Cabinet

Excerpt of the Minutes of the meeting held on Wednesday 8 March 2023 in the Town Hall, Royal Leamington Spa at 6.00pm.

Present: Councillors Day (Leader), Bartlett, Cooke, Falp, Hales, Matecki, Rhead, and Tracey.

Also Present: Councillors: Boad (Liberal Democrat Group Observer), Davison (Green Group Observer), Mangat (Labour Group Observer), and Milton (Chair of Overview & Scrutiny Committee).

Before starting the meeting, the Leader noted that it was International Women's Day; an opportunity to celebrate not just the achievement of Women but also to raise awareness around discrimination and to take action to drive for gender parity.

105. **Apologies for Absence**

Apologies were received from Councillor Grainger.

106. **Declarations of Interest**

There were no declarations of interest made in respect of the Part 1 items.

Part 1
(Items upon which a decision by the Council was required)

108. **Treasury Management Strategy 2023/24**

The Cabinet considered a report from Finance which detailed the strategy that the Council would follow in carrying out its Treasury Management activities in 2023/24.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defined treasury management 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."

This definition was included within the Council's Treasury Management Policy Statement 2023/24, at Appendix A to the report.

While any 'commercial' initiatives or loans to third parties would impact on the treasury function, these activities were generally classed as non-treasury activities, (arising usually from capital expenditure), and were separate from the day-to-day treasury management activities.

The Council's treasury management operations were governed by various Treasury Management Practices (TMPs) that the CIPFA Treasury Management Code required to be produced by the Council and adhered to by those officers engaged in the treasury management function. These

TMPs had previously been reported to the Cabinet and were subject to periodic Internal Audit review.

There were updates made to the TMPs before 1 April 2022, and a major re-write had been made to fully incorporate the 2021 CIPFA recommendations alongside the report.

Under CIPFA's updated *Treasury Management in Public Services Code of Practice* the Council continued to be required to have an approved annual *Treasury Management Strategy*, under which its treasury management operations could be carried out. The proposed Strategy for 2023/24 was included as Appendix B to the report.

The Council had regard to the Government's Guidance on Local Government Investments. The guidance stated that an *Annual Investment Strategy* must be produced in advance of the year to which it related and must be approved by the full Council. The Strategy could be amended at any time and it must have been made available to the public. The Annual Investment Strategy for 2023/24 was shown as Appendix C to the report.

The Council needed to make provision for the repayment of its outstanding long-term debt and other forms of long-term borrowing such as finance leases. Statutory guidance issued by DLUHC required that a statement on the Council's *Minimum Revenue Provision (MRP) Policy* should be submitted to full Council for approval before the start of the relevant financial year. This was contained in Appendix D to the report.

On 30 November 2021 DLUHC issued "*Consultation on changes to the capital framework: Minimum Revenue Provision*", to last for 10 weeks until 8 February 2022. The latest information Link had was that any changes would take effect from 2024/25 at the earliest, rather than 2023/24 as original proposed, but nothing definitive had been released.

The paper primarily covered the concerns that the Government had in respect of compliance with the duty to make a prudent revenue provision, which in their view, resulted in an underpayment of MRP. The consultation document stated that the DLUHC were not intending to change the statutory MRP guidance, but to clearly set out in legislation the practices that authorities should have already been following.

However, the initial proposals had the potential to remove the discretion of Councils to interpret their measure of a prudent MRP policy, and, in particular, to elect to use capital receipts from capital loan repayments to be put aside to repay debt in place of the revenue charge. This would have had major implications for Councils such as Warwick District Council, so along with many Councils, officers responded against that proposal.

If and when the changes took effect, the Government had said that they would be "prospective", meaning that although they would not apply to previous financial years, they would apply to existing loans repayable after that date. This would, contrary to the accountancy and legal advice obtained at the time, apply to the housing joint venture loans, which would require MRP being charged, which would run into many millions of pounds each year. The Council had responded to the Government's consultation, pointing out the severe impact and uncertainty such changes would make.

The recommended MRP Policy at Appendix D to the report would still enable the MRP to exclude such loan repayments, until a Government decision was made on the consultation, but a full risk assessment based on the latest information and recommendations from Link etc. would be undertaken before any capital investment for which the MRP 'holiday' might be deemed to apply was committed.

The Prudential Code required full Council to approve several Prudential and Treasury Indicators, including amounts of borrowing required to support capital expenditure, set out in Appendix E to the report which needed to be considered when determining the Council's Treasury Management Strategy, which should have assessed the risks and rewards of significant investments over the long-term, as opposed to the usual three to five years that most local authority financial planning had been conducted over, to ensure the long-term financial sustainability of the authority. (CIPFA had not defined what longer-term meant, but it was likely to infer 20-30 years in line with the financing time horizon and the expected life of the assets, while medium-term financial planning, at a higher level of detail, was probably aimed at around a 10-year timeframe and focused on affordability in particular).

The *Prudential Code for Capital Finance in Local Authorities* was last revised on 20 December 2021 and introduced new requirements for the way that capital spending plans were considered and approved, in conjunction with the development of an integrated Treasury Management Strategy. It was effective immediately, but Councils were permitted to defer reporting until 2023/24. Given the other workstreams the Council was facing, and that this was the advice of the treasury advisers, the Council agreed to defer until the statutory deadline.

The key points were:

a) An authority must not borrow to invest primarily for financial return.
b) Revised definition of investments.
c) Quarterly monitoring and reporting of Performance Indicators.
d) New performance indicator for net income from commercial and service investments as a percentage of net revenue stream.
e) New performance indicator for the 'liability benchmark'.
f) Capital Finance Requirement includes heritage assets.
g) Annual strategy review of divesting commercial activities.
h) Objectives must include the need for plans and risks to be proportionate.
i) New definitions of prudence.
j) Reference to Environmental Sustainability in the Capital Strategy.
k) Production of an annual Capital Strategy. Link recommended that this should be a separate high-level corporate document.

Point d) above introduced a new distinction of service investments.
The revised Treasury Management Code required all investments and investment income to be attributed to one of the following three purposes:

Treasury management - Arising from the organisation's cash flows or treasury risk management activity, this type of investment represented balances which were only held until the cash was required for use.

Treasury investments might also arise from other treasury risk management activity which sought to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery - Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which were funded by borrowing were permitted only in cases where the income was 'either related to the financial viability of the project in question or otherwise incidental to the primary purpose'

Commercial return - Investments held primarily for financial return with no treasury management or direct service provision purpose.

The main requirements of the Prudential Code relating to service and commercial investments were:

- The risks associated with service and commercial investments should be proportionate to their financial capacity – i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services.
- An authority must not borrow to invest for the primary purpose of commercial return.
- It was not prudent for local authorities to make any investment or spending decision that would increase the CFR, and so might lead to new borrowing, unless directly and primarily related to the functions of the authority, and where any commercial returns were either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
- An annual review should be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.
- A prudential indicator was required for the net income from commercial and service investments as a proportion of the net revenue stream.
- Create new Investment Management Practices to manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

As previously reported, the Council had no 'Commercial return' investments.

The Cabinet previously requested that the 2020/21 Treasury Management Strategy Statement considered the policy of investing in fossil fuels. The Council had some minor (c. 5%) exposure to fossil fuel extraction companies in two corporate equity funds, operational since 2017/18. The Council divested from these funds during 2021/22 and no longer had any directly measurable investment exposure to fossil fuel extraction.

In terms of alternative options, the report set out the capital spending and borrowing requirements for the financial year 2023/24 within the Prudential Indicators (PIs). The Council could increase or decrease these limits, provided that these PIs were within the envelope of what was affordable and prudent, taking account of interest costs and the Minimum Revenue Provision ("depreciation") requirements.

The 2023/24 budget for investment income, after inclusion of growth items, was set out in paragraph 4.5 in the report.

The amount of interest that was to be credited or debited to the Housing Revenue Account as 'HRA allocation#' would vary depending on how the net balances and cashflow of the HRA changes. As the HRA's capital programme had relied on external borrowing for the last couple of financial years, due to interest rates and the Council's overall level of investments (of reserves and balances), this borrowing had been deferred, and the HRA had used 'internal borrowing', for which the interest was paid to the General Fund for that fund's share of the investments foregone.

Whilst any 'service' (not to be confused with commercial / primarily 'for yield') initiatives or loans to third parties would impact on the treasury function, these activities were generally classed as non-treasury activities, (arising usually from capital expenditure), and were separate from the day-to-day treasury management activities.

The Overview & Scrutiny Committee thanked officers for their work on the report. The Committee supported the changes to the wording relating to the UK Risk Rating, set out as Appendix C – Annex 3 to the minutes. The Committee noted that further consideration should be given to Environmental Social and Governance (ESG) criteria and other countries for investments in the next Council.

Councillor Hales stated that it was important that next administration got a very good level of training in financial management, given its importance to the Council. He also noted the comments from the Overview and Scrutiny Committee around the ESG criteria and other countries for investments in the next Council and this would be reviewed under the next administration. He then proposed the report as laid out.

Recommended to Council that

(1) the Treasury Management Strategy for 2023/24 as outlined in paragraph 1.6 in the report and contained in Appendix B to the minutes, be approved;

(2) 2023/24 Annual Investment Strategy as outlined in paragraph 1.7 and contained in Appendix C to the minutes, be approved;

(3) The Minimum Revenue Provision Policy Statement as outlined in paragraph 1.8 in the report and contained in paragraphs 5.1 to 5.5 of Appendix D to the minutes, be approved; and

(4) the Prudential and Treasury Indicators as outlined in paragraph 1.14 and contained in Appendix E to the minutes, including the amount of long-term borrowing required for

planned capital expenditure, be approved.

(The Portfolio Holder for this item was Councillor Hales)
Forward Plan Reference 1,320

109. **Local Authority Housing Fund Award**

The Cabinet considered a report from Housing. The Department for Levelling Up, Housing and Communities (DLUHC) had awarded Warwick District Council a grant of £2,820,431 from a national award of £500 million to support the purchase of 21 properties to provide sustainable housing for Afghan and Ukrainian families seeking refuge in the area. The aim of the report was to seek approval for the purchases and the additional funding required to complete the purchases within the required timeframe.

The LAHF was launched on 14 December 2022. The details of the fund were shared with the Council in the document 'Local Authority Housing Fund – Prospectus and Guidance' ('the Prospectus'). It was a £500m capital grant fund to support local authorities in England to provide sustainable housing for those unable to secure their own accommodation i.e. Afghan and Ukranian refugees.

The objectives of the scheme were:

- to ensure recent humanitarian schemes (Afghan and Ukraine schemes) which offered sanctuary, via an organised safe and legal entry route, to those fleeing conflict, provided sufficient longer term accommodation to those they supported;
- support areas with housing pressures which had generously welcomed substantial numbers of Ukrainian refugees so that these areas were not disadvantaged by increased pressures from these arrivals on the existing housing and homelessness systems; and
- mitigate the expected increased pressures on local authority homelessness and social housing resources which arose from the eligible cohort as sponsorship/family placements/bridging accommodation arrangements came to an end by increasing the provision of affordable housing available to local authorities to support those in the cohort who were homeless, at risk of homelessness, or in bridging accommodation;

Given the objectives of the fund, those eligible for the housing were those who were homeless, at risk of homelessness or who lived in unsuitable Temporary Accommodation (including bridging accommodation) and who also met the below definition.

Those on the:

(a) Afghan Citizen Resettlement Scheme (including eligible British Nationals under this scheme) (ACRS).
(b) Afghan Relocations and Assistance Policy (ARAP).
(c) Ukraine Family Scheme (UFS).
(d) Homes for Ukraine (HFU).
(e) Ukraine Extension Scheme (UES).

- reduce emergency, temporary and bridging accommodation costs;
- deliver accommodation that as far as possible allowed for the future conversion of housing units to support wider local authority housing and homelessness responsibilities to UK nationals (i.e. after usage by this cohort ends);
- utilise accommodation solutions to enable effective resettlement and economic integration of the eligible cohort;
- reduce pressures on the existing housing and homelessness systems and those waiting for social housing.

The DLUHC had awarded Warwick District Council £2,820,431 to purchase:

- 19 properties for households that met the eligibility criteria referred to as the 'the main element; and
- 2 x 4 bed properties to be allocated to households currently in bridging accommodation referred to as the bridging element.

The grant represented 40% of the purchase price for the main element and 50% for the bridging element. There was an allocation of £20,000 per property to cover other expenses. These expenses could include the purchase price, stamp duty, surveying, legal and other fees, refurbishments, energy efficiency measures, decoration, furnishings, or otherwise preparing the property for rent and potentially irrecoverable VAT incurred on these items. The Council should have ensured it complied with the Code of Practice for Local Authority Accounting.

The DLUHC had applied a deadline that the properties had to be delivered by 30 November 2023.

The purchase could be new build, existing dwellings, those requiring refurbishment and any combination to meet the scheme requirements by the stated deadline.

The properties were solely for Ukraine and Afghan households. This presented problems for authorities in that Council homes must only have been allocated through its published Housing Allocations Policy. DLUHC proposed that Councils use Local Lettings policies or provide the properties though a Registered Provider or the Councils Local Housing Company. There were advantages and disadvantages of each of these methods and further work was required to establish the optimum means of allocating these properties.

In terms of alternative options, one was to refuse the allocation and not purchase additional properties to assist the Afghan and Ukranian refugees. However, the grant was being provided to assist with the purchase of properties and it would contribute to the number of social properties in the District.

Councillor Matecki praised the generosity of the public, particularly in the District, in helping to settle and house displaced persons. In response to a comment from Councillor Falp, the houses would not be labelled as 'refugee housing', they would be added to the Council's Housing stock. The houses were particularly for Afghan refugees and displaced people from Ukraine. He then proposed the report as laid out.

Recommended to Council that

(1) a total expenditure budget allocation of up to £6,282,550 to purchase 21 dwellings in the Housing Revenue Account (HRA), be approved. Of this total the HRA will fund £3,672,119 and DLUHC grant of £2,820,431 will provide 60% match funding for the purchase of 19 properties comprising the "main element" and for 50% towards the funding for the purchase of 2 properties to meet housing for the "bridging element" of the grant programme and to allow for potential sustainability/ environmental improvements to the properties;

(2) authority be delegated to the Head of Housing in consultation with the Portfolio Holder for Housing to determine the optimum means of allocating these properties; and

(3) authority be delegated to the Heads of Finance in consultation with the Portfolio Holders for Finance and Housing and the Head of Housing to determine the means of financing the scheme.

(The Portfolio Holder for this item was Councillor Matecki.
Forward Plan Reference 1,353

(The meeting ended at 8:01pm)