Report to:	**Cabinet**
Date:	**4 February 2021**
Title:	**Treasury Management and Prudential Indicators 2021/22, Capital Strategy & Investment Strategy**
Report of:	**Homira Javadi, Chief Finance Officer**
Cabinet member:	**Councillor Zoe Nicholson, Deputy Leader of the Council and Lead Cabinet Member for Finance**
Ward(s):	**All**
Purpose of the report:	**To approve the Council's Annual Treasury Management Strategy, Capital Strategy & investment Strategy together with the Treasury and Prudential Indicators for the next financial year.**
Decision type:	**Budget and policy framework**
Recommendation:	**Cabinet is asked to recommend the following proposals to full Council to:** **a. Approve the Treasury Management Strategy and Annual Investment Strategy for 2021/22 as set out in Appendix A;** **b. Approve the Minimum Revenue Provision Policy Statement 2021/22 as set out at paragraph 8;** **c. Approve the Prudential and Treasury Indicators 2021/22 to 2023/24, as set out at paragraph 6;** **d. Approve the Capital Strategy set out in Appendix E.**
Reasons for recommendations:	**It is a requirement of the budget setting process for the Council to review and approve the Prudential and Treasury indicators, Treasury Strategy, Capital Strategy and Investment Strategy.**
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1. Introduction

1.1 The Prudential and Treasury Indicators and Treasury Strategy covers:

- the capital prudentail indicators;
- the Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and

- an investment strategy (the parameters on how investments are to be managed);
- Capital Strategy.

1.2 The Council has adopted CIPFA's Treasury Management code of Practice, which is supported by treasury management practices (TMPs) that set out the manner in which the Council seeks to achieve the treasury management strategy and prescribes how it manages and controls those activities.

1.3 CIPFA defines 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."

1.4 There are few changes to the Treasury Management Strategy attached as Appendix A compared with the approved 2020/21 Strategy, which includes the recently published HM Treasury details regarding the new Public Works Loans Board (PWLB) lending terms and a new Council approach to the ethical investment (Appendix A – para 7.12 – 7.13).

1.5 Borrowing will only be undertaken for temporary liquidity or to fund the capital programme. Recently HM Treasury has published details of new Public Works Loans Board (PWLB) lending terms reducing rates by 1% from 26 November 2020 but also confirming that it will **not lend to an authority that plans to buy investment property primarily for yield** anywhere in their capital plans. The Council will therefore no longer seek to purchase investment properties primarily for the return they provide.

1.6 The report include the Capital Strategy (Appendix E), which provide a longer-term focus on the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The aim of the capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Capital Strategy covers the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

1.7 **Minimum Revenue Provision (MRP)**

The Council's MRP methodologies were reviewed, and the MRP methodologies for borrowing incurred pre and post 1 April 2008 have now changed into an annuity method. Under this revised methodology, MRP will be lower in the early years and increases over time. This is considered a prudent approach as it reflects the time value of money (i.e. the impact of inflation) as well as providing a charge that is better matched to how the benefits of the asset financed by borrowing are consumed over its useful life. That is, a method that reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years. The revised MRP Policy Statement (Section 8) therefore reflects this change in policy which will be introduced during 2020/21.

1.8 **Policy on the use of external service providers**

The Council uses Link Treasury Services Limited as its external treasury management advisors, and recognises that responsibility for treasury management decisions remains with the Council at all times. It also recognises that there is value in employing external providers of treasury management services in order to have access to specialist skills and resources. The Council will ensure that the terms of their appointment are subjected to regular review.

2. Potential impact on climate change and the environment

2.1 Fund managers will be required to consider ESG (Environmental, Social and Governance) factors in their investment process. All the fund managers would be expected to have signed up to the UN Principles for Responsible Investment (PRI). PRI argues that active participation in ESG and exercising shareholder rights on this basis can help to improve the performance of companies which may otherwise not address such concerns and so being an engaged corporate stakeholder is a more effective way to bring about change in corporate behaviour on ethical issues. Further requirements from those identified above are not practical given the limited ability to directly influence any immediate change in the financial markets.

2.2 The Council recognises the importance of supporting sustainability and ethical investments and as part of future investment strategy, consideration will be given to potential opportunities to invest in environmentally focussed instruments or organisations locally and/or countrywide. 'Ethical, Social and Governance' (ESG) investment criteria will be considered and, where viable in adherence to the policies laid out in this strategy, will only be entered into following satisfactory assessment of the instrument and/or organisation. This will ensure the Council complies with the CIPFA investment guidance that makes it clear that all investing must adopt SLY principles – security, liquidity and yield: ethical issues will play a subordinate role to those priorities.

3. End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

4. Outcome expected and performance management

4.1 Loans, Investments and Prudential Indicators will be monitored regularly during 2021/22 and performance will be reported to members quarterly.

5. Financial appraisal

5.1 These are included in the main body of the report.

6. Legal implications

6.1 This report covers the requirements of the Local Government Act 2003, the CIFPA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

7. Equality analysis

7.1 The equality implications of decisions relating to Treasury Management covered in this report are addressed within other relevant Council reports or as part of programmed equality analysis.

8. Conclusion

8.1 Capital prudential indicators are set to demonstrate plans for borrowing are affordable. The movement in the Capital Financing Requirement (CFR) forecasts for 2020/21, 2021/22, 2022/23 & 2023/24 are set as £93.1m, £123.9m, £137.4m, & £144.9m respectively. The borrowing has been reflected within the Capital Financing Requirement, which sets out the Council's borrowing requirements and includes both the use of internal resources and external borrowing. The proposed Minimum Revenue Provision Policy has been updated to ensure prudent provision is made for the repayment of borrowing.

8.2 All Treasury indicators have been set to reflect the treasury strategy and funding requirements of the capital programme.

Appendices

A	Treasury Management Strategy Statement, Minimum Revenue Provision and Annual Investment Strategy
B	The Treasury Management Role of the Section 151 Officer
C	Counterparty List
D	Link Treasury Services Limited on the Economic Background and Forward View
E	Capital Strategy

Background papers

The background papers used in compiling this report were as follows:

- CIPFA Treasury Management in the Public Services code of Practice (the Code);
- Cross-sectorial Guidance Notes;
- CIPFA Prudential Code;
- Treasury Management Strategy and Treasury Management Practices;
- Council Budget 22 February 2021;
- Finance Matters and Performance Monitoring Reports 2020;
- CIPFA Prudential Property Investment.

To inspect or obtain copies of background papers please refer to the contact officer listed above.