

## CABINET

12 January 2023

# TREASURY MANAGEMENT STRATEGY AND CAPITAL INVESTMENT STRATEGY

Report of the Portfolio Holder for Finance, Governance and Performance,  
Change and Transformation

Strategic Aim:	A modern and effective Council		
Key Decision: Yes		Forward Plan Reference: FP/140422	
Exempt Information		No	
Cabinet Member(s) Responsible:		Councillor Karen Payne, Portfolio Holder for Finance, Governance and Performance, Change and Transformation	
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Ward Councillors	N/A		

### DECISION RECOMMENDATIONS

That Cabinet recommends to Council to approve:

- 1) the Treasury Management Strategy in Appendix 1 including the Investment Strategy, Borrowing strategy, Minimum Revenue Provision statement and Capital Expenditure Prudential indicators.
- 2) the Capital Investment Strategy in Appendix 2

## 1 PURPOSE OF THE REPORT

- 1.1 This report sets out the statutory reports expected in relation to treasury and capital investment operations for 2023/24, linked to the Council's Budget, Medium Term Financial Plan and Capital Programme.

## 2 BACKGROUND AND MAIN CONSIDERATIONS

### 2.1 Background

- 2.1.1 Over the past few years, Treasury Management has become high profile as a

number of Council's treasury activity has hit the headlines. Excessive borrowing and investments in property and other commercial ventures has got some Council's into financial trouble to the point that they now face intervention and/or have been issued with s114 notices.

2.1.2 In response to this activity, regulations have been tightened to prevent what regulators including CIPFA believe is reckless activity and now the requirements placed on all Council's is greater than ever. Examples of recent and proposed regulations include:

- HM Treasury/PWLB – including the purchase of an investment asset primarily for yield in an authority's capital programme will result in a ban on taking any PWLB loans for any asset that financial year;
- CIPFA Prudential Code – local authorities must not borrow to invest primarily for financial return;
- DLUHC Minimum Revenue Provision Regulations (Consultation) – MRP must be made in full on all commercial investments and not rely on future sale proceeds; and
- Levelling Up and Regeneration Bill – May cap borrowing, direct assets to be sold or ban PWLB access where a Council is taking on excessive risk.

2.1.3 Our activity has been conservative. Our Strategy does not allow for commercial investments, we have no desire to borrow in light of our financial position unless there are revenue benefits, and we place investment security above yield. This approach has served us well and will be continued.

## 2.2 Coverage

2.2.1 The two strategies cover a range of issues as set out below:

<b>Treasury Management Strategy (TMS)</b>	<b>Capital Investment Strategy (CIS)</b>
Treasury Management Requirements	Capital Investment Strategy objectives
Capital Prudential Indicators	Capitalisation policy
Borrowing	Objectives and priorities
Annual Investment Strategy	Resourcing strategy
MRP Statement	Indicative plans and available funding
Investment Selection Criteria	Appraisal process for Capital Investment

<b>Treasury Management Strategy (TMS)</b>	<b>Capital Investment Strategy (CIS)</b>
	Invest to Save Policy (objectives, rules, assessment process, governance and reporting)
	Reporting Requirements
	Performance Indicators

## 2.3 Treasury Management Strategy (TMS)

2.3.1 The TMS outlines that the Council's approach to treasury investment. The key points are covered here, including any new issues for 23/24.

- a) The Council will not borrow to invest solely for commercial gain (Appendix 1, Para 3.5.4);
- b) The Council will look to repay borrowing if there is a financial business case. It will also only borrow where that borrowing is likely to deliver a positive revenue impact (Appendix 1, Para 3.4.1);
- c) The Council's focus is currently on deposits for up to a 6-month period, in order to take advantage of the base rate increases a laddering approach to investments has been adopted. The base rate is predicted to peak in 2023/24 and therefore the Council will review the best investment approach at the time of investment;
- d) SONIA (Sterling Overnight Index Average) was adopted as the investment benchmark following the discontinuation of LIBOR in 2021. To reflect the current investment approach as detailed above, the investment benchmark to be used in 2023/24 is the SONIA 1-month rate.
- e) The Council continues to include a priority around ethical investments. For now, this will be achieved by use of credit ratings which are influenced by Environmental, Social and Governance (ESG) factors. ESG credit factors can be positive, neutral or negative to creditworthiness, depending on the entity being rated. ESG issues to be addressed within an authority's treasury management policies and practices (TMP1). (Appendix 1, Para 4.4.5).
- f) NEW - The Council proposes to introduce an additional verification on the status of other Local Authorities, where the Authority is subject to DLUHC intervention they will not be included as a suitable counterparty for investment (Appendix 1, Para 4.5.2). So for example, investment in Thurrock BC would not be allowed.
- g) NEW - There has been Investment guidance issued from CIPFA and Department for Housing, Levelling Up and Communities (DLUHC) which requires new indicators around commercial investments. As the

Councils policy is now not to invest in this type of investment they are not required.

- h) NEW - There is currently an open consultation on MRP as indicated in 2.1.2. (Appendix 1, 5.2.3). The Council's practice is prudent and any proposed changes are unlikely to affect its MRP policy.
- i) NEW – The Council has to adopt a new liability benchmark treasury indicator to support the financing risk management of the capital financing requirement. It tells Members whether we have a future need to borrow (Appendix 1, 2.3.2).
- j) NEW – Council is required to keep training records for Officers and Members to be proportionate to the size and complexity of the treasury management conducted – training will be organised for Members post the May Election (Appendix 1, 1.3.4); and
- k) NEW - Reporting to Members is to be done quarterly. Specifically, the Strategic Director for Resources is required to establish procedures to monitor and report performance against all forward-looking prudential indicators at least quarterly. These will be added to the performance framework (Appendix 1, 1.2.5)

## **2.4 Capital Investment Strategy (CIS)**

2.4.1 The Capital Investment Strategy is intended to bring together the different plans and strategies of the whole organisation and set out the long-term planning and investment required to deliver the Corporate Strategy outcomes.

2.4.2 At the same time, the CIS should outline the Council's approach to management of capital expenditure and its approach to non-financial investment.

2.4.3 The key points to note on the Capital Investment Strategy are:

- a) The Council incurs capital expenditure/makes capital investment to deliver on its aims and priorities including statutory objectives;
- b) The Council does have various approved strategies and plans which set out ambitions. It also has a new Corporate Strategy.
- c) The Council's current investment plans tend to be short range (span 2-3 years only). Cabinet have also made some provisional priorities for funds held (Report 197/2022). The Council will build on this work and be in a position to develop a longer term investment programme covering say the next 10 years aligned with its work on a new Local Plan.
- d) The development of a long term capital investment plan will require a capital prioritisation process as the potential investment projects are likely to exceed available resources. A prioritisation process will be developed alongside the 10 year plan.

- e) Capital investment/expenditure has traditionally focused on what are called “service investments” – investment in assets held primarily for the delivery of operational services.
- f) The Council has an “Invest to Save Policy”. The Invest to Save Policy allows the Council to consider investments (with borrowing) which contribute to the achievement of priorities but where financial return is not the key driver e.g. investment in care home to meet local need. Commercial investments are not permitted under its current policy.

## 2.5 Oversight and prudential indicators

2.5.1 CIPFA requires publication of a range of prudential indicators which are designed to show Members that treasury and capital matters are being managed appropriately. The table below shows some of the indicators that could show where the Council is exposed to a higher level of risk and may lead to additional costs.

Indicator	Description	What it shows	Where is it
Operational Boundary (PI6)	The level of external debt the Council can afford.	If this is continually exceeded then it may indicate the Council is borrowing longer term and it is not affordable.	Appendix 1 3.3.1
Authorised Limit (PI7)	Level beyond which external debt is prohibited.	If the Council is being asked to increase this limit (i.e. borrow more), it could be the sign of difficulties and Council would want to understand why.	Appendix 1 3.3.4
Financing Costs to Net Revenue Stream Estimates (PI1) and Actuals (PI2)	An indicator of affordability and shows the revenue implications of existing and proposed capital expenditure	If the proportion of the revenue budget required to meet borrowing costs increases from its current level Members should seek to understand the reason for change. It could show that our plans are not affordable.	Appendix 1 5.3.2
Net income from commercial and service investments to net revenue stream	An indicator which shows how reliant the Council is on income from commercial and service investments	This shows the exposure of the Council to income from commercial and service investments.  As Commercial activity is not allowed under our Strategy this should not move significantly.	Appendix 1 5.3.7

<b>Indicator</b>	<b>Description</b>	<b>What it shows</b>	<b>Where is it</b>
Investment Income Returns	Revenue generated from investment returns	Should the revenue budget not be achieved, this could indicate either: balances different to that forecast or interest rate achieved lower than expected.	Appendix 1 4.8.1

### **3 CONSULTATION**

- 3.1 No formal consultation is required. However, CIPFA guidance encourages Councils to use Scrutiny to review proposals prior to approval by Council. This report will therefore be presented at the Budget Scrutiny panel in January which will then allow Council to consider any comments before it is presented for approval in February

### **4 ALTERNATIVE OPTIONS**

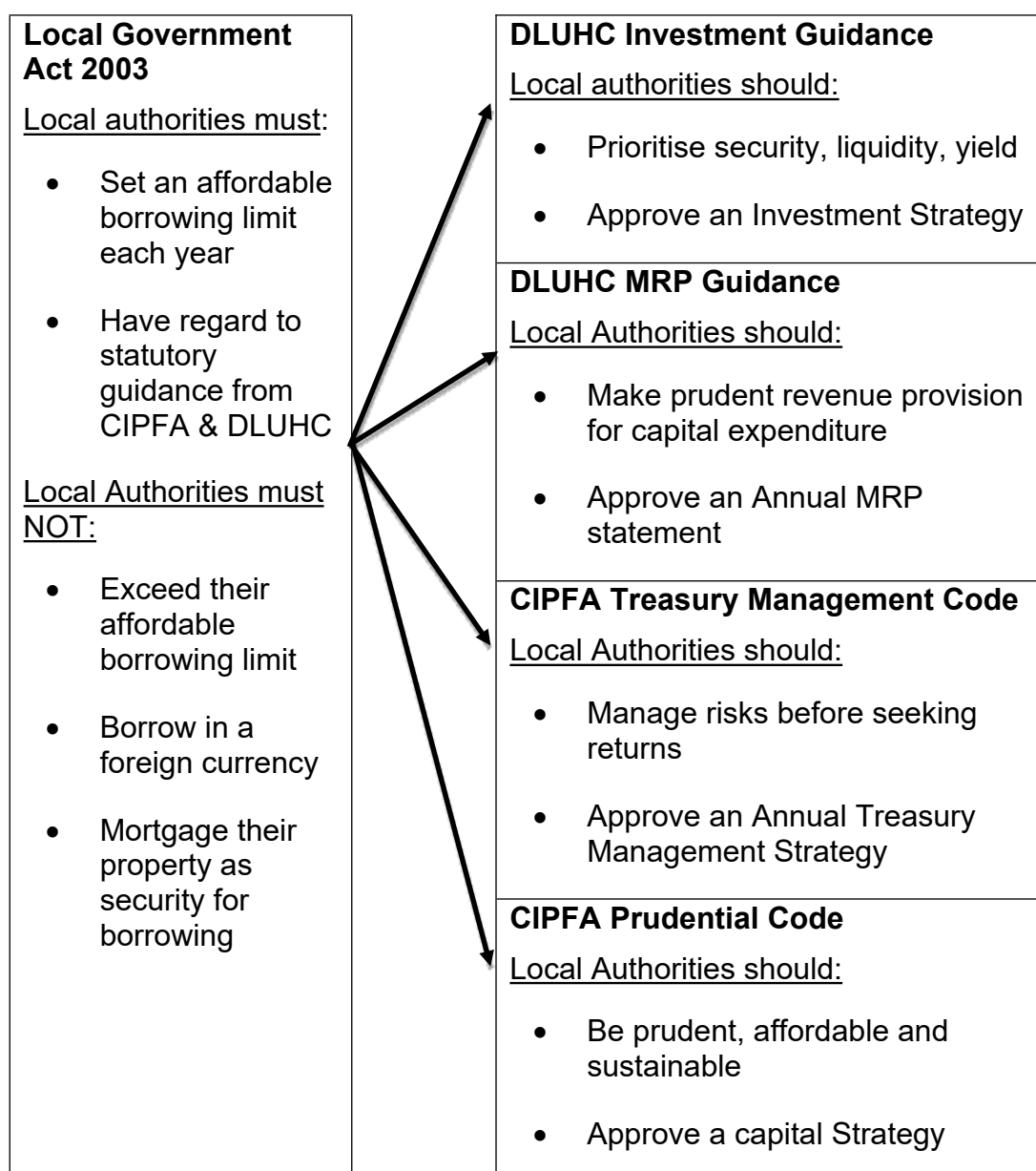
- 4.1 Option 1. To approve the Capital Investment Strategy and Treasury Management Strategy as presented. This is the recommended option.
- 4.2 Option 2. Not to accept the 2023/24 Treasury Management Strategy and Capital Strategy. This is not recommended as it means that the Council will be in breach of its statutory obligations.
- 4.3 Option 3. To approve the Strategies with any revisions.

### **5 FINANCIAL IMPLICATIONS**

- 5.1 The Medium Term Financial Plan includes three amounts for interest payable on loans (this is fixed), interest receivable on investments (changes in the Treasury Management Strategy may result in increased returns) and MRP (which is based on the current capital plans). PWLB loans will be monitored and if it is advantageous for the Council, repayment or restructuring will be considered.
- 5.2 The implementation of the Invest to Save Policy could in time result in investments which generate a net return for the Revenue Account but the MTFP does not assume any impact.

### **6 LEGAL AND GOVERNANCE CONSIDERATIONS**

- 6.1 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Council's Financial Procedure Rules. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.
- 6.2 A summary of the regulatory framework is shown on the following page.



6.3 The Council's Treasury Management Strategy explains how it complies with this legal framework.

6.4 As per Article 4 of the Council's Constitution the Treasury Management Strategy and Capital Investment Strategy form part of the Council's Policy Framework. It therefore requires the approval of Full Council

## 7 DATA PROTECTION IMPLICATIONS

7.1 A Data Protection Impact Assessment (DPIA) has not been completed as there are no data protection implications.

## 8 EQUALITY IMPACT ASSESSMENT

8.1 An Equality Impact Assessment (EqIA) has not been completed because the report does not represent the introduction of a new policy or service or a change / to an existing policy or service that has an impact on any particular group.

## **9 COMMUNITY SAFETY IMPLICATIONS**

9.1 There are no community safety implications.

## **10 HEALTH AND WELLBEING IMPLICATIONS**

10.1 There are no health and wellbeing implications.

## **11 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS**

11.1 The Council is required to approve a Treasury Management Strategy and Capital Strategy.

## **12 BACKGROUND PAPERS**

12.1 None

## **13 APPENDICES**

13.1 Appendix 1 Treasury Management Strategy

13.2 Appendix 2 Capital Investment Strategy

**A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.**