BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO: Joint Audit and Standards Committee	**REPORT NUMBER: IRJAC/21/15**
FROM: Katherine Steel, Assistant Director, Corporate Resources	**DATE OF MEETING: 24 January 2022**
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JOINT CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES 2022/23

1. PURPOSE OF REPORT

1.1 This report presents the Joint Capital, Investment and Treasury Management Strategies for the financial year 2022/23.

1.2 These are in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code, the CIPFA Prudential Code, which were both updated in 2017, and the 2018 Department for Levelling-Up, Housing and Communities (DLUHC) Investment Guidance, which introduced the requirement to prepare a Capital Strategy and an Investment Strategy. The Treasury Management Strategy remained largely unchanged.

1.3 The Prudential Indicators and Minimum Revenue Provision (MRP) Statement are linked to the Budget report that will be presented at this Cabinet meeting and the Full Council meetings in February 2022.

1.4 The Codes of Practice recommend that these strategies are subject to scrutiny before being presented to Full Council, which falls within the remit of the Joint Audit and Standards Committee.

2. OPTIONS CONSIDERED

2.1 This report fulfils the Councils legal obligations to have regard to the Code and DLUHC Guidance.

2.2 Individual strategies were considered but Joint Strategies have been prepared.

3. RECOMMENDATIONS TO BOTH COUNCILS

That the following be approved:

3.1 The Joint Capital Strategy for 2022/23, including the Prudential Indicators, as set out in Appendix A.

3.2 The Joint Investment Strategy for 2022/23, as set out in Appendix B.

3.3 The Joint Treasury Management Strategy for 2022/23, including the Joint Annual Investment Strategy as set out in Appendix C.

3.4 The Joint Treasury Management Indicators as set out in Appendix D.

3.5 The Joint Treasury Management Policy Statement as set out in Appendix G.

3.6 The Joint Minimum Revenue Provision Statement as set out in Appendix H.

3.7 That the key factors and information relating to and affecting treasury management activities set out in Appendices E, F, and I be noted.

REASON FOR DECISION

Local authorities are required to approve their Treasury Management Strategy (TMS), their Capital Strategy (including an overview of the TMS) and their Investment Strategy annually before the start of the financial year.

4. KEY INFORMATION

Introduction

4.1 The Joint Capital Strategy and the Joint Investment Strategy were new for 2019/20, as required by changes in CIPFA and DLUHC guidance. The Joint Treasury Management Strategy remained largely unchanged. This report combines an overview of how capital expenditure, capital financing, treasury and other investment activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

4.2 The strategies set limits and indicators that embody the risk management approach that the Councils believe to be prudent. The strategies are set against the 2022/23 budget and the four-year outlook and the context of the UK economy and projected interest rates. The information included in Appendix A to H reflects the current plans for income, expenditure and investments of both Councils.

4.3 The Joint Investment Strategy, at Appendix B, covers the non-financial assets that councils hold for financial return such as property portfolios, shares in council owned companies and loans. These are defined as investments but are not managed as part of treasury management or under treasury management delegations.

Strategic Context

4.4 In recent years the government policy frameworks have been reducing core funding for local government as part of its deficit reduction strategy. In response to this both Councils’ strategy over the medium term as set out in the 2022/23 budget reports is to become self-financing and to generate more funds than are required for core services, and to enable additional investment in the districts.

4.5 The three strategies within this report set out the Councils approach to capital spend, borrowing and investment in order to deliver this.

4.6 DLUHC and the Chartered Institute of Public Finance and Accountancy (CIPFA) are aware that most local authorities are taking a more commercial approach in order to bridge the gap they face as a result of diminishing funding from government. In response to this both bodies state that they do not seek to prescribe precisely how councils invest but they clearly have concerns that some councils are taking increasing commercial risks using borrowed money. As a result, this report provides a more extensive strategy so that more of the risks that the Codes and guidance highlight are apparent to Members.

4.7 CIPFA has issued a new edition of the Prudential Code 2021 which applies with immediate effect but allows authorities to delay introducing revised reporting requirements until 2023/24. These revised requirements include changes to the capital strategy, prudential indicators and investment reporting. The general ongoing principles of the revised Prudential Code, including the requirement that an authority must not borrow to invest primarily for financial return, apply immediately.

4.8 HM Treasury also issued updated guidance in August 2021 setting out its lending policy, for Public Works Loan Board (PWLB) borrowing. The guidance provides broad definitions of permissible categories of a council's capital expenditure (service delivery, housing, regeneration, preventative action and treasury management). It also includes the stricter definition of investments primarily for yield, which lending terms restrict, and which all ongoing capital expenditure must comply with, unless a project commenced or was agreed prior to 26 November 2020.

4.9 CIPFA has also updated its Treasury Management Code and guidance. This has introduced strengthened requirements for training, and for investments that are not specifically for treasury management purposes.

4.10 The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity.

4.11 This has had an impact on the Councils' capital programmes and borrowing requirements as a result of projects falling behind schedule and supply difficulties. The Council's cash flow has been impacted by the timing of grants/support payments made to residents and local businesses and the receipt of support from Central Government. Interest rates on investment and borrowing have reduced as a result of the ongoing economic uncertainty resulting from worldwide lockdowns. However there has been an increase in the value of the Councils' long term investments held, as a result of some recovery of stock markets.

4.12 The impact of Covid19 is considered as part of the strategies within this report.

Statutory Background

4.13 This report is part of the Councils' legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DLUHC Guidance. The Councils must:

- ensure priority is given to security and portfolio liquidity, when investing treasury management funds,

- ensure the security of the principal sums invested through robust due diligent procedures for all external investments,

- have regard to CIPFA's Prudential Code when determining how much money they can afford to borrow,

- ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice,

- monitor against the Prudential Code indicators each year, these are included in the Joint Capital Strategy in Appendix A, and

- set, revise, and, if there are material changes to the strategies and prudential indicators, present to Full Council for approval.

Purpose of the Strategies

<u>Joint Capital Strategy Appendix A</u>

4.14 The Joint Capital Strategy (Appendix A), under the requirements of the Codes, gives a high-level overview of how capital expenditure, capital financing, and treasury management activities contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.

4.15 In terms of investment, the Councils invest their money for three broad purposes:

- because there is surplus cash as a result of its day-to-day activities, for example when income is received in advance of expenditure (known as treasury management investments),

- to support local public services by lending to or buying shares in other organisations (service investments), and

- to earn investment income (known as investment for yield where this is the main purpose).

4.16 The Joint Capital Strategy covers all three of the above points.

<u>Joint Investment Strategy Appendix B</u>

4.17 The Joint Investment Strategy (Appendix B) as required by the statutory guidance issued by DLUHC, covers all three of the points in 4.12 above and shows the proportionality of investments, total investment exposure, and rate of return.

<u>Joint Treasury Management Strategy Appendix C</u>

4.18 The Joint Treasury Management Strategy (TMS) (Appendix C) covers the first point in 4.12 above and details of borrowing including authorised limits, economic and interest rate forecasts and treasury management indicators, which are also shown in Appendices D to G.

4.19 These three strategies together show the impact of the Councils' capital programme and Joint Investment Strategy in terms of risk, prudent levels of borrowing, associated interest costs and the net financial returns to the Councils to support core services in the medium term.

5. LINKS TO JOINT CORPORATE PLAN

5.1 Ensuring that the Council makes best use of its resources is what underpins the ability to achieve the priorities set out in the Joint Corporate Plan. Specific links show how these are met through financially sustainable Councils, managing the corporate assets effectively, and property investment to generate income.

6. FINANCIAL IMPLICATIONS

6.1 As outlined in this report and appendices.

7. LEGAL IMPLICATIONS

7.1 The legal status of the Treasury Management Code derives in England from regulations issued under the Local Government Act 2003 (the 2003 Act).

7.2 The Capital Finance and Accounting Regulations 2003 – SI 2003/3146, Regulation 24, explicitly require authorities to "have regard" to the Treasury Management Code.

7.3 Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties under Part 1 of the 2003 Act.

7.4 The latest statutory guidance on local government investments was issued under section 15(1)(a) of the 2003 Act and effective for financial years commencing on or after 1 April 2018. Under that section local authorities are required to "have regard" to "such guidance as the Secretary of State may issue".

8. RISK MANAGEMENT

8.1 This report is most closely linked with the Councils' Significant Risk No.13 – We may be unable to react in a timely and effective way to financial demands and also Corporate Risk No. SE05 – if the Finance Strategy is not in place with a balanced position over the medium term the Councils will not be able to deliver the core objectives and service delivery may be at risk of not being delivered.

8.2 The report also links to the Councils' Significant Risk No.10 around the Capital Investment Fund – we may be unable to meet the income projections for the Councils.

8.3 Other key risks are set out below:

Risk Description	Likelihood	Impact	Mitigation Measures
If the Councils lose the investments this will impact on their ability to deliver services.	Highly Unlikely (1)	Bad (3)	Strict lending criteria for high credit rated institutions.
If the Councils achieve a poor return on	Unlikely	Noticeable	Focus is on security and liquidity, and careful cash

investments, there will be fewer resources available to deliver services.	(2)	(2)	flow management in accordance with the Joint TM Strategy is undertaken throughout the year.
If the Councils have liquidity problems, then they will be unable to meet their short-term liabilities.	Unlikely (2)	Noticeable (2)	As above.
If the Councils incur higher than expected borrowing costs, there will be fewer resources available to deliver services.	Unlikely (2)	Noticeable (2)	Benchmark is to borrow from the Public Works Loan Board (PWLB), whose rates are very low and can be on a fixed or variable basis. However, access to PWLB is not available for authorities undertaking some types of commercial activity so ensure capital expenditure plans from 2022/23 are within the guidance for PWLB borrowing.

9. CONSULTATIONS

9.1 Regular meetings have taken place with the Councils' Treasury advisors, Arlingclose, who also provide important updates on treasury management issues as they arise.

10. EQUALITY ANALYSIS

10.1 There are no equality and diversity implications, as the contents and recommendations of this report do not impact on those with protected characteristics.

11. ENVIRONMENTAL IMPLICATIONS

11.1 All Council activities will need to be reviewed as part of the work of the Climate Change Task Group and have regard to the Councils' ambition to be carbon neutral by 2030.

11.2 Both Councils have joined Arlingclose's ESG and Responsible Investment Service. This will provide advice for ESG integration in the Councils' investment portfolios, and is discussed within the Councils' Joint Treasury Management Strategy.

12. APPENDICES

Title	Location
(a) Joint Capital Strategy 2022/23	Attached
(b) Joint Investment Strategy 2022/23	Attached
(c) Joint Treasury Management Strategy 2022/23	Attached
(d) Treasury Management Indicators	Attached
(e) Economic Outlook and Interest Rate Forecast	Attached
(f) Existing Borrowing and Investments	Attached
(g) Treasury Management Policy Statement	Attached
(h) Minimum Revenue Provision (MRP) Statement	Attached
(i) Credit Ratings Criteria	Attached
(j) Glossary of Terms	Attached

13. BACKGROUND DOCUMENTS

2017 CIPFA Treasury Management in the Public Services

2017 The Prudential Code for Capital Finance in Local Authorities

2018 Department for Levelling-Up, Housing and Communities Investment Guidance