and Deputy Monitoring Officer

The Local Government Act 2003 provides the Council with the power to borrow and invest money for any purpose relevant to its functions and for the prudent management of its financial affairs. The Council is under a duty to determine and to keep under review how much money it can afford to borrow. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, provide that, in complying with this duty, the Council must have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities and CIPFA's Treasury Management Code of Practice.

CIPFA's Treasury Management Code of Practice requires the Council to agree a Treasury Management Strategy and investment Strategy for approval by the Full Council before the beginning of each financial year. The Council is also required to approve a Treasury Management Policy Statement.

As stated in this report, the Council is now subject to Government Directions which the Council must comply with, part of which includes ensuring that the Council's treasury management strategies are sustainable and affordable.

7.3 Diversity and Equality

Implications verified by: **Natalie Smith**

Strategic Lead – Community Development and Equalities

While there are no direct diversity implications noted in this report, it is noted that the wider intervention and requirements of the Section 114 notice will impact on the future capital plans of the Authority. These may link to wider service provision alongside revised plans for the use of existing assets and will be informed by consultation as appropriate.

7.4 **Other implications (where significant)** – i.e. Staff, Health Inequalities, Sustainability, Crime and Disorder, and Impact on Looked After Children

- Not applicable

8. Background papers used in preparing the report (including their location on the Council's website or identification whether any are exempt or protected by copyright):

- CIPFA Prudential Code
- DLUHC's Statutory Guidance on Minimum Revenue Provision
- DLUHC's Guidance on Local Government Investments
- CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes
- Treasury Management Policy Statement
- Investment Strategy
- Treasury sector Briefings

9. Appendices to the report

- Annex 1 – Treasury Management Strategy 2023/24

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