Allerdale Borough Council

Audit Committee - 14 February 2022

Council - 23 February 2022

Treasury Management Strategy Statement, Annual Investment Strategy & Minimum Revenue Provision Policy Statement 2022-23

Portfolio holder	Councillor Colin Sharpe PH Finance and Legal
Report from	Catherine Nicholson, Chief Officer - Assets (s151 Officer) Tel: 01900-702503 Email: catherine.nicholson@allerdale.gov.uk
Wards affected	None directly
Is this a key decision	No

1.0 The reason for the decision

1.1 Provisions contained in the Local Government Act 2003, statutory guidance issued by the Department for Levelling Up, Housing and Communities (formerly the Ministry of Housing, Communities and Local Government) and codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) require the Authority to prepare and approve, before the start of each financial year:

- a Treasury Management Strategy Statement (TMSS) and Investment Strategy setting out its proposed treasury management activities for the year and policies for the prudent management of its investments
- a statement of its policy on making Minimum Revenue Provision (MRP) indicating how it is proposed to discharge the duty to make prudent MRP in the forthcoming financial year
- a set of prescribed prudential and treasury indicators for the forthcoming and following years - including the Authority's Authorised Borrowing Limit - demonstrating that its capital expenditure plans are affordable and that external borrowing is within prudent and sustainable levels.

2.0 Recommendations

2.1 It is recommended that Members approve:

a) the proposed Treasury Management Strategy Statement & Investment Strategy for 2022-23 (included in sections 2 and 3 of Appendix 1)

b) the MRP Policy Statement for 2022-23 set out in section 4 (of Appendix 1)

c) the prudential and treasury indicators, including the Authority's Authorised Borrowing Limit, set out in Section 5 (of Appendix 1).

3.0 Background and Introduction

3.1 Provisions contained in the Local Government Act 2003, statutory guidance and regulations issued by the Department for Levelling Up, Housing and Communities (DLUHC) (formerly the Ministry of Housing, Communities and Local Government (MHCLG)) and codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), require the Authority to prepare and approve, before the start of each financial year:

- a Treasury Management Strategy Statement (TMSS) and Investment Strategy setting out its proposed treasury management activities for the year and policies for the prudent management of investments held for treasury management purposes
- a statement of its policy on making Minimum Revenue Provision (MRP) indicating how it is proposed to discharge the duty to make prudent MRP in the forthcoming financial year
- a set of prescribed prudential and treasury indicators for the forthcoming and following years - including the Authority' Authorised Borrowing Limit - demonstrating that its capital expenditure plans are affordable and that external borrowing is within prudent and sustainable levels.

3.2 This report, prepared in accordance with the statutory framework and codes of practice issued by CIPFA in relation to treasury management and capital finance, presents for approval by the Full Council, the Authority's proposed:

- Treasury Management Strategy Statement and Investment Strategy for 2022-23
- Minimum Revenue Provision Policy Statement for 2022-23
- Prudential and treasury indicators for 2022-23 to 2024-25.

3.3 The Authority's proposed Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision (MRP) policy for 2022-23 are set out in Appendix 1 to this report.

3.4 The statutory framework for treasury management and capital finance within local authorities is laid out in a series of legislations, statutory guidance and codes of practice, the key elements of which are:

- The CIPFA Prudential Code for Capital Finance in Local Authorities ('the Prudential Code') and
- The Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes ('the Treasury Management Code') issued by CIPFA
- statutory guidance issued by the Ministry of Housing, Communities and Local Government (now the Department for Levelling Up, Housing and Communities) on:
    - Local Government Investments, and
    - Minimum Revenue Provision.

3.5 In December 2021, following two consultations, The Chartered Institute of Public Finance and Accountancy published updated editions of the Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (the Treasury Management Code). The 2021 editions replace the 2017 versions of the Codes.

3.6 Substantive changes introduced by the 2021 edition of the Prudential Code include:

- strengthened provisions in relation to borrowing in advance of need in order to profit from additional sums borrowed, with the relevant parts of the Code augmented to be clear that borrowing for debt-for-yield investment is not permissible under the Prudential Code
- the inclusion of proportionality as an objective of the Prudential Code and the addition of a requirement to carry out an assessment to ensure risks associated with service and commercial investments are proportionate to an authority's financial capacity – i.e. that plausible losses could be absorbed in existing budgets or usable reserves without unmanageable detriment to local services
- a new requirement for capital strategies to report investments under the following headings: service, treasury management and commercial investments
- a requirement to monitor Prudential Indicators on a quarterly basis.

3.7 The main changes to the updated Treasury Management Code and the accompanying guidance for local authorities include:

- the inclusion of investment management practices and other recommendations relating to non-treasury investments within the Treasury Management Practices (TMPs) alongside existing TMPs.
- the recommended introduction of the Liability Benchmark as a treasury management indicator for local government bodies
- incorporation of Environmental, Social and Governance (ESG) risks into TMP1 (Risk Management)
- a requirement for the purpose and objective of each category of investments to be described within the Treasury Management Strategy.

3.8 The revised edition of the Prudential Code applies with immediate effect. However, local authorities may defer introducing the revised reporting requirements until the 2023-24 financial year. The revised reporting 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 with immediate effect. No implementation date is specified for the updated Treasury Management Code.

3.9 With the exception of the new prudential and treasury management indicators for net income from service and commercial investments and the liability benchmark, the Treasury Management and Investment Strategies for 2022-23 satisfy all core principles of the revised Codes, with only very minor revisions being required to the strategies adopted in 2021-22.

3.10 For public sector organisations, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"*the management of the organisation's borrowing, investments and cash flows, including 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*".

3.11 Consistent with the definition of treasury management set out in paragraph 1.1.1 above, the treasury management and investment strategies contained in this document are focused on borrowing and investments in financial instruments held for treasury management purposes (i.e. investments that arise from the Authority's cash flows or treasury risk management activity and which ultimately represent balances that need to be invested until the cash is required for use in the course of business).

3.12 Investments in financial and non-financial assets (for example investment property, loans supporting service outcomes and investments in subsidiaries and joint ventures) made for commercial or service purposes, rather than for treasury management purposes, are dealt with in the Authority's Capital Strategy.

3.13 To enable the Audit Committee to fulfil its responsibilities for ensuring effective scrutiny of the treasury management strategy and policies, the Authority's Treasury Management Practices (TMPs) require treasury management reports, including the report covering those matters listed in paragraph 3.2 above, to be submitted to the Audit Committee prior to their consideration by Full Council.

3.14 The following sections provide an overview and summary of the contents of the proposed TMSS, Investment Strategy and MRP policy statement included in Appendix 1 to this report.

4.0 Treasury Management Strategy Statement

4.1 The Treasury Management Strategy Statement (TMSS) sets out the Authority's proposed treasury management activities for the year based on budget proposals, interest rate forecasts and economic outlook.

4.2 The issues covered in the Treasury Management Strategy Statement include:

- the current treasury position
- treasury indicators, required by CIPFA's Prudential and Treasury Management Codes, designed to limit the Authority's treasury risk exposures
- economic background and prospects for interest rates
- borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- policy on the use of derivatives
- the process adopted for reviewing and addressing the training needs of officers and members in relation to treasury management
- use of treasury management consultants including services provided and procedures employed for monitoring the quality of those services.

4.3 The Authority's Treasury Management Policy Statement highlights the successful identification, monitoring and control of risk as being the prime criteria by which the effectiveness of its treasury management activities will be measured. Risk management is therefore central to the Authority's adopted treasury management and investment strategies. The Authority's treasury activities expose it to a number of financial and operational risks including credit and counterparty risk, liquidity risk, and interest rate risk. The TMSS explains the principal means through which these risks will be managed.

5.0 Investment Strategy

5.1 The Annual Investment Strategy for 2022-23, is set out in section 3 of Appendix 1. It outlines the Authority's policies for the prudent financial management of its treasury management investments and for giving priority first to the security of those investments (i.e. protect the capital sum invested from loss) and secondly, to their liquidity (i.e. ensuring funds invested can be accessed to meet expenditure when needed).

5.2 The contents of the Authority's Investment Strategy follow the recommendations set out in the DLUHC (formerly MHCLG) Guidance on Local Government Investments (third edition) issued in February 2018 and the reporting principles set out in CIPFA's Treasury Management Code. It sets out:

- procedures for determining the counterparties with whom investments may be placed, including the Authority's approach on the use of credit ratings and other sources of information to assess credit and counterparty risk
- the types of investment instruments that may be used
- limits on the amount that may be invested with any single institution or group of institutions
- limits on the maximum period for which funds may be prudently committed
- reporting arrangements.

6.0 Minimum revenue provision (MRP) policy statement 2022-23

6.1 The MRP is an annual amount required to be set aside from the General Fund to meet the capital cost of expenditure funded by borrowing or through credit arrangements such as on balance sheet leasing arrangements (finance leases). The Authority's proposed MRP policy, setting out how it will discharge the duty under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) to make prudent MRP in the financial year, is set out in section 4 of Appendix 1. It includes:

- a description of what MRP is intended to achieve
- commentary on the Authority's underlying duty to make prudent provision and ensure that debt is repaid over a period commensurate with that over which the capital expenditure provides benefits, or - for historic borrowing originally supported by central government funding rolled into Revenue Support Grant - over the period implicit in the determination of that original grant funding
- consideration of the 'options' for calculating MRP outlined in the statutory guidance on MRP and the restrictions on their use
- the policy proposed for the forthcoming year.

6.2 Having regard to the statutory guidance on MRP issued by DLUHC (formerly MHCLG) and the 'options' for calculating MRP set out in that guidance, no changes to the existing method of calculating MRP are proposed. In 2022-23 the Authority will therefore calculate MRP:

- for all capital expenditure funded from borrowing incurred before 1 April 2008 and for all supported capital expenditure funded from borrowing incurred on or after 1 April 2008, based on 4% of Capital Financing Requirement at the end of the preceding financial year (Option 2- CFR method)
- for unsupported capital expenditure funded from borrowing incurred after 1 April 2008, by applying Option 3 - Asset Life Method, using either the equal instalments or annuity method

- for credit arrangements, such as on balance sheet leasing arrangements, by charging an amount (MRP) equal to the element of the rent/charge that goes to write down the balance sheet liability.

7.0 Prudential & Treasury Indicators

7.1 The Prudential Code for Capital Finance in Local Authorities requires local authorities to self-regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans, by setting estimates and limits and by publishing actuals for a range of prudential indicators. It also requires them to ensure their treasury management practices are in accordance with good practice and demonstrate a full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation.

7.2 The prudential and treasury indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. They may be revised at any time, following due process, and must be reviewed, and revised if appropriate, for the current year when the prudential indicators are set for the following year.

7.3 The Authority's prudential and treasury indicators for 2022-23 and following years are set out in section 5 of Appendix 1. They include:

- indicators required by the Prudential Code covering affordability, prudence, capital expenditure, external debt and treasury management. These include the statutory limit on borrowing determined under section 3 of the Local Government Act 2003 (the Authorised Limit for External Debt)
- indicators required by the sector guidance accompanying the Treasury Management Code to ensure the Authority operates its treasury activities within defined limits.

8.0 Delivery arrangements

8.1 Not applicable to this decision/report.

9.0 Implications and Impact

Contribution to Council Strategy Priorities, Outputs and Outcomes

9.1 Effective treasury management and compliance with the Prudential Code will provide support towards the achievement of the Council's business and service objectives.

Finance/Resource implications

9.2 The Prudential and Treasury management indicators set out in Appendix 1 form a key element in demonstrating the affordability, prudence and sustainability of the Authority's capital expenditure and borrowing plans.

Legal and governance implications

9.3 Provisions contained in the Local Government Act 2003, statutory guidance issued by the Department for Levelling Up, Housing and Communities (formerly the Ministry of Housing, Communities and Local Government and codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) require the Authority to prepare and approve, before the start of each financial year:

- a Treasury Management Strategy Statement (TMSS) and Investment Strategy setting out its proposed treasury management activities for the year and policies for the prudent management of its investments
- a statement of its policy on making Minimum Revenue Provision (MRP) indicating how it is proposed to discharge the duty to make prudent MRP in the forthcoming financial year
- a set of prescribed prudential and treasury indicators for the forthcoming and following years - including the Authority's statutory limit on borrowing determined under section 3 of the Local Government Act 2003 (the Authorised Limit for External Debt) - demonstrating that its capital expenditure plans are affordable and that external borrowing is within prudent and sustainable levels.

Risk analysis

9.4 The Authority regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Risk implications associated with the Authority's treasury activity is considered in Appendix 1 to this report.

Increasing satisfaction and service

9.5 Not applicable to this decision/report.

Equality impacts

9.6 Not applicable to this decision/report.

Health and Safety impacts

9.7 Not applicable to this decision/report.

Health, wellbeing and community safety impacts

9.8 Not applicable to this decision/report.

Environmental/sustainability impacts

9.9 Not applicable to this decision/report.

Other significant implications

9.10 There are no other significant implications arising from report.

Appendices attached to this report

Appendix	Title of appendix
1	Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Policy Statement - 2022-23

Background documents available

Name of background document	Where it is available
-	-

Report author(s) and contact officer(s):

Barry Lennox
Senior Manager - Finance (Deputy s151 Officer)
Telephone no: 01900-702586
email: mailto:barry.lennox@allerdale.gov.uk