Report To:	**Full Council**
Date of Meeting:	**20 March 2024**
Report Title:	**Treasury Management Strategy and Capital Strategy 2024/25**
Report By:	**Kit Wheeler**
	Chief Finance Officer
Key Decision:	**Yes**
Classification:	**Open**

Purpose of Report

To consider the draft Treasury Management Strategy, Annual Investment Strategy, Minimum Revenue Provision (MRP) Policy and Capital Strategy.

This is to ensure that there is an effective framework for the management of the Council's investments, cash flows and borrowing activities prior to the start of the new financial year.

The Council is expected to have £64.9 million of external debt (as at 31 March 2024), and there is no planned increase in the level of debt for 2024/25.

Recommendations

A. The Council approve the Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy, Annual investment Strategy.

B. Note the draft Capital Strategy.

C. The strategies listed are updated as necessary during 2024/25 in the light of changing and emerging risks and the Council's evolving future expenditure plans.

Reasons for Recommendations

1. The Council seeks to minimise the costs of borrowing and maximise investment income whilst ensuring the security of its investments.

2. The 2024/25 Budget included significant reductions in the Capital Programme to help the Council address its financial deficit including agreeing to asset sales, with the primary focus being on financial stability and addressing the housing crisis.

3. The CIPFA Treasury Management Code of Practice, previously adopted by the Council, takes account of the more commercialised approach being adopted by councils and the enhanced levels of transparency required. The Code has represented best practice and helps ensure compliance with statutory requirements.

4. The Council can diversify its investments and must carefully consider the level of risk against reward. Investments can help to close the gap in the budget in the years ahead and thus help to preserve services, assist in the regeneration of the town, provide additional housing, and enhance the long-term sustainability of the town. However, over reliance on such income streams would involve taking unnecessary risks with the future of the Council and its ability to deliver statutory services.

Introduction

5. The Council is required to operate a balanced budget, which broadly means that cash raised will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council’s low risk appetite, providing adequate liquidity initially before considering investment return.

6. The second main function of the treasury management service is the funding of the Council’s capital plans. These capital plans provide a guide to the borrowing needs of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

7. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity and the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will result in a loss to the General Fund balances.

8. Treasury management in this context is defined by CIPFA as:

   "The management of the organisation'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"

9. This report and subsequent strategy has been delayed, owing to the substantial changes to the Capital programme as a result of the decision around the sale of Cornwallis site on 29 January at Cabinet. This has such a material impact on the Councils financial position and therefore the Treasury Management Strategy that it needed to be completed after that decision had been agreed.

Revisions to the Prudential Code and Treasury Management Code

10. CIPFA published the revised Codes on 20th December 2021 and has stated that revisions need to be included in the reporting framework from the 2023/24 financial year and has been applying these changes throughout 2023/24 financial year as reported to Audit Committee on a Quarterly basis through the regular reporting cycle.

11. The Treasury Management Strategy details the requirements of the code.

Borrowing / Borrowing Levels

Investment guidance

12. The Treasury Management Code requires all investments and investment income to be attributed to one of the following three purposes: -

    Treasury management
    Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

    Service delivery
    Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

    Commercial return
    Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to an authority's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

The Primary Requirements of the Code

13. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.

14. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

15. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Capital Strategy, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.

16. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

17. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit Committee.

18. Publication of the Strategies on the Council’s website.

Reporting Arrangements

19. The reporting arrangements proposed, in accordance with the requirements of the Code, are summarised below:-

Area of Responsibility	Council/ Committee/ Officer	Frequency
Treasury Management Strategy / Annual Investment Strategy / MRP policy/ Capital Strategy (in future years)	Cabinet and Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / Capital Strategy/MRP policy – Mid Year report	Cabinet and Council	Mid-year
Treasury Management Strategy/Capital Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Cabinet and Council	As required
Annual Treasury Outturn Report	Cabinet and Council	Annually by 30 September after the end of the year
Treasury Management Practices	S151 Officer	Reviewed as required (minimum - annually)

Scrutiny of Treasury Management Strategy	Audit Committee	Annually before the start of the year
Scrutiny of treasury management performance and strategy	Audit Committee	Quarterly Monitoring reports, Mid-Year report,

20. The CIPFA Code of Practice on Treasury Management (2021) was adopted by this Council in February 2022. The main clauses adopted are included in Appendix 8.

21. The Audit Committee is required to consider the Prudential Indicators as part of the Treasury Management Strategy and make recommendations to Cabinet and full Council; these are identified in the report and Appendix 4 of the Treasury Management Strategy.

Capital Strategy

The Capital strategy is currently in draft form and requires further discussion. It will be revised after the Asset Management Plan is completed.

22. In the light of the increasing commercialisation within local government in particular, in December 2017, CIPFA issued revised Prudential and Treasury Management Codes. The codes require all local authorities to produce detailed Capital Strategies.

23. The Capital Strategy is intended to give a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

24. The development of such a strategy allows flexibility to engage with full council to ensure that the overall strategy, governance procedures and risk appetite are fully understood by all elected members.

25. The Capital Strategy should be tailored to the authority's individual circumstances but should include capital expenditure, investments and liabilities and treasury management. The Capital Strategy should include sufficient detail to allow all members to understand how stewardship, value for money, prudence, sustainability, and affordability will be secured and to meet legislative requirements on reporting.

26. The Capital strategy being a high-level document that summarises in appropriate detail the requirements for specific investment appraisals. As a minimum such requirements being:

- The capital schemes that are proposed and their objectives
- The legal power to undertake a particular scheme
- The key aspects of the financial appraisal, including any significant risks that have been identified
- Qualitative criteria that have underpinned the recommendation for a scheme to proceed e.g. links to Corporate plan, economic growth, job retention, etc.
- Likely source of funding
- Long term implications

- Risks and affordability

27. In assessing new income generating proposals the Council does already consider the above list of issues as part of the due diligence checklist and decisions are fully documented.

28. This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset.

29. The Capital Strategy looks to cover a much longer planning period than the existing capital programme. The future expenditure plans continue to evolve. The capital strategy and all the prudential indicators and controls are attached for the known schemes. Borrowing limits will need to be determined by full Council based on affordability and risk in due course.

30. Given the timing of the Cornwallis decision and its impact on the Capital Programme as well as the upcoming new Asset Strategy Plan the Capital Strategy will be updated in the new financial to take account of any changes and recommendations that come out as part of that strategy to ensure there is a clear link between all strategies for the Council.

Risk Management

31. The Investment strategy prioritises security of investments over return. Where investments are made, they are limited in size and duration. External treasury advisers are used to advise the Council and have been used to train members. The Council has introduced further checks on credit worthiness of counterparties over the years as and when these have been further developed by its advisers.

32. Whilst there is no absolute security for investments made, the Council has limited its investments to the higher rated institutions, in order to mitigate the risk as far as practical and looks to reduce the risk by spreading its investment portfolio. The Council has adopted the CIPFA Code of Practice.

33. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.

34. The training needs of treasury management officers will also be reviewed in the light of the Code’s requirements and experience of new staff.

35. The additional risks that the Council has taken on with commercial property, housing and energy investments needs to be considered in the context of the totality of risk that the Council faces e.g. unexpected expenditure demands, robustness of income streams, loans and guarantees to other parties, economic downturns, pandemics etc. Where there is more risk and volatility in income streams, the Council will need to ensure that it maintains sufficient reserves to ensure the Council’s ability to deliver

key services is not jeopardised.

36. The Council spreads its risk on investments by limiting the amount of monies with any one institution or group and limiting the timeframe of the exposure. In determining the level of the investment and period the Council considers formal credit ratings (Fitch) along with its own advisers (Link Group) ratings advice.

37. The security of the principal sum remains of paramount importance to the Council and it has a good history of protecting this investment income to date.

Economic/Financial Implications

38. The Council generally has investments in the year of between £15 million and £35 million at any one time and is estimated to have longer term borrowings of £64.9m by the end of March 2024 (if no further external borrowing is undertaken). Management of its investments, borrowing and cash flow remains crucial to the proper and effective management of the Council. The Strategies and Policies detailed in the report directly influence the Council's Medium Term Financial Strategy and the annual budget.

Organisational Consequences

39. The Cabinet is responsible for the development and review of the Treasury Management Strategy, Minimum Revenue Provision (MRP) Policy, Investment Strategy and the future Capital Strategy. The Audit Committee is responsible for scrutinising these strategies, policies and performance throughout the year. Full Council, as the budget setting body, remains responsible for the approval of the Treasury Management Strategy, MRP Policy, and Investment Strategy and for the Capital Strategy.

40. Monitoring reports will be produced and will be presented to Cabinet and the Audit Committee. A mid-year report is presented to full Council on any concerns arising since approving the initial strategies and policies. Only full Council will be able to amend the Treasury Management Strategy, MRP Policy, Investment Strategy or Capital Strategy. The Chief Finance Officer will determine the Treasury Management Practices and associated schedules.

41. There are responsibilities placed on the Council and the Chief Finance officer from the 2021 Codes of Practice which relate to governance arrangements, ensuring robustness of business cases, and risk management.

42. The risk management requirements relate to asset related properties which the Council has borrowed to finance, and assessments of overall risk.

43. There are specific requirements to maintain schedules of counterparties and of any guarantees that the Council may give or have given in the past in order to fully assess the potential risks that the Council may be exposed to when making investment decisions.

Timetable of Next Steps

Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Arrange Training for new and existing members / officers	For Mid-Year Review and prior to setting strategies for the forthcoming year Report	July 2024 & January 2025	Chief Finance Officer

Wards Affected

None

Policy Implications

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues & Climate Change	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No
Anti-Poverty	No
Legal	No

Additional Information

Documents Attached:

(i)Treasury Management Strategy (including Investment Strategy)

Includes the following Appendices:-

1. MRP Introduction and Policy Statement
2. Interest Rate Forecasts
3. Economic Review
4. Prudential and Treasury Indicators
5. Specified and non-Specified Investments
6. Approved Countries for Investments
7. Treasury Management Policy Statement
8. Purpose and Requirements of the Code
9. Treasury Management Scheme of Delegation
10. The Treasury Management Role of the Section 151 Officer

(ii) Draft Capital Strategy

(iii) Glossary of Terms

Other Supporting Documents:-

CIPFA - Treasury Management Code of Practice (2021)
CIPFA - The Prudential Code (2021)
Budget Report - Cabinet 12 February 2024

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