

Key Decision Required:	Yes	In the Forward Plan:	Yes
------------------------	-----	----------------------	-----

## CABINET

25 FEBRUARY 2022

## REPORT OF CORPORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER

## A.5 ANNUAL CAPITAL AND TREASURY STRATEGY FOR 2022/23 (INCLUDING PRUDENTIAL AND TREASURY INDICATORS)

(Report prepared by Richard Barrett and Wendy Borgartz)

## PART 1 – KEY INFORMATION

**PURPOSE OF THE REPORT**

To agree the Annual Capital and Treasury Strategy for 2021/22 (including Prudential And Treasury Indicators) for submission to Council on 29 March 2022, subject to consultation with the Resources and Overview Scrutiny Committee.

**EXECUTIVE SUMMARY**

- The Local Government Act 2003 and supporting regulations require the Council to set out its treasury strategy for borrowing, and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act) that sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments, "having regard" to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice.
- The current editions of the above codes that the Council's capital and treasury activities reflect were issued in December 2017. These included the requirement to publish as Capital Strategy, which from 2019/20 has been combined with the Treasury Strategy into one document, which is required to be updated / approved annually
- CIPFA published revisions to both of the above codes in December 2021, but as part of the associated announcements, they confirmed that they will not be fully implemented until the 2023/24 financial year. Local Authorities therefore do not have to amend or revise the Capital and Treasury Strategy for 2022/23. However, CIPFA have stated that Local Authorities should make their best endeavours to adhere to the new provisions and not undertake any new investments which would not be consistent with the changes.
- Although the revised codes will be reflected in future years, there are no changes included within the proposed Capital and Treasury for 2022/23 that conflict with the request to ensure new investments follow the new provisions as highlighted above.
- The proposed Annual Capital and Treasury Strategy for 2022/23 is set out in **Appendix A 1**.
- The Capital Strategy element of the combined document covers the various

elements surrounding capital investment decisions and the key criteria that investment decisions should be considered against.

- The Treasury Strategy element of the combined document covers the various elements that satisfy the requirements of the various codes that govern the borrowing and investment activities of the Council and has been prepared in the light of advice received from the Council's Treasury advisors and reflects the relevant codes and guidance.
- Prudential and Treasury indicators are included as an Annexe to the combined strategy and are therefore included within **Appendix A 1**.
- Under the Prudential Code the Council has freedom over capital expenditure as long as it is prudent, affordable and sustainable. The Prudential Indicators either measure the expected activity or introduce limits upon the activity, and reflect the underlying capital appraisal systems and enable the Council to demonstrate that it is complying with the requirements of the Prudential Code.
- The Council's investments will be undertaken in accordance with its Treasury Management Practices. These were expanded to include use of non-specified investment in property to yield both rental income and capital gains from 2016/17. If credit ratings remain at their current extremely low levels it is likely that a significant proportion of the Council's investments will continue to be in government securities such as with other Local Authorities. Issues such as the business rates grant process associated with COVID 19, continue to demonstrate the need to maximise flexibility in the range of counterparties the Council uses plus rates paid by the Debt Management Office were again negative during autumn 2021.
- As is always the case, other 'quality' investment opportunities will always be explored during the year in consultation with the Council's external advisors to maximise returns on investments within a continuing and overall risk-averse / aware approach.
- It was initially proposed to seek the Portfolio Holder for Corporate Finance and Governance agreement to the Strategy for submitting to the Resources and Services Overview and Scrutiny Committee as part of the required consultation process. However due to continuing work pressures, including those associated with on-going COVID 19 related activities and the extended Statement of Account process, a revised timescale is proposed.
- It is therefore now proposed to seek Cabinet's initial agreement to the Strategy via this report and then ask the Resources and Overview and Scrutiny Committee to consider it at their meeting on 21 March 2022 instead of 7 February as initially planned.
- Any comments the Resources and Overview and Scrutiny Committee may have can still be submitted directly to the Full Council meeting on 29 March 2022 where they will be asked to consider and approve it.
- The above reflects a pragmatic approach to ensure that the Strategy can be approved ahead of the financial year it relates to. However, it is also recognised that if the comments of the Resources and Overview and Scrutiny Committee require further exploration / investigation, then they can be considered and reported back to Full Council at a later date, where potential in-year revisions to the Strategy could

be considered.

## **RECOMMENDATIONS**

**That Cabinet agrees:**

- a) that the Annual Capital and Treasury Strategy for 2022/23 (including Prudential And Treasury Indicators) attached be submitted to Council for approval, subject to consultation with the Resources and Services Overview and Scrutiny Committee; and
- b) that subject to a) above, a delegation to the Portfolio Holder for Corporate Finance and Governance Portfolio be agreed to explore potential borrowing options associated with the Redevelopment of the Honeycroft site for inclusion within the Annual Capital and Treasury Strategy that is presented to Full Council on 29 March 2022.

## **PART 2 – IMPLICATIONS OF THE DECISION**

### **DELIVERING PRIORITIES**

The adoption of the Capital and Annual Treasury Strategy for 2022/23 will ensure that the Council's Investment and Treasury Management activities are carried out and managed in accordance with best practice, thereby safeguarding money held by the Council and making an appropriate contribution to the Council's overall financial position.

### **FINANCE, OTHER RESOURCES AND RISK**

#### **Finance and other resources**

Treasury and Capital Management Strategies and procedures will ensure that the Council's investments and borrowing will be undertaken in such a way as to minimise the Council's exposure to risk. At the same time they will seek to maximise income from investments and minimise the costs of borrowing within the Council's accepted level of risk.

#### **Risk**

The placing of investments involves a number of risks. These risks and how the Council will manage them are set out in the Council's Treasury Management Practices.

### **LEGAL**

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance. By adopting / approving an Annual Treasury Strategy and a Capital Strategy based on the requirements of the relevant and updated codes, the Council is complying with the regulations.

At its meeting on 28 January 2022 Cabinet agreed a delegation to the Portfolio Holder for Corporate Finance and Governance to approve the Capital and Treasury Strategy 2022/23 for consultation with the Resources and Services Overview and Scrutiny Committee.

### **OTHER IMPLICATIONS**

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

**Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.**

There are no other implications.

## PART 3 – SUPPORTING INFORMATION

### BACKGROUND AND CURRENT POSITION

The Annual Capital and Treasury Strategy for 2022/23 is set out in **Appendix A 1** and is based on the Treasury Management Code of Practice and the Prudential Code published by CIPFA in December 2017.

Revisions to both of the above documents were published by CIPFA in December 2021. However as part of their release, CIPFA confirmed that the new codes will have a soft launch of its provisions for the 2022/23 financial year and where possible, local authorities should make their best endeavours to adhere to their provisions and not undertake any new investments which would not be consistent with the changes that will be fully implemented in the 2023/24 financial year. Local Authorities therefore do not have to amend or revise any treasury or capital strategies for 2022/23 to incorporate the additional disclosure requirements for investment categories and new indicators.

Based on the above approach, the Annual Capital and Treasury Strategy for 2022/23 highlights key changes that will be required to comply with the 2021 Treasury Management Code and Prudential Code from 2023/24, and indicates likely changes as a result of a technical accounting change in lease accounting from 1 April 2023.

No significant changes are proposed in the Annual Capital and Treasury Strategy for 2022/23 with limited amendments in areas such as the general economic outlook and interest rate forecasts, apart from the inclusion of HRA borrowing in 2022/23 and 2024/25 to replace maturity loans ending in those two years, as included within the HRA business plan – the changes made to the strategy since last year are shaded in grey and are in italic font.

As highlighted above, in respect of CIPFA's Treasury Management Code of practice, the current / relevant revision to the code was in 2017, which has been incorporated within the Annual Treasury Strategy as necessary. By approving the Annual Treasury Strategy for 2018/19, the Council adopted the latest CIPFA Code of Practice for Treasury Management in the Public Services. (the '2017 code').

The need to borrow money may also arise in future years to reflect the Council's current commitments, corporate priorities and strategies. If the need / option to borrow money was identified, then it would form part of the associated and separate decision making process and would be considered within the overall Treasury Strategy framework.

The Council maintains a very low risk appetite approach to its treasury activities. Given the extremely low interest rate environment, even if the Council were to increase the level of risk it would be willing to accept, the increased returns would only be marginal and therefore would not provide a credible / alternative option at the present time. However, officers will continue to explore opportunities to maximise investment returns, within this overall context in 2022/23.

One of the key elements within the Capital Strategy is to have processes in place to ensure projects are delivered on time and within budget. It is recognised that COVID 19 had a significant and unprecedented impact on the delivery of a number of projects in 2020/21, a position that has continued in 2021/22. However, the Council continues to take steps to support the delivery of schemes and projects, such as the development of a Corporate Investment Plan, which is complemented by an earmarked budget to provide additional capacity. The Capital and Treasury Strategy therefore now includes reference to

this plan, which will form an important element of investment decisions going forward.

In terms of sources of funding, the Government introduced a significant new constraint in terms of borrowing from the Public Works Loan Board (PWLB) in 2020/21. If a local authority purchases assets or plans to purchase assets over a future three year period to generate investment income, then they will no longer be able to borrow money from the PWLB. This applies to all such purchases regardless of how they are funded. Although no such purchases are currently planned, this constraint may need to be considered in the future, as the Council could lose access to the referential rates available from the PWLB.

Draft Prudential Indicators are set out in Annex 1 to Part 2 of the Capital and Treasury Strategy. Annex 2 to Part 2 of the Treasury Strategy sets out the specified and Non-Specified investments the Council may use in 2022/23.

As set out in the HRA Budget Report to Cabinet on 28 January 2022, although the redevelopment of the Honeycroft site was agreed by the Leader in 2021, it has not yet been included within the HRA Capital Programme.

Within the report agreed by the Leader referred to above, it was confirmed that a further report would be presented to Cabinet once a tender exercise had been undertaken for the design and build of the scheme. It was also stated that this same report would set out the funding required for the development and seek approval for prudential borrowing within the HRA.

Based on the timescales mentioned above, the potential need to borrow money to fund the redevelopment of Honeycroft has not yet been reflected in the figures set out within the Annual Capital and Treasury Strategy attached.

Although a separate report will be presented to Cabinet as mentioned above, the potential options to borrow money to support the cost of the redevelopment are still being explored. With this in mind, a delegation is included within the recommendations above to enable potential changes to the Annual Capital and Treasury Strategy to be considered before it is reported to Full Council on 29 March 2022. This approach will also potentially enable the decision to borrow money to be made at the same Full Council meeting, albeit within a specific governance framework that could be agreed at the same time.

#### **BACKGROUND PAPERS FOR THE DECISION**

None

#### **APPENDICES**

Appendix A 1 - Annual Capital and Treasury Strategy 2022/23