

## **CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES**

### **Executive Summary**

In accordance with statutory provisions it is necessary for the Executive to approve the Council's Treasury Management Strategy and to make recommendations to the Council in respect of the Minimum Revenue Provision (MRP) Strategy and the Treasury Management Prudential Indicators as required under the Chartered Institute of Public Finance and Accountancy's Prudential Code.

Since 2019/20 the Council has also been required to approve a Capital Strategy and Investment Strategy. These provide detail on the Council's activities, the reasons for and types of investments undertaken and the risk exposure as a result of these decisions. The intention is to provide a comprehensive and transparent picture of the Council's position which links into the Council's overall corporate plans and objectives.

### **Recommendations**

The Executive is requested to:

#### **RESOLVE That**

- (i) the Treasury Management Strategy set out in the report be approved; and

#### **RECOMMEND TO COUNCIL That**

- (ii) the Capital and Investment Strategies for 2022/23 be approved; and
- (iii) the Treasury Management Prudential Indicators set out in table 1 of Section 4 of the Treasury Management Strategy and the MRP policy set out in Appendix A be approved, subject to any changes arising from consideration of the Investment Programme, revenue budgets and Government Funding Settlement.

### **Reasons for Decision**

Reason: To determine the Council's Treasury Management Strategy for 2022/23 and to recommend to Council the Capital and Investment Strategies, Treasury Management Prudential Indicators and MRP Strategy to be adopted.

The Executive has authority to determine recommendations (i) above; (ii) and (iii) will need to be dealt with by way of a recommendation to Council.

## Capital, Investment and Treasury Management Strategies

**Background Papers:** None.

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## **Capital, Investment and Treasury Management Strategies**

### **1.0 Introduction**

- 1.1 Since 2019/20 the CIPFA Prudential Code for Capital Finance in Local Authorities, and new government guidance on Local Government Investments have required the publication of Capital and Investment Strategies. The government also introduced statutory guidance.
- 1.2 The Capital, Investment and Treasury Management strategies are presented together enabling the links to be highlighted whilst minimising duplication. A suite of appendices are included which can be referred to from any of the core strategies.
- 1.3 These strategies will continue to be developed further to support the understanding of the Council's capital investments and long term plans. The documents link with the Council's other long term plans and the Medium Term Financial Strategy to provide an overall picture of the Council's activity.

### **2.0 Capital Strategy**

- 2.1 The Capital Strategy has a wide scope covering the Council's overall approach to capital investment. It demonstrates how the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.
- 2.2 The purpose of the capital strategy is to give a clear and concise view of how the Council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It includes references to elements of the Investment Strategy, Treasury Management Strategy and the Council's Investment Programme.
- 2.3 The Capital Strategy sets out the Council's long term approach in line with the long term nature of capital and investment decisions. There is a direct link to the Council's Local Plan, place shaping activities and other long term strategies.
- 2.4 Group activities and joint ventures are also included in the Capital Strategy, including the processes for ensuring effective due diligence and defining the Authority's risk appetite.
- 2.5 The guidance requires that proportionality, in respect of overall resources, is also considered.

### **3.0 Investment Strategy**

- 3.1 The Investment Strategy provides an explanation of investment activities, explaining 'why' as well as 'what' investments are made. A range of indicators and disclosures are recommended in the guidance.
- 3.2 Investments held for treasury management purposes are covered by the Treasury Management Strategy (see below), with the focus of the Investment Strategy being other investments such as loans, shares and property.
- 3.3 Property, loans and shares are treated as capital expenditure and financed in the same way as other Investment Programme projects, with allowance made to repay any borrowing over time. However the expenditure creates an asset shown as an investment on the Council's balance sheet and so the guidance has been applied.
- 3.4 Whilst the Council has a significant property portfolio, these assets are not held solely for investment purposes. Each acquisition has had a strategic purpose with a direct link to Council objectives or services. Shares and Loans are also used to support the Council's objectives.

## Capital, Investment and Treasury Management Strategies

### 4.0 Treasury Management Strategy

- 4.1 Treasury Management refers to the management of cash balances through borrowing and investment. The Department of Levelling Up, Housing and Communities (DLUHC - this was formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (a separate report).
- 4.2 The Treasury Management Strategy sets out the Council's strategy for borrowing and to prepare a strategy for setting out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 4.3 The Local Government Act 2003 and supporting regulations require the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

### 5.0 Future Developments

- 5.1 In October 2019 CIPFA published a Financial Management Code (FM Code). This provides guidance for good and sustainable financial management in local authorities and will provide assurance that authorities are managing resources effectively. It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability and introduces a framework of assurance.
- 5.2 CIPFA published revised Treasury Management and Prudential Codes on 20th December 2021. CIPFA stated that formal adoption of the Treasury Management Code is not required until the 2023/24 financial year and the new reporting requirements of the Prudential Code can be deferred to 2023/24. The revised codes will have implications regarding;
  - Additional benchmark treasury indicators.
  - Clarifying what CIPFA expects a local authority to borrow for and what they do not view as appropriate (including setting a proportionate approach to commercial and service capital investment). The Prudential code confirms that an authority must not borrow to invest primarily for financial return.
  - Implementation of a policy to review commercial property, with a view to divest where appropriate.
  - Other changes regarding investment practices to manage risks associated with non-treasury investment, business models to support long term treasury investments, and all investments and investment income must be attributed to the purpose of either Treasury Management, Service Delivery, or Commercial Return.
- 5.3 Members will be updated on how all these changes will impact the current approach and any changes required will be formally adopted within the 2023/24 Treasury reports.
- 5.4 The Department for Levelling Up, Housing and Communities (DLUHC) issued "Consultation on changes to the capital framework: Minimum Revenue Provision" on 30th November 2021 to last for 10 weeks until 8th February 2022. The consultation proposes changes to require that local authorities can no longer use capital receipts in lieu of MRP, or exclude investment assets from MRP. Officers are completing a response to the consultation and the potential implications are discussed in the General Fund Budget report elsewhere on the agenda. Any changes will be applicable from 2023/24 and do not affect the 2022/23 budget.

## **Capital, Investment and Treasury Management Strategies**

### **6.0 Chief Finance Officer**

- 6.1 Taking into account the factors set out in the Capital, Investment and Treasury Management Strategies the Chief Finance Officer (CFO) has confirmed that the Council's investment plans are affordable and there are sufficient reserves in place to manage the immediate risks.
- 6.2 New investment decisions were temporarily suspended during 2020, where possible, to allow time for the future financial position of the Council to become clearer following the Covid-19 pandemic. These suspended projects have been reviewed and those which remain relevant included in a pipeline list of projects not yet funded. These will be considered further as the recovery is clearer and a sustainable medium term financial position established.

### **7.0 Corporate Strategy**

- 7.1 The Capital, Investment and Treasury Management Strategies support the Council's use and prioritisation of resources in line with the Corporate Plan and emerging Corporate Strategy due to be adopted in April 2022.

### **8.0 Implications**

#### Finance and Risk

- 8.1 The financial implications are set out in the three strategy reports.
- 8.2 Each strategy sets out the risks involved in the Council's activities. The new Investment Strategy and Capital strategies seek to improve transparency and understanding of the total exposure to risk and mitigating factors. Risk is also considered in every investment and capital decision and reported regularly through the Council's monthly reporting (Green Book), Medium Term Financial Strategy (MTFS) and annual budget reports.

#### Equalities and Human Resources

- 8.3 Training and development are covered in each of the strategy reports. Where additional needs are identified the Council will provide specific, focussed training.
- 8.4 No equalities implications have been identified.

#### Legal

- 8.5 The CIPFA codes support the provisions of the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 and support strategic planning for capital and investment at a local level. The Council is required to comply with the codes.

### **9.0 Engagement and Consultation**

- 9.1 There have been no specific consultations in relation to this report.

REPORT ENDS