

**REPORT TO:** East Lothian Council

**MEETING DATE:** 1 March 2022

**BY:** Executive Director for Council Resources

**SUBJECT:** Treasury Management Strategy 2022-23 to 2026-27

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## **1 PURPOSE**

- 1.1 To seek the approval of the Council of the Treasury Management and Investment Strategies for 2022-23 to 2026-27.

## **2 RECOMMENDATIONS**

- 2.1 The Council is recommended to :
- i. Note that the General Services and HRA Capital investment plans for 2022-2027 are subject to consideration and approval by the previous agenda item considered by Council on 1 March. 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 3.5-3.18.
  - iii. Approve the Investment Strategy referenced in sections 3.19-3.21.
  - iv. Approve the repayment of loans fund advances using the methodology detailed in section 3.6.
  - v. Approve the Operational Boundaries for external debt as detailed in section 3.14.
  - vi. Approve the Authorised Limits for external debt as detailed in section 3.15.
  - vii. Approve the delegation of authority to 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 Service (February 2022 Bulletin, Ref: 18/22). [February 2022 Bulletin](#)

### **3 BACKGROUND**

- 3.1 Each year a local authority must calculate the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby any increases in charges to revenue arising from the elements reflected below are limited to a level that is affordable and within the projected income of the Council for the foreseeable future. These elements include:
- Increases in principal and interest charges caused by increased borrowing to finance additional capital expenditure, and
  - Any additional running costs from new capital projects
- 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 is also supported by the Financial and Capital Strategy, which was approved by Council on 14 December 2021, 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 2022-23 to 2026-27 has been lodged in the Members' Library Service (February 2022 Bulletin, Ref: 18/22). 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.

### **TREASURY MANAGEMENT STRATEGY**

- 3.5 The table below provides details setting out the capital investment plans for 2022– 2027, in line with the draft General Services and HRA capital budgets. As a reminder, the actual capital expenditure incurred in 2020-21 and provisional estimates of total gross capital expenditure plans and how these are to be financed for 2021-22 are also detailed below. Not all of this spending will be funded by borrowing, with any shortfall of resources results in a borrowing need.

**Table 1**

Capital expenditure £'000	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	5 Year Total Estimate
General Services	35,769	72,121	94,759	102,774	75,748	40,107	31,254	344,642
HRA	21,233	29,758	42,179	31,477	42,008	40,372	36,917	192,979
<b>Total</b>	<b>57,002</b>	<b>101,879</b>	<b>136,938</b>	<b>134,251</b>	<b>117,756</b>	<b>80,479</b>	<b>68,171</b>	<b>537,621</b>

Financing of capital expenditure £'000	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	5 Year Total Estimate
<b>General Services</b>								
Capital grants	(12,930)	(23,022)	(27,459)	(23,633)	(39,586)	(20,857)	(12,354)	(123,889)
Capital receipts	(10,275)	(7,663)	(11,455)	(15,184)	(17,120)	(14,677)	(13,722)	(72,158)
CFCR	(295)							0
<b>General Services Total</b>	<b>(23,500)</b>	<b>(30,685)</b>	<b>(38,914)</b>	<b>(38,817)</b>	<b>(56,706)</b>	<b>(35,534)</b>	<b>(26,076)</b>	<b>(196,047)</b>
<b>HRA</b>								
Capital grants	(5,865)	(7,189)	(6,696)	(6,196)	(5,196)	(5,196)	(5,196)	(28,480)
Capital receipts								0
CFCR	(3,226)	(2,500)	(1,500)	(2,500)	(3,000)	(4,000)	(5,000)	(16,000)
<b>HRA Total</b>	<b>(9,091)</b>	<b>(9,689)</b>	<b>(8,196)</b>	<b>(8,696)</b>	<b>(8,196)</b>	<b>(9,196)</b>	<b>(10,196)</b>	<b>(44,480)</b>
<b>Net financing need for the year</b>	<b>24,411</b>	<b>61,505</b>	<b>89,828</b>	<b>86,738</b>	<b>52,854</b>	<b>35,749</b>	<b>31,899</b>	<b>297,094</b>

3.6 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 or where appropriate to reduce loans fund advances. Any loans fund advances in year is matched to assets with longer economic lives.

### General Services

- All capital expenditure incurred from 2001 has been reflected within the loans fund on an individual asset basis, rather than an overall pooled approach.

- All capital expenditure 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

- All capital expenditure 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.
- All capital expenditure 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.

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

**Table 2 - General Services**

General Services £'000	Opening Balance	Advances	Repayments	Closing Balance
Year 1	273,317	55,845	6,560	322,602
Year 2-5	322,602	92,751	21,868	393,484
Year 6-10	393,484	24,104	30,093	387,495
Year 11-15	387,495	0	36,381	351,115
Year 15-20	351,115	0	42,173	308,941
Year 21-30	308,941	0	74,483	234,458
Year 31-40	234,458	0	54,381	180,077
Year 41-50	180,077	0	64,542	115,536
Year 51-60	115,536	0	83,594	31,942
Year 61-70	31,942	0	31,942	0

**Table 3 - HRA**

HRA £'000	Opening Balance	Advances	Repayments	Closing Balance
Year 1	223,685	33,983	4,972	252,697
Year 2-5	252,697	114,490	25,994	341,193
Year 6-10	341,193	52,761	41,768	352,185
Year 11-15	352,185	0	42,938	309,247
Year 16-20	309,247	0	39,114	270,133
Year 21-30	270,133	0	63,656	206,477
Year 31-40	206,477	0	60,237	146,240
Year 41-50	146,240	0	61,070	85,169
Year 51-60	85,169	0	64,841	20,328
Year 61-70	20,328	0	20,328	0

3.8 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.

3.9 Table 4 below sets of the Capital Financing Requirement (CFR) and the movement in CFR for the Council across the 5 year strategy period from 2022-2027. The table also includes a reminder of the actual CFR in 2020-21 and current projections for 2021-22.

**Table 4 - CFR**

£'000	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
<b>Capital Financing Requirement (including PPP &amp; Finance Leases)</b>							
CFR - General Services	260,914	307,093	354,812	413,425	424,790	421,591	418,628
CFR – HRA	206,609	223,686	252,697	269,768	297,424	321,870	341,193
<b>Total CFR</b>	<b>467,522</b>	<b>530,779</b>	<b>607,508</b>	<b>683,193</b>	<b>722,214</b>	<b>743,461</b>	<b>759,821</b>
<b>Movement in CFR</b>	<b>10,234</b>	<b>63,256</b>	<b>76,730</b>	<b>75,685</b>	<b>39,021</b>	<b>21,247</b>	<b>16,360</b>
<b>Movement in CFR represented by</b>							
Net financing need for the year	24,161	69,475	89,828	86,737	52,854	35,749	31,899
GS -Less loan fund repayments and other financing movements	(9,874)	(1,813)	(8,126)	(5,343)	(7,677)	(7,772)	(8,141)
HRA - Less loan fund repayments and other financing movements	(4,054)	(4,406)	(4,972)	(5,710)	(6,156)	(6,730)	(7,398)
<b>Movement in CFR</b>	<b>10,234</b>	<b>63,256</b>	<b>76,730</b>	<b>75,685</b>	<b>39,021</b>	<b>21,247</b>	<b>16,360</b>

3.10 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

3.11 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 councils 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 2020-21 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	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
GS Revenue Stream	271,510	260,511	276,375	284,739	293,103	298,965	304,944
GS Financing Costs	15,250	7,034	14,500	13,000	16,000	16,231	16,694
General Services	5.62%	2.70%	5.25%	4.57%	5.46%	5.43%	5.47%
HRA Revenue Stream	36,471	34,641	34,711	37,288	39,662	42,321	45,380
HRA Financing Costs	10,415	10,597	11,551	12,746	13,555	14,966	16,533
HRA	28.56%	30.59%	33.28%	34.18%	34.18%	35.36%	36.43%

- The reduction in the General Services 2021-22 ratio directly reflects the impact of the use of fiscal flexibilities in relation to loans fund principal repayments. The relative stability from 2022-23 in the ratio reflects the impact of the 2019 loans fund review although this is against a background of increased capital investment plans to support the infrastructure requirements associated with future growth plans. The phased payback of the 2021-22 fiscal flexibility is also included from 2022-23.
- 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**

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
General Services Debt £'000	225,561	273,318	322,602	382,743	395,691	394,351	393,485
Band D Equivalents	50,077	55,983	58,548	60,242	61,936	63,794	65,708
Debt per Band D Equivalent £	£5,005	£4,882	£5,510	£6,353	£6,389	£6,182	£5,988

**Table 7 - Impact on Rent**

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
HRA debt £'000	206,609	223,686	252,697	269,768	297,424	321,870	341,193
Number of HRA dwellings	8,925	8,938	9,140	9,245	9,387	9,575	9,645
Debt per dwelling £	£23,149	£25,026	£27,647	£29,180	£31,685	£33,616	£35,375

3.12 The Council's treasury portfolio position at 31 March 2021 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	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
<b>External Debt</b>							
Debt at 1 April	382,831	365,549	414,273	490,866	566,328	591,026	625,704
Expected change in Debt	(17,282)	48,724	76,593	75,463	24,698	34,678	21,321
Other long-term liabilities (OLTL)	36,897	35,352	33,775	32,209	30,682	29,099	27,240
Expected change in OLTL	(1,545)	(1,577)	(1,566)	(1,527)	(1,583)	(1,860)	(2,096)
Actual gross debt at 31 March	<b>400,901</b>	<b>448,048</b>	<b>523,075</b>	<b>597,010</b>	<b>620,125</b>	<b>652,944</b>	<b>672,168</b>
The Capital Financing Requirement	<b>467,521</b>	<b>530,778</b>	<b>607,507</b>	<b>683,192</b>	<b>722,213</b>	<b>743,460</b>	<b>759,820</b>
Under / (over) borrowing	<b>66,620</b>	<b>82,730</b>	<b>84,432</b>	<b>86,181</b>	<b>102,088</b>	<b>90,516</b>	<b>87,652</b>



3.13 The key treasury management indicator of prudence is that external borrowing should not exceed the CFR for the preceding year (2020/21) plus additional CFR in the current (2021/22) and two following years (2022/23 and 2023/24).

	<b>2021/22 Estimate Gross Debt</b>	<b>2022/23 Actual CFR</b>	<b>2023/24 Estimate CFR Increase</b>	<b>2024/25 Estimate CFR Increase</b>	<b>2025/26 Estimate CFR Increase</b>	<b>CFR Total</b>
£m	448	468	77	76	39	660

This year is projected to be within this indicator - External Debt £448m and CFR £660m. At the close of the 2020/21 financial year, the Council was well within this indicator, as the CFR for the actual year was £468 million and external borrowing was £444 million.

### **Boundaries for Debt**

3.14 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**

<b>Operational boundary £'000</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
Debt	497,003	575,298	652,510	693,114	716,220	734,677
Other long term liabilities	33,775	32,209	30,682	29,099	27,240	25,143
<b>Total</b>	<b>522,807</b>	<b>599,626</b>	<b>675,645</b>	<b>714,930</b>	<b>735,578</b>	<b>751,941</b>

3.15 Furthermore, the Council must set maximum levels of borrowing by way 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**

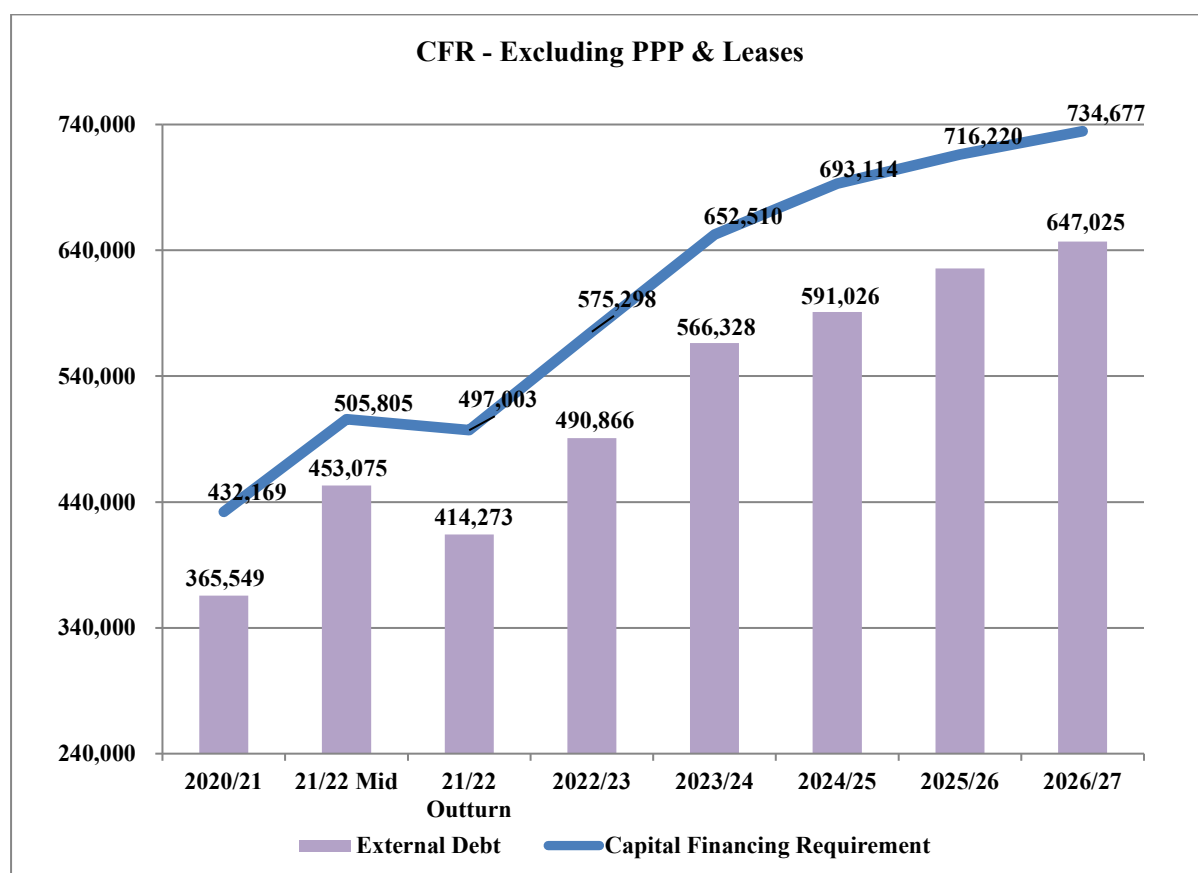
<b>Authorised limit £'000</b>	<b>2021/22 Estimate</b>	<b>2022/23 Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>	<b>2025/26 Estimate</b>	<b>2026/27 Estimate</b>
Debt	541,000	623,000	701,000	758,000	761,000	772,000
Other long term liabilities	34,000	33,000	31,000	30,000	28,000	26,000
<b>Total</b>	<b>575,000</b>	<b>656,000</b>	<b>732,000</b>	<b>788,000</b>	<b>789,000</b>	<b>798,000</b>

3.16 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, but prudent but not worst-case scenario with, and 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.

3.17 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	2020/21	2021/22	21/22 Mid	21/22 Outturn	2022/23	2023/24	2024/25	2025/26	2026/27
Authorised Limit	550,000	556,000	556,000	541,000	623,000	701,000	758,000	761,000	772,000
Operational Boundary	491,056	507,635	507,635	507,635	575,298	652,510	693,114	716,220	734,677
Capital Financing Requirement	432,169	507,635	505,805	497,003	575,298	652,510	693,114	716,220	734,677
External Debt	365,549	469,365	453,075	414,273	490,866	566,328	591,026	625,704	647,025



3.18 In line with existing financial regulations, the Council has delegated authority to the Chief Financial Officer 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 Service and as part of Treasury Management update reports.

### Investment Strategy

- 3.19 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").
- 3.20 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**.
- 3.21 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	2022/23	2023/24	2024/25
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 1 March 2022.
- 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 and Capital Strategy 2022-27 - Council 14 December 2021
- 7.6 Capital Investment and Treasury Management Strategy 2022 to 2027 (lodged in Members’ Library Service (February 2022 Bulletin Ref: 18/22) [February 2022 Bulletin](#))
- 7.6 Council 1 March 2022 – Administration budget papers

<b>AUTHOR’S NAME</b>	Ellie Dunnet Ann-Marie Glancy Doreen Pringle Karen Duff
<b>DESIGNATION</b>	Head of Finance Service Manager – Corporate Accounting Principal Accountant – Capital, Treasury and Banking Treasury and Banking Officer
<b>CONTACT INFO</b>	<a href="mailto:edunnet@eastlothian.gov.uk">edunnet@eastlothian.gov.uk</a> <a href="mailto:aglancy@eastlothian.gov.uk">aglancy@eastlothian.gov.uk</a> <a href="mailto:dpringle@eastlothian.gov.uk">dpringle@eastlothian.gov.uk</a> <a href="mailto:kduff@eastlothian.gov.uk">kduff@eastlothian.gov.uk</a>
<b>DATE</b>	23 February 2021