

REPORT TO: East Lothian Council

MEETING DATE: 18 February 2025

BY: Executive Director for Council Resources

SUBJECT: Treasury Management Strategy 2025-26 to 2029-30

1 PURPOSE

- 1.1 To seek the approval of the Council of the Treasury Management and Investment Strategies for 2025-26 to 2029-30.

2 RECOMMENDATIONS

- 2.1 The Council is recommended to:
- i. Note that the General Services and HRA capital investment plans for 2025-26 to 2029-30 are subject to consideration and approval by the previous agenda item considered by Council on 18 February 2025. 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 (February 2025 Bulletin).

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 10 December 2024, 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 2025-26 to 2029-30 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 2025-26 to 2029-30, in line with the proposed General Services and HRA capital budgets. As a reminder, the actual capital expenditure incurred in 2023-24 and provisional estimates of total gross capital expenditure plans and how these are to be financed for 2024-25 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 £'000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	5 Year Total Estimate
General Services	51,589	112,810	57,517	31,235	27,595	41,111	53,645	211,104
HRA	42,849	28,533	43,820	39,442	40,517	29,954	25,061	178,793
Total	94,438	141,343	101,337	70,677	68,112	71,065	78,706	389,897

Financing of capital expenditure £'000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate	5 Year Total Estimate
General Services								
Capital grants	-17,938	-52,932	-4,805	-7,851	-15,122	-28,020	-41,460	-97,257
Capital receipts	-11,158	-9,804	-5,054	-2,002	-1,113	-753	-2,924	-11,846
CFCR	-166	0	0	0	0		0	0
General Services Total	-29,262	-62,736	-9,859	-9,853	-16,236	-28,773	-44,383	-109,104
HRA								
Capital grants	-10,340	-1,897	-6,236	-479	-1,716	-1,716	-196	-10,343
Capital receipts	-154	0	0	0	0	0	0	0
CFCR	-1,293	-2,200	-3,400	-3,200	-4,200	-5,100	-6,100	-22,000
HRA Total	-11,788	-4,097	-9,636	-3,679	-5,916	-6,816	-6,296	-32,343
Net financing need for the year	53,389	74,510	81,842	57,145	45,961	35,476	28,027	248,451

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	356,642	47,659	13,478	390,823
Year 2-5	390,823	54,342	40,884	404,280
Year 6-10	404,280	28,463	60,467	372,277
Year 11-15	372,277	0	62,716	309,561
Year 15-20	309,561	0	58,603	250,958
Year 21-30	250,958	0	74,704	176,255
Year 31-40	176,255	0	46,364	129,890
Year 41-50	129,890	0	58,590	71,301
Year 51-60	71,301	0	67,167	4,133
Year 61-70	4,133	0	4,133	0

Table 3 - HRA

HRA £'000	Opening Balance	Advances	Repayments	Closing Balance
Year 1	284,351	34,184	6,293	312,242
Year 2-5	312,242	112,266	30,601	393,907
Year 6-10	393,907	56,107	45,929	404,085
Year 11-15	404,085	0	50,436	353,649
Year 16-20	353,649	0	46,323	307,326
Year 21-30	307,326	0	83,848	223,478
Year 31-40	223,478	0	74,926	148,552
Year 41-50	148,552	0	76,070	72,483
Year 51-60	72,483	0	62,250	10,233
Year 61-70	10,233	0	10,233	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 2025-26 to 2029-30. The table also includes a reminder of the actual CFR in 2023-24 and current projections for 2024-25.

Table 4 - CFR

£'000	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Capital Financing Requirement (including PPP & Finance Leases)							
CFR - General Services	359,295	408,580	440,363	450,811	450,442	457,366	453,868
CFR – HRA	265,745	284,350	312,242	341,078	368,206	383,388	393,907
Total CFR	625,041	692,930	752,605	791,890	818,648	840,754	847,775
Movement in CFR	57,384	67,889	59,675	39,285	26,758	22,106	7,021
Movement in CFR represented by:							
Net financing need for the year	67,986	83,311	82,241	57,933	46,919	43,378	28,046
GS -Less loan fund repayments and other financing movements	-5,221	-9,591	-16,274	-11,722	-12,688	-13,315	-12,780
HRA - Less loan fund repayments and other financing movements	-5,382	-5,831	-6,293	-6,926	-7,473	-7,956	-8,246
Movement in CFR	56,428	67,889	59,675	39,285	26,758	22,107	7,021

- 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 2023-24 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	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
GS Revenue Stream	304,916	321,422	354,626	360,276	365,926	371,879	378,152
GS Financing Costs	13,000	16,857	25,874	22,464	23,682	24,147	25,370
General Services	4.26%	5.24%	7.30%	6.24%	6.47%	6.49%	6.71%
HRA Revenue Stream	37,789	40,854	44,149	46,994	49,940	52,818	55,601
HRA Financing Costs	12,521	14,308	16,322	18,335	19,676	20,802	21,628
HRA	33.13%	35.02%	36.97%	39.02%	39.40%	39.38%	38.90%

- The increase in the General Services 2024-25 compared to the 2023-24 ratio is due to the use of the benefit from earlier reviews of the loans fund, which had been substantially used in 2023-24. If this had not been applied both the financing costs and the ratio would have increased. The ratio reflects the size of the cost of the capital investment budgets associated with current and future plans compared to taxpayer income. The phased payback of the 2022-23 fiscal flexibility was 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 benefit from earlier reviews of the loans fund finishing in 2024-25.
- 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

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
General Services Debt £'000	313,376	356,643	390,824	403,367	404,733	406,593	404,280
Band D Equivalents	61,228	61,456	63,235	63,957	64,577	65,167	65,798
Debt per Band D Equivalent £	£5,118	£5,803	£6,180	£6,307	£6,267	£6,239	£6,144

Table 7 - Impact on Rent

	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
HRA debt £'000	265,745	284,350	312,242	341,078	368,206	383,388	393,907
Number of HRA dwellings	9,361	9,431	9,525	9,642	9,732	9,779	9,796
Debt per dwelling £	£26,254	£28,852	£32,781	£35,374	£37,835	£39,205	£40,211

- 3.13 The Council's forecasted treasury portfolio position at 31 March 2025 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	2023/24 Actual	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
External Debt							
Debt at 1 April	441,503	493,789	564,755	637,466	658,702	679,493	686,437
Expected change in Debt	52,286	70,965	72,711	21,236	20,791	6,944	-1,919
Other long-term liabilities (OLTL)	32,214	30,688	35,633	32,041	28,685	25,732	29,484
Expected change in OLTL	-1,526	4,945	-3,591	-3,356	-2,953	3,752	-2,850
Actual gross debt at 31 March	524,477	600,387	669,507	687,387	705,225	715,921	711,153

The Capital Financing Requirement	625,040	692,930	752,604	791,889	818,648	840,754	847,775
Under / (over) borrowing	100,563	92,542	83,097	104,502	113,422	124,833	136,623

- 3.14 The key treasury management indicator of prudence is that external borrowing should not exceed the CFR for the preceding year (2023-24) plus additional CFR in the current (2024-25) and two following years (2025-26 and 2026-27).

	2023/24 Actual CFR	2024/25 Estimate Gross Debt	2024/25 Estimate CFR Increase	2025/26 Estimate CFR Increase	2026/27 Estimate CFR Increase	CFR Total
£m	579	565	62	62	41	744

This year is projected to be within this indicator - External Debt £565 million and CFR £641 million. At the close of the 2023-24 financial year, the Council was well within this indicator, as the CFR for the actual year was £579million and external borrowing was £494 million.

The application of IFRS 16 is currently estimated to have an opening increase of £7.8m to both the CFR and the Other Long-Term Liabilities. Work is on-going in the closing figure and the effect of the impact of any in year changes will be reported later.

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	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate	2027/28 Estimate	2028/29 Estimate	2029/30 Estimate
Debt	657,296	720,562	763,203	792,915	811,269	821,140
Other long term liabilities	35,633	32,041	28,685	25,732	29,484	26,635
Total	692,929	752,604	791,889	818,647	840,754	847,774

- 3.16 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

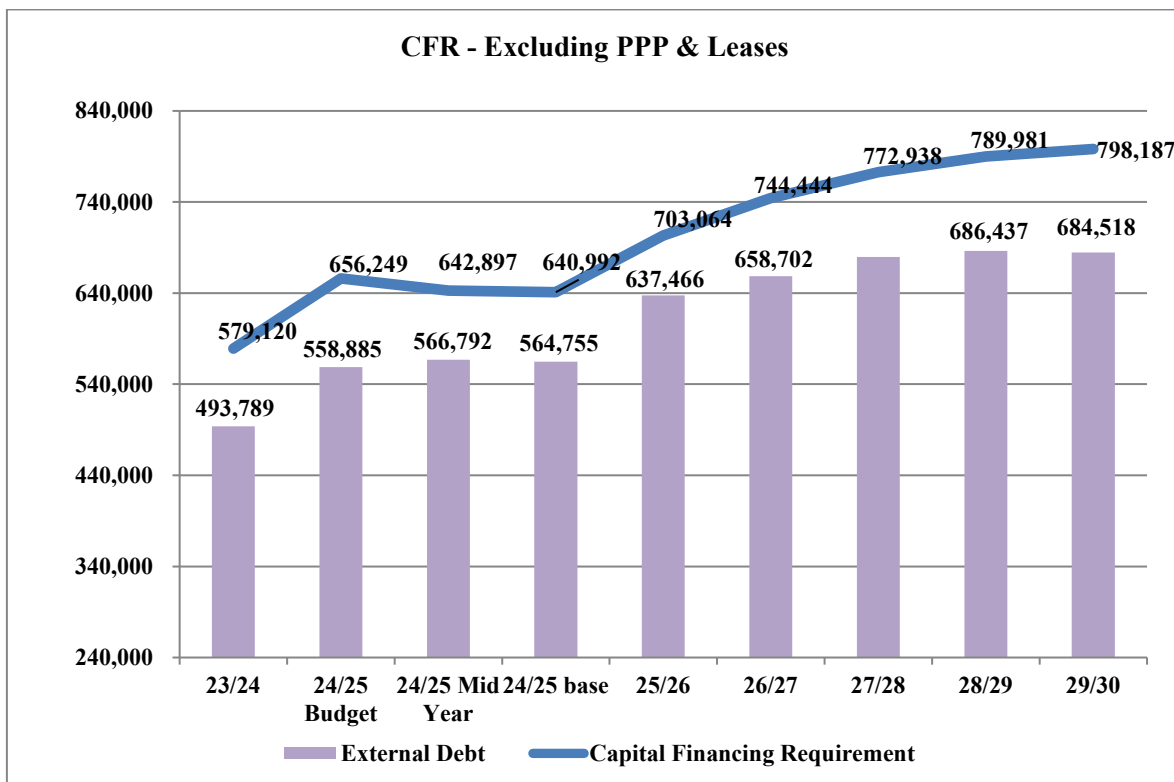
Authorised limit	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
£'000	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
Debt	724,000	741,000	777,000	816,000	847,000	872,000
Other long term liabilities	36,000	30,000	28,000	26,000	24,000	22,000
Total	760,000	771,000	805,000	842,000	871,000	894,000

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	2023/24	2024/25 Budget	2024/25 Mid year	2024/25 Outturn	2025/26	2026/27	2027/28	2028/29	2029/30
Authorised Limit	636,000	726,000	726,000	724,000	741,000	734,000	774,000	817,000	847,000
Operational Boundary	594,352	656,249	659,202	657,296	720,562	763,203	792,915	811,269	821,140
Capital Financing Requirement	579,120	656,249	642,897	640,992	703,064	744,444	772,938	789,981	798,187
External Debt	493,789	558,885	566,792	564,755	637,466	658,702	679,493	686,437	684,518



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	2025/26	2026/27	2027/28
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. Ongoing 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 18 February 2025.
- 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 2025-26 to 2029-30 - Council 10 December 2024
- 7.6 Capital Investment and Treasury Management Strategy 2025-26 to 2029-30 (lodged in Members' Library Service – February 2025 Bulletin)
- 7.7 Council 18 February 2025 – budget papers

AUTHOR'S NAME	Ellie Dunnet Ann-Marie Glancy Doreen Pringle Karen Duff
DESIGNATION	Head of Finance Service Manager – Corporate Accounting Principal Accountant – Capital, Treasury and Banking Treasury and Banking Officer
CONTACT INFO	edunnet@eastlothian.gov.uk aglancy@eastlothian.gov.uk dpringle@eastlothian.gov.uk kduff@eastlothian.gov.uk
DATE	10 February 2025