

**Report to:** Cabinet

**Date:** 1 February 2024

**Title:** Treasury Management Strategy, Investment Strategy, Capital Strategy and Prudential Indicators 2024/25

**Report of:** Homira Javadi, Director of Finance and Performance (Chief Finance Officer – S151 Officer)

**Cabinet member:** Councillor Zoe Nicholson, Leader of the Council and Cabinet Member for Finance, Assets and Community Wealth Building

**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.

**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 2024/25 as set out in Appendix A;
- b. Approve the Minimum Revenue Provision Policy Statement 2024/25 (Appendix A);
- c. Approve the Prudential and Treasury Indicators 2024/25 to 2026/27 (Appendix A);
- d. Approve the Capital Strategy 2024/25 (Appendix B).

**Reasons for recommendations:** It is a requirement within the budget setting process for the Council to review and approve the Prudential and Treasury indicators, Treasury Strategy, Investment Strategy and Capital Strategy.

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## 1. Introduction

- 1.1. The Prudential and Treasury Indicators and Treasury Strategy covers:
  - the capital prudential 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;
  - an investment strategy (the parameters on how investments management);
  - Capital Strategy.
- 1.2. The Council has adopted CIPFA's Treasury Management code of Practice and this code 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. The Council will continue to regularly review the position on its long-term borrowing requirement, its affordability and the capital financing costs impact on the Council's future financial planning. Borrowing will only be undertaken for temporary liquidity or to fund the capital programme and will be undertaken as necessary in accordance with the 2024/25 borrowing strategy. The Council will continue to assess all financing options when making long term borrowing decisions to achieve best financial value for the Council.
- 1.5. CIPFA has published the updated Treasury Management and Prudential Codes, and has stated that after a soft introduction of the Codes, Local Authorities are expected to fully implement the required reporting changes within the Treasury Management Strategy reports from 2024/25.
- 1.6. The Department for Levelling Up, Housing and Communities (DLUHC) is proposing to tighten up regulations around local authorities' financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme. The new CIPFA codes have adopted a similar outlook to discourage further capital expenditure on commercial investments for yield. DLUHC is also conducting a consultation on amending MRP regulations/guidance for England. The latest information is that any changes will take effect from 2025/26 at the earliest.

1.7. Prudential Code changes from 1 April 2023 – There are a number of changes to be implemented for CIPFA Code revisions for the 2023/24 financial year as follows:

- a. Adopting a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- b. Long-term treasury investments, (including pooled funds), are to be classed as commercial investments unless justified by a cash flow business case;
- c. Pooled funds are to be included in the indicator for principal sums maturing in years beyond the initial budget year;
- d. Amendment to the knowledge and skills register for officers and members involved in the treasury management function;
- e. Reporting to members is to be done quarterly. Specifically, the Chief Finance Officer (CFO) is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly.
- f. Environmental, social and governance (ESG) issues to be addressed within an authority's treasury management policies and practices.

1.8. This report includes the Capital Strategy (Appendix B), which provides 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.

### **Potential impact on climate change and the environment**

1.9. 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.

- 1.10. 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.

### **Policy on the use of external providers**

- 1.11. The Council uses Link Market Services as its external treasury management advisor, 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 and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## **2. End of year investment report**

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

## **3. Outcome expected and performance management**

- 3.1. Loans, Investments and Prudential Indicators will be monitored regularly during 2024/25 and performance will be reported to members quarterly.

## **4. Financial appraisal**

- 4.1. These are included in the main body of the report.

## **5. Legal implications**

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

## **6. Equality analysis**

- 6.1. No impact.

## **7. Minimum Revenue Provision (MRP)**

- 7.1. The Council has adopted an annuity method, under this methodology, MRP will be lower in the early years and increase 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 MRP Policy Statement (TMSS Section 2.5) reflects this policy.

## **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 2024/25, 2025/26 and 2026/27 are set as £28.3m, £36.3m, and £26.2m respectively. This borrowing has been reflected in the Capital Financing Requirement, which sets out the Council's outlining requirement for borrowing, and includes both the use of internal resources and external borrowing.
- 8.2. The Minimum Revenue Provision Policy has been updated to ensure that prudent provision is made for the repayment of borrowing.
- 8.3. 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 Policy Statement and Annual Investment Strategy
- B** Capital Strategy

## **Background papers**

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

- CIPFA Prudential Code and Guidance Notes
- CIPFA Treasury Management Code and Guidance Notes
- Treasury Management Strategy Statement 2023/24
- Treasury Management Practices
- Council Budget 1 February 2024
- Treasury Monitoring Reports 2023/24
- CIPFA Prudential Property Investment

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