

REPORT TO: EAST LoTHIAN COUNCIL

MEETING DATE: 20 February 2024

BY: Executive Director for Council Resources

SUBJECT: Treasury Management Strategy 2024-25 to 2028-29

1 PURPOSE

- 1.1 To seek the approval of the Council of the Treasury Management and Investment Strategies for 2024-25 to 2028-29.

2 RECOMMENDATIONS

2.1 The Council is recommended to:

- i. Note that the General Services and HRA Capital investment plans for 2024-25 to 2028-29 are subject to consideration and approval by the previous agenda item considered by Council on 20 February 2024. Should there be any change to the approved figures, there will be a need to update the specific Boundaries and Limits set out below.
- ii. Approve the Treasury Management Strategy referenced within sections 3.5-3.19.
- iii. Approve the Investment Strategy referenced in sections 3.20-3.22.
- iv. Approve the repayment of loans fund advances using the methodology detailed in section 3.7.
- v. Approve the Operational Boundaries for external debt as detailed in section 3.15.
- vi. Approve the Authorised Limits for external debt as detailed in section 3.16.
- vii. Approve the delegation of authority to the Chief Financial Officer in conjunction with the Head of Finance to effect movement between

external borrowing and other long-term liabilities as detailed in section 3.18.

- viii. Note the detailed Treasury Management Strategy Statement which has been submitted to the Members Library.

3 BACKGROUND

- 3.1 Treasury management is defined as the management of the local authority's borrowing, 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.
- 3.2 The Treasury Management Code of Practice requires the Council to approve a Treasury Management Strategy and an Investment Strategy in advance of each financial year.
- 3.3 This strategy is also supported by the Financial and Capital Strategies, which were approved by Council on 12 December 2023, and is intended to firmly place decisions around borrowing in the context of the overall longer-term financial position of the authority and to provide improved links between the revenue and capital budgets.
- 3.4 The full Treasury Management and Investment Strategy for the period 2024-25 to 2028-29 has been lodged in the Members Library. This report outlines the key points from those strategies. The figures used are based on those reflected in the draft General Services and HRA capital budgets amendment being considered by Council at this meeting.
- 3.5 Each year a local authority must calculate the revenue costs that flow from capital financing decisions. This means that capital expenditure must be limited to a level that is affordable and within the projected income of the Council for the foreseeable future, taking into account the elements below:
- Increases in principal and interest charges caused by increased borrowing to finance additional capital expenditure, and;
 - Any additional running costs from new capital projects

Treasury Management Strategy

- 3.6 The table below provides details setting out the capital investment plans for 2024-25 to 2028-29, in line with the proposed General Services and HRA capital budgets. As a reminder, the actual capital expenditure incurred in 2022-23 and provisional estimates of total gross capital expenditure plans and how these are to be financed for 2023-24 are also detailed below. Not all of the projected expenditure will be funded

by borrowing, but any shortfall of other funding resources results in a borrowing need.

Table 1

Capital Expenditure	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	5 Year Total Estimate
£'000	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	
General Services	87,955	55,369	117,196	53,610	57,480	68,585	67,605	364,475
HRA	40,349	44,238	31,579	44,170	32,309	38,681	46,206	192,945
Total	128,304	99,607	148,775	97,780	89,789	107,266	113,811	557,420

Financing of capital expenditure	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	5 Year Total Estimate
£'000	Actual	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	
General Services								
Capital grants	-38,501	-18,818	-51,710	-23,547	-39,508	-55,524	-38,659	-208,946
Capital receipts	-11,242	-6,222	-14,940	-5,157	-1,970	-6,972	-11,673	-40,712
CFCR	-436	0	0	0	0		0	0
General Services Total	-50,179	-25,040	-66,650	-28,704	-41,478	-62,495	-50,332	-249,658
HRA								
Capital grants	-14,983	-9,887	-196	-3,196	-3,196	-1,351	-1,727	-9,666
Capital receipts	0	0	0	0	0	0	0	0
CFCR	0	-1,200	-2,200	-3,100	-3,500	-5,000	-5,000	-18,800
HRA Total	-14,983	-11,087	-2,396	-6,296	-6,696	-6,351	-6,727	-28,466
Net financing need for the year	63,142	63,480	79,729	62,780	41,615	38,419	56,752	279,295

3.7 The net financing need for the year is financed by Loans Fund advances. The operation of the loans fund is regulated by statute: (The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the 2016 Regulations) which came into force on 1 April 2016. The Council will apply the following strategy for loans fund advances, and this remains consistent with the Loans Fund Review principles previously approved by Council in June 2019:

- Any income/receipts applied in year are, where possible, aligned to shorter life assets. However, if appropriate, they may be used to

reduce loans fund advances. Where it is thought to be prudent funds will be applied to the capital fund for future use for principal debt repayment or to reduce loans fund advances. Any loans fund advances in year are matched to assets with longer economic lives.

General Services

- Capital expenditure funded by loans fund advances from 2001 is reflected within the loans fund on an individual asset basis, rather than an overall pooled approach.
- Capital expenditure funded by loans fund advances incurred between 2001 and 2016 has been aligned to the asset life which was given at the time capital expenditure had been incurred (i.e. in line with depreciation charged through the Council's statutory accounts). These have been aligned to the asset lives provided for the rolling valuation programme as required by the Council's statutory accounting process.
- From 2016, in line with the statutory guidance, all asset lives have been reviewed and aligned to the estimated economic life of the asset.

HRA

- Capital expenditure funded by loans fund advances incurred from 2001 has been reflected within the loans fund and categorised as new council housing, modernisation expenditure on existing properties and open market acquisitions.
- Capital expenditure funded by loans fund advances incurred between 2001 and 2012-13 has been aligned to the asset life which was given at the time capital expenditure has been incurred (i.e. in line with depreciation charged through the Council's statutory accounts).
- From 2013-14, there was a change to the approach required to value Council dwellings through the statutory accounts. As a result, all of the Council dwellings have been depreciated using a pooled approach and given the same life, regardless of each asset's age.
- It is not considered prudent and commensurate with the economic benefit of the asset life to match loans fund advances in such a way. As such, from 2013-14, all of the asset lives have been reviewed, and all HRA loans fund advances are now aligned to the estimated economic life of the asset.

3.8 For illustrative purposes, assuming projected expenditure is in line with approved plans and further extended to a 10 year period, the General Services and HRA expected loans fund balances are shown in tables 2 and 3 below.

Table 2 - General Services

General Services £'000	Opening Balance	Advances	Repayments	Closing Balance
Year 1	321,667	50,546	7,143	365,070
Year 2-5	365,070	64,271	38,712	390,629
Year 6-10	390,629	88,279	45,770	433,138
Year 11-15	433,138		52,251	380,887
Year 15-20	380,887		52,366	328,521
Year 21-30	328,521		81,618	246,902
Year 31-40	246,902		55,132	191,770
Year 41-50	191,770		70,556	121,214
Year 51-60	121,214		91,209	30,005
Year 61-70	30,005		30,005	0

Table 3 - HRA

HRA £'000	Opening Balance	Advances	Repayment s	Closing Balance
Year 1	267,834	29,183	5,838	291,179
Year 2-5	291,179	135,295	28,290	398,185
Year 6-10	398,185	47,667	41,204	404,648
Year 11-15	404,648		42,600	362,048
Year 16-20	362,048		38,494	323,554
Year 21-30	323,554		72,325	251,228
Year 31-40	251,228		68,943	182,285
Year 41-50	182,285		79,779	102,506
Year 51-60	102,506		78,673	23,833
Year 61-70	23,833		23,833	0

3.9 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The Council does not associate borrowing with particular items or types of expenditure. The

authority has an integrated Treasury Management Strategy and has adopted the CIPFA Code of Treasury Management. The Council has at any point in time a number of cash flows both positive and negative. In day-to-day cash management, no distinction is made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the Council and not simply those arising from capital spending. Other than to manage short-term cash flows, the Council is not allowed to borrow for revenue purposes.

3.10 Table 4 below sets out the Capital Financing Requirement (CFR) and the movement in CFR for the Council across the 5 year strategy period from 2024-25 to 2028-29. The table also includes a reminder of the actual CFR in 2022-23 and current projections for 2023-24.

Table 4 - CFR

£'000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Capital Financing Requirement (including PPP & Finance Leases)							
CFR - General Services	327,591	352,354	394,175	403,586	409,203	405,010	411,759
CFR – HRA	240,066	267,835	291,180	322,739	341,420	366,388	398,186
Total CFR	567,657	620,189	685,355	726,325	750,623	771,398	809,945
Movement in CFR	56,428	52,532	65,165	40,970	24,298	20,775	38,547
Movement in CFR represented by							
Net financing need for the year	63,142	63,480	79,729	62,781	41,615	38,418	56,751
GS -Less loan fund repayments and other financing movements	-1,891	-5,566	-8,726	-15,496	-10,385	-10,281	-10,523
HRA - Less loan fund repayments and other financing movements	-4,822	-5,382	-5,838	-6,315	-6,932	-7,362	-7,681
Movement in CFR	56,428	52,532	65,165	40,970	24,298	20,775	38,547

3.11 Capital investment decisions should be made in accordance with the following fundamental principles of the Prudential Code:

- Service objectives e.g. achieving the Council Plan objectives
- Stewardship of assets e.g. asset management planning
- Affordability e.g. implications for Council Tax and Rent levels
- Value for money e.g. option appraisal
- Prudence and sustainability e.g. implications for external borrowing

- Practicality e.g. is the investment proposal practical given other competing pressures on the service involved

3.12 Prudential indicators are also required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the council's overall finances. Some of these are set out in more detail below.

- One of the main prudential indicators is the ratio of financing costs to net revenue streams which identifies the trend in the cost of capital against income. Actual 2022-23 figures and estimates of the ratio of financing costs to net revenue stream for the current and future years are set out in the table 5 below.

Table 5 – Ratio of financing costs to net revenue streams

£'000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
GS Revenue Stream	293,293	297,453	321,422	329,986	337,019	342,460	348,155
GS Financing Costs	7,988	13,000	17,887	25,694	20,917	20,963	21,454
General Services	2.72%	4.37%	5.57%	7.79%	6.21%	6.12%	6.16%
HRA Revenue Stream	36,538	37,482	40,854	43,381	46,144	48,975	52,062
HRA Financing Costs	10,999	13,017	14,806	16,435	18,177	19,208	20,810
HRA	30.10%	34.73%	36.24%	37.88%	39.39%	39.22%	39.97%

- The reduction in the General Services 2022-23 ratio is the impact of the use of fiscal flexibilities in relation to loans fund principal repayments, as reported to Council in June 2023. If the flexibility was not applied both the financing costs and the ratio would have increased. The ratio reflects the size of the capital investment budgets to support the infrastructure requirements associated with current and future growth plans. The phased payback of the 2022-23 fiscal flexibility is also included from 2023-24.
- The increase in the ratio for General Services in 2025-26 is due, in part, to the final principal payment in relation to assets pre 2001 and the reprofiling of the same assets after the use of the fiscal

flexibilities, as well as the end of the benefit from earlier reviews of the loans fund.

- The HRA ratio reflects the large planned investment in new council housing programme, which is mainly financed through borrowing. This borrowing has to be repaid with interest and this leads to increased financing costs.
- The incremental impact of capital investment decisions on council tax and housing rent levels are set out in Tables 6 and 7 below.

Table 6 - Impact on Council Tax

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
General Services Debt £'000	295,377	321,667	365,070	376,341	384,055	381,765	390,628
Band D Equivalents	59,752	61,235	61,456	62,330	63,013	63,628	64,201
Debt per Band D Equivalent £	£4,943	£5,253	£5,940	£6,038	£6,095	£6,000	£6,084

Table 7 - Impact on Rent

	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
HRA debt £'000	240,066	267,835	291,180	322,739	341,420	366,388	398,186
Number of HRA dwellings	9,144	9,283	9,359	9,471	9,577	9,661	9,790
Debt per dwelling £	£26,254	£28,852	£31,112	£34,077	£35,650	£37,924	£40,673

3.13 The Council's forecasted treasury portfolio position at 31 March 2024 and forward projections are shown in Table 8 below. The table shows the actual external debt (the treasury management operations) against the underlying capital borrowing need (the Capital Financing Requirement – CFR) highlighting any over or under borrowing.

Table 8 – Treasury Portfolio

£'000	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
External Debt							
Debt at 1 April	424,761	441,503	496,080	558,885	614,421	636,915	652,082
Expected change in Debt	16,742	54,577	62,805	55,536	22,493	15,167	40,432
Other long-term liabilities (OLTL)	33,779	32,214	30,687	29,104	27,245	25,148	23,246
Expected change in OLTL	-1,565	-1,527	-1,583	-1,860	-2,096	-1,902	-2,115
Actual gross debt at 31 March	441,503	496,080	558,885	614,421	636,915	652,082	692,513
The Capital Financing Requirement	535,442	589,501	656,249	699,079	725,474	748,151	788,813
Under / (over) borrowing	93,939	93,421	97,365	84,658	88,560	96,070	96,300

3.14 The key treasury management indicator of prudence is that external borrowing should not exceed the CFR for the preceding year (2022-23) plus additional CFR in the current (2023-24) and two following years (2024-25 and 2025-26).

	2023/24 Estimate Gross Debt	2022/23 Actual CFR	2023/24 Estimate CFR Increase	2024/25 Estimate CFR Increase	2025/26 Estimate CFR Increase	CFR Total
£m	496	535	54	69	43	701

This year is projected to be within this indicator - External Debt £496m and CFR £701m. At the close of the 2022-23 financial year, the Council was well within this indicator, as the CFR for the actual year was £568 million and external borrowing was £474 million.

Boundaries for Debt

3.15 In line with the requirements, the Council is asked to approve limits beyond which external debt is not normally expected to exceed in the

proceeding 5 years of the strategy. The operational boundaries for gross external debt are set out in Table 9 below.

Table 9 – Operational Boundary

Operational boundary £'000	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Debt	589,501	656,249	699,079	725,474	748,151	788,813
Other long term liabilities	30,687	29,104	27,245	25,148	23,246	21,131
Total	620,188	685,354	726,324	750,622	771,397	809,944

3.16 Furthermore, the Council must set maximum levels of borrowing by way of setting Authorised Limits for its gross external debt for the strategy period. Table 10 below sets out the maximum authorised limits for the next five years. These limits separately identify borrowing from other long-term liabilities such as finance leases.

Table 10 – Authorised Limits

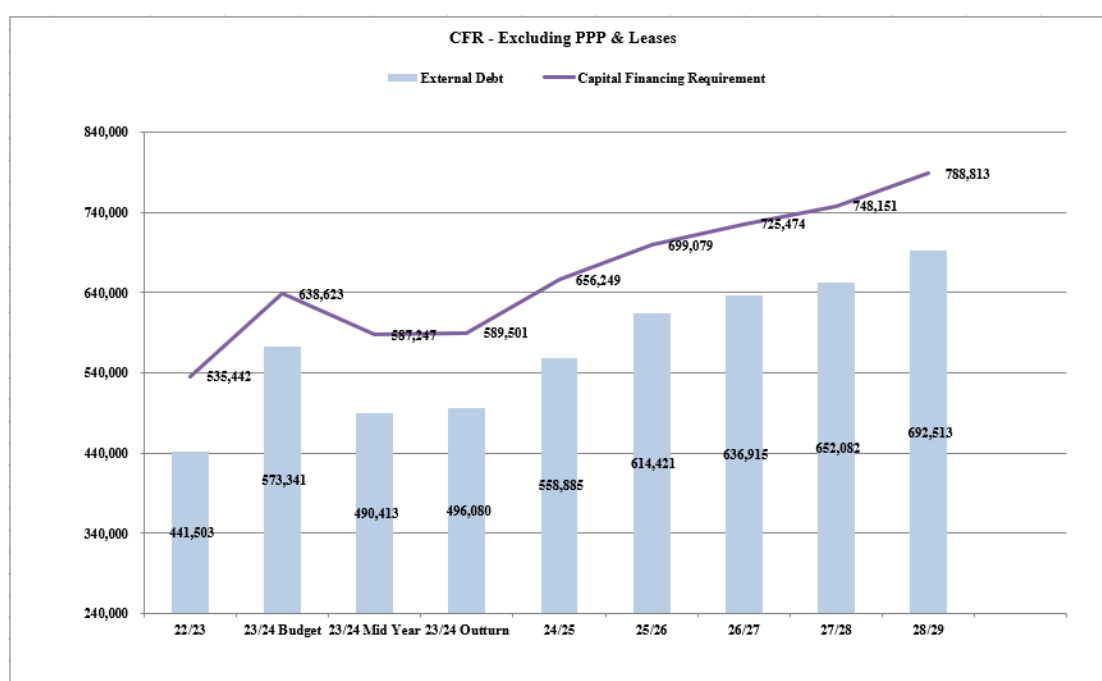
Authorised limit £'000	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate
Debt	627,000	726,000	734,000	774,000	817,000	847,000
Other long term liabilities	31,000	30,000	28,000	26,000	24,000	22,000
Total	658,000	756,000	762,000	800,000	841,000	869,000

3.17 These authorised limits are consistent with the Council's current commitments, and approved budget for capital expenditure and financing. The limits are based on the estimate of the most likely, prudent but not worst-case scenario which includes sufficient headroom over and above this to allow for the operational management of unusual cash flows, such as debt restructuring, or timing issues with expected capital income. Any revision required to the authorised limit must be approved by Council. External debt is prohibited beyond the authorised limit.

3.18 A summary of the CFR excluding PPP and leases against the planned external debt is set out in Table 11 and the graph shown below.

Table 11

£'000	2022/23	2023/24 Budget	2023/24 Midyear	2023/24 Outturn	2024/25	2025/26	2026/27	2027/28	2028/29
Authorised Limit	601,000	680,000	628,000	627,000	726,000	734,000	774,000	817,000	847,000
Operational Boundary	535,442	638,623	587,247	589,501	656,249	699,079	725,474	748,151	788,813
Capital Financing Requirement	535,442	638,623	587,247	589,501	656,249	699,079	725,474	748,151	788,813
External Debt	441,503	573,341	490,413	496,080	558,885	614,421	636,915	652,082	692,513



3.19 In line with existing financial regulations, the Council has delegated authority to the Chief Financial Officer in conjunction with the Head of Finance to effect movement between borrowing and long-term liabilities within the total authorised limits and operational boundaries approved. Any such movement would be reported to Council / Cabinet via the Members Library and as part of Treasury Management update reports.

Investment Strategy

3.20 The Council's Investment strategy is developed in line with Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010) and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes, 2021 edition, ("the CIPFA TM Code").

- 3.21 The Investment strategy details the approach which the Council will take to minimise the risk to investments and lists the investments which the Council will be permitted to use. The regulations and guidance place a high priority on the management of risk. The Council's investment priorities will be **security first, liquidity second and then return**.
- 3.22 Common Good and Charitable Trust funds are managed on behalf of the Council by an external investment management firm. The strategy details the Council's policy on the investment of these funds. The indicator below sets a limit on the total level of investments held for longer than 365 days.

Upper limit for principal sums invested for longer than 365 days			
£m	2024/25	2025/26	2026/27
Principal sums invested for longer than 365 days	£10m	£10m	£10m

4 POLICY IMPLICATIONS

- 4.1 There are no direct policy implications associated with this report although clearly, the report provides a strategic context and direction within which all future financial plans should be considered. On-going monitoring and reporting of the Council's financial performance is a key part of the approved Treasury Management Strategy.

5 INTEGRATED IMPACT ASSESSMENT

- 5.1 The subject of this report has been considered and given there is no direct change in policy direction, there is no immediate requirement to undertake any further impact assessment.

6 RESOURCE IMPLICATIONS

- 6.1 Financial – these strategies are consistent with the draft General Services and HRA capital budgets being considered by Council on 20 February 2024.
- 6.2 Personnel - none
- 6.3 Other – none

7 BACKGROUND PAPERS

- 7.1 CIPFA (2021) – “Treasury Management in the Public Services, Cross Sectoral Guidance notes”

- 7.2 CIPFA (2021) – “The Prudential Code for capital finance in local authorities”
- 7.3 The Local Government Investments (Scotland) Regulations 2010
- 7.4 The Local Authority (Capital Financing and Accounting) (Scotland) Regulations 2016
- 7.5 Financial Strategy and Capital Strategy 2024-25 to 2028-29 - Council 12 December 2023
- 7.6 Capital Investment and Treasury Management Strategy 2024-25 to 2028-29 (lodged in Members Library Service)
- 7.7 Council 20 February 2024 – Administration budget papers

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