

SIGNED OFF BY	Interim Head of Finance
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TO	Audit Committee Executive Council
DATE	Tuesday 15 March 2022 Thursday 24 March 2022 Thursday 7 April 2022
EXECUTIVE MEMBER	Deputy Leader and Portfolio Holder for Finance and Governance

KEY DECISION REQUIRED	Y
WARDS AFFECTED	(All Wards);
SUBJECT	Treasury Management Strategy Statement 2022/2023

RECOMMENDATIONS
<p>Audit Committee:</p> <p>i) Audit Committee is asked to consider and to provide feedback on the following which are to be finalised and submitted for approval by the Executive on 24 March 2022 and Council on 7 April 2022:</p> <ul style="list-style-type: none"> • The Treasury Management Strategy Statement for 2022/23 as set out in this report; and • The Treasury Management Prudential Indicators for 2022/23 as set out in this report <p>Executive:</p> <p>ii) Executive is asked to consider the following:</p> <ul style="list-style-type: none"> • The Treasury Management Strategy Statement for 2022/23 set out in this report; and • The Treasury Management Prudential Indicators for 2022/23 as set out in this report

and recommend their approval by Council.

Council:

iii) Council is asked to approve the following for 2022/23:

- **The Treasury Management Strategy Statement for 2022/23 set out in this report; and**
- **The Treasury Management Prudential Indicators for 2022/23 as set out in this report.**

REASONS FOR RECOMMENDATIONS

To enable the adoption of the updated Treasury Management Strategy Statement for the 2022/23 financial year in order to comply with the Chartered Institute of Public Finance Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities. Also with Government (DLUHC) Investment Guidance.

EXECUTIVE SUMMARY

This report sets out the Treasury Management Strategy Statement for 2022/23 including the Treasury Management Indicators, Prudential Indicators and the Minimum Revenue Provision Policy.

CIPFA published new versions of their Codes in December 2021 and this report explains the consequent changes when implemented in 2023/24.

There is also a requirement to comply with guidance issued by the Government in respect of Local Authority Investments and the Minimum Revenue Provision for repayment of debt.

In November 2021 the Government published a consultation document on proposed changes to the capital framework relating to how the Minimum Revenue Provision is calculated. This report highlights the potential impacts of the proposed changes if they go ahead in 2023/24.

Council has authority to approve the Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy and Borrowing Limits.

STATUTORY POWERS

1. The Council is required to approve an annual Treasury Management Strategy Statement, Prudential Indicators, Minimum Revenue Provision Policy and Borrowing Limits so that borrowing and investments are prudent, affordable and sustainable.
2. The Council operates its treasury management activity as an integral part of its statutory obligation to effectively manage the Council's finances under the Local Government Act 2003 and associated guidance.
3. The Council's Treasury Management activities are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on

Treasury Management, the Prudential Code for Capital Finance in Local Authorities, and the Government's (DLUHC) Investment Guidance.

BACKGROUND

4. The Council is required to approve an annual Treasury Management Strategy Statement ('the Strategy'), Prudential Indicators, Minimum Revenue Provision Policy and Borrowing Limits so that borrowing and investments are prudent, affordable and sustainable.
5. The Treasury Management Strategy for 2022/23 is attached at Annex 1.
6. The Strategy has been prepared in line with the CIPFA Codes and Government guidance. It comprises four sections plus appendices:
 1. Introduction
 2. Capital Prudential Indicators
 3. Borrowing
 4. Investment
 5. Appendices.
7. The Strategy has the following objectives:
 - To consider and effectively address the risks associated with Treasury Management activity;
 - To optimise the flow of cash through the organisation in order to maximise the potential for using it to earn investment income for the Council, and where required limit the borrowing costs;
 - To optimise the returns from investments while meeting the overriding need to protect the capital sum and ensure that the cash is available when required;
 - To align investments in relation to cash flow, within statutory constraints, in order to increase investment returns in future years;
 - To optimise the revenue budget costs of undertaking all treasury activities;
 - To monitor and review significant changes in the pattern of cash movements and interest rate movements and react accordingly; and
 - To incorporate any changes to CIPFA's Treasury Management Code of Practice and the Prudential Code that will affect effective treasury management.

KEY INFORMATION

Capital Investment Strategy and Capital Programme

8. The capital expenditure plans set out in this report are based on the Capital Programme 2022/23 to 2026/27 that was approved by Executive on 27 January and by full Council on 8 February 2022. The Capital Programme is supported by the Capital Investment Strategy that was approved by Executive in July 2021.

Prudential Indicators

9. The statutory Prudential Indicators provide a sound basis for future investment and borrowing decisions. A summary of the key indicators is provided in the table below and they are explained in the Treasury Management Strategy at Annex 1.

Table 1: PRUDENTIAL INDICATORS	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Expenditure	£26.124m	£34.053m	£4.161m	£4.162m
Capital Financing Requirement (CFR)	£62.874m	£68.236m	£70.412m	£72.549m
Cumulative External Debt	£37.000m	£44.000m	£49.000m	£51.000m
Operational Boundary for External Debt	£63.500m	£69.000m	£71.000m	£73.500m
Authorised Limit for External Debt	£73.500m	£79.000m	£81.000m	£83.500m
Affordability – Gross Cost of Borrowing as a % of the Net Budget Requirement	7.9%	8.9%	9.1%	9.2%
Affordability – Net Cost of Borrowing as a % of the Net Budget Requirement	0.9%	3.8%	4.2%	4.4%
Principal sums invested for longer than 365 days (Upper Limit)	£20m	£20m	£20m	£20m
Current investments as at 31.12.21 in excess of 365 days maturing in each year	£nil			
Maturity Structure of Borrowing 2022/23 – Upper Limit	100%			
Maturity Structure of Borrowing 2022/23 – Lower Limit	100%			

Revisions to the CIPFA Codes

10. CIPFA published revised Prudential and Treasury Management Codes on 20th December 2021. The formal reporting requirements of the revised Codes will be implemented in 2023/24.
11. When implemented the revised Treasury Management Code will require investments and investment income to be attributed to one of three purposes:
- (i) Treasury management
 - Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.
 - (ii) 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 are funded by borrowing are permitted only in

cases where the income is '*...either related to the financial viability of the project in question or otherwise incidental to the primary purpose...*'

(iii) Commercial return

- Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's 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 primarily for financial return.

12. The authority's Treasury Investment Strategy will be required to include:

- Classification of investments for service or commercial purposes;
- The authority's approach to investments for service or commercial purposes (together referred to as non-treasury investments), including defining the authority's objectives, risk appetite and risk management in respect of these investments, and processes ensuring effective due diligence;
- An assessment of affordability, prudence and proportionality in respect of the authority's overall financial capacity (ie. whether losses could be absorbed in budgets or reserves without unmanageable detriment to local services);
- Details of financial and other risks of undertaking investments for service or commercial purposes and how these are managed;
- Limits on total investments for service purposes and for commercial purposes respectively (consistent with any limits required by other statutory guidance on investments);
- Requirements for independent and expert advice and scrutiny arrangements (while business cases may provide some of this material, the information contained in them will need to be periodically re-evaluated to inform the overall strategy);
- Statement of compliance with paragraph 51 of the Prudential Code in relation to investments for commercial purposes, in particular the requirement that an authority must not borrow to invest primarily for financial return.

13. The revised Treasury Management code also requires authorities to comply with the following in 2023/24 onwards:

- Adopting a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained;
- Long term treasury investments, (including pooled funds), to be classed as commercial investments unless justified by a cash flow business case;
- Some pooled funds (longer term instruments, including those with no fixed maturity date) to be included in the indicator for principal sums maturing in years beyond the initial budget year;
- Amendment to the knowledge and skills register for officers and members involved in the treasury management function - to be proportionate to the

size and complexity of the treasury management conducted by each council;

- Quarterly performance reporting to Members (as part of integrated revenue, capital and balance sheet reports), to include prudential indicators; and
- Environmental, social and governance (ESG) issues to be addressed within an authority's treasury management policies and practices.

14. The main requirements of the revised Prudential Code relating to service and commercial investments are:

- The risks associated with service and commercial investments should be proportionate to their financial capacity – losses to 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 is not prudent for local authorities to make any investment or spending decision that will increase the Capital Financing Requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the authority (where any commercial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose);
- An annual review is to be conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt;
- A new Prudential Indicator is being introduced for the net income from commercial and service investments as a proportion of the net revenue stream; and
- A new requirement for Investment Management Practices which set out how the Council will manage risks associated with non-treasury investments, (similar to the current Treasury Management Practices).

15. Local authorities were already at an advanced stage with 2022/23 budget setting, including the preparation of their Treasury Management Strategy Statements, when these changes were announced. Therefore CIPFA has acknowledged that they view 2022/23 as a transitional year to embed these new requirements and has stated that there will be a 'soft' introduction of the revised Codes, with local authorities not being expected to have to change their Treasury Management reports for 2022/23; full implementation will be required for 2023/24.

16. The underlying principles, including that an authority must not borrow to invest primarily for financial return, do however apply with immediate effect, and align with the Government's changes to PWLB borrowing terms in 2020.

Proposed Minimum Revenue Provision Changes

17. In November 2021 DLUHC issued a consultation on changes to how the Minimum Revenue Provision (MRP) calculation will be applied in 2023/24 onwards. The consultation covers two main areas:

- Some authorities use capital receipts in lieu of all or part of the revenue charge for the MRP; and

- Some authorities exclude investment assets from the MRP determination.

The Government's view is that both practices should not be permitted.

18. If implemented the implications for this authority relate to the Council's investment in Greensand Holdings Limited where MRP is not currently provided because the lending to the company is secured on the company's property assets. The authority does however make an assessment in its annual accounts of the risks of non-payment and reduced (impairs) the asset value of the loans.

Environmental, Social and Governance (ESG) Considerations

19. The revised Treasury Management Code now includes specific reference to ESG considerations relating to credit and counterparty risk management: *'...The organisation's credit and counterparty policies should set out its policy and practices relating to ESG investment considerations. This is a developing area, and it is not implied that the organisation's ESG policy will include ESG scoring or other real-time ESG criteria at individual investment level...'*
20. CIPFA has indicated that they will be working with the local authority sector during 2022/23 to develop an ESG scoring methodology for treasury management investments. In the meantime CIPFA expect local authorities to have a general regard to their own existing policies for ESG issues, such as climate change, for investment decisions.
21. At this stage, to attempt to overlay this Council's Treasury Management Strategy and policies with ESG considerations which are not supported by tangible or measurable factors could lead to difficulties in making and managing treasury investment decisions. As such ESG considerations are not yet included within the investment criteria outlined in the Strategy attached.

OPTIONS

22. There are the three options:

- (i) For Audit Committee:

Option 1 – Receive the report and provide any feedback for consideration by Executive

This is the recommended option.

Option 2 – To defer the report and ask Officers to provide more information and/or clarification on any specific points

DLUHC Investment Guidance requires approval of the Treasury Management Strategy Statement prior to the financial year to which it relates.

Option 3 – To reject the report

This would also lead to delays in approving the Treasury Management Strategy Statement by the deadline.

- (ii) For Executive and Council:

Option 1 – Approve the report

This is the recommended option.

Option 2 – To defer the report and ask Officers to provide more information and/or clarification on any specific points

DLUHC Investment Guidance requires approval of the Treasury Management Strategy Statement prior to the financial year to which it relates.

Option 3 – To reject the report

This would also lead to delays in approving the Treasury Management Strategy Statement by the deadline.

23. Delays in approving the Treasury Management Strategy Statement by the deadline would mean there is a risk that Officers will not have authority to undertake treasury management activities, which may result in minimal returns on investments and prevent borrowing to fund planned capital investment. It would also mean that the Council is not compliant with DLUHC statutory guidance and the CIPFA Codes of Practice, which is likely to result in criticism from the Council's auditor.

LEGAL IMPLICATIONS

24. There are no further legal implications arising from this report.

FINANCIAL IMPLICATIONS

25. The financial impacts of this Strategy have already been reflected within the Council's approved 2022/23 Budget. There are therefore no additional financial implications that arise from this report.

EQUALITIES IMPLICATIONS

26. There are no equality implications arising from this report.

COMMUNICATION IMPLICATIONS

27. There are no communication implications arising from this report.

RISK MANAGEMENT CONSIDERATIONS

28. These are detailed in Annex 1.

CONSULTATION

29. The Treasury Management Strategy Statement will be reviewed by the Audit Committee on 15 March 2022.
30. The Finance Portfolioholder, the Chair of Overview & Scrutiny and Audit Committee Members also had an opportunity to discuss the Council's approach to treasury management at a briefing with the Council's treasury advisors Link Group and the Council's Finance team in March 2022.

31. Audit Committee's feedback will be considered when preparing the final Treasury Management Strategy Statement that is scheduled to be reported to Executive on 24 March 2022 and Council on 7 April 2022.

POLICY FRAMEWORK

32. The Strategy is part of the Council's Policy Framework as set out in Article 4 of the Constitution.

BACKGROUND PAPERS

- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ('the Code')
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ('the Code')
- CIPFA Treasury Management Guidance Notes 2018 and 2021
- DLUHC Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
- CIPFA Prudential Code for Capital Finance in Local Authorities (2021) (Prudential Code)
- CIPFA Prudential Code for Capital Finance in Local Authorities (2021) Guidance Notes
- DLUHC Consultation on changes to the capital framework - Minimum Revenue Provision (November 2021)
- Budget and Capital Programme 2022/23, report to Executive, 27 January 2022