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CABINET

17 FEBRUARY 2023

REPORT OF THE CORPORATE FINANCE & GOVERNANCE PORTFOLIO HOLDER

A.9 ANNUAL CAPITAL AND TREASURY STRATEGY FOR 2023/24 (INCLUDING PRUDENTIAL AND TREASURY INDICATORS)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To agree the Annual Capital and Treasury Strategy for 2023/24 (including Prudential And Treasury Indicators) for submission to Council on 2 March 2023.

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. Revised editions of both documents were issued in December 2021, which come into force in 2023/24.
- The Capital Strategy continues to be combined with the Treasury Strategy into one document, which is required to be updated / approved annually.
- The proposed Annual Capital and Treasury Strategy for 2023/24 is set out in **Appendix A** and it reflects the various changes set out in the latest Codes mentioned above.
- 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 latest codes and guidance.
- Prudential and Treasury indicators are included as an Annexe to the combined strategy and are therefore included within **Appendix A**.
- 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.

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- 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. The new Codes require clear separation of commercial investments from treasury investments. As the Council only has one such investment, which will be clearly identified within the Strategy and the TMPs, a separate suite of Investment Management Practices is not proposed to be produced.
- 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 approach.
- In line with the delegation set out within the Council's Constitution, the Portfolio Holder for Corporate Finance and Governance would agree the Strategy for submitting to the Resources and Services Overview and Scrutiny Committee as part of the required consultation process.
- However to accommodate the current programme of meetings and continuing work pressures, which include those associated with the external audit of the Council's Statement of Accounts for 2020/21, a revised reporting timescale is proposed.
- It is therefore now proposed to seek Cabinet's agreement to the Strategy via this report for recommending to Full Council on 2 March 2023. The associated consultation exercise with the Resources and Services Overview and Scrutiny Committee can then be undertaken as early as practicable in 2023/24.
- The above reflects a pragmatic approach to ensure that the Strategy can be approved ahead of the financial year it relates to, which is a key requirement within the associated Code of Practice. However, it is also recognised that if the Resources and Services Overview and Scrutiny Committee have any comments / recommendations, they can be reported back to Cabinet / Full Council at a later date in the year where potential in-year revisions to the Strategy could be considered.

RECOMMENDATION(S)

That Cabinet:

- a) agrees the Annual Capital and Treasury Strategy for 2023/24 (including Prudential And Treasury Indicators) attached and that it is submitted to Council for approval; and**
- b) subject to a) above, undertakes the necessary consultation with the Resources and Services Overview and Scrutiny Committee as early as practicable in 2023/24.**

REASON(S) FOR THE RECOMMENDATION(S)

To ensure that a Capital and Treasury Strategy for 2023/24 is approved by the 1 April 2023.

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ALTERNATIVE OPTIONS CONSIDERED

Not applicable given the requirements set out elsewhere in this report.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The adoption of the Capital and Annual Treasury Strategy for 2023/24 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.

OUTCOME OF CONSULTATION AND ENGAGEMENT

As set out earlier in this report, the Resources and Services Overview and Scrutiny Committee will be consulted on the Capital and Treasury Strategy 2023/24 as soon as practicable in 2023/24, with comments reported to Cabinet / Full Council later in the year as necessary.

LEGAL REQUIREMENTS (including legislation & constitutional powers)

Is the recommendation a Key Decision (see the criteria stated here)	Yes	If Yes, indicate which by which criteria it is a Key Decision	<input checked="" type="checkbox"/> Significant effect on two or more wards <input checked="" type="checkbox"/> Involves £100,000 expenditure/income <input type="checkbox"/> Is otherwise significant for the service budget
		And when was the proposed decision published in the Notice of forthcoming decisions for the Council (must be 28 days at the latest prior to the meeting date)	This item has been included within the Forward Plan for a period in excess of 28 days.

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.

As set out in para 4.3 Part 3.37 of the Constitution, the Portfolio Holder for Corporate Finance and Governance has delegated authority to agree the Capital and Treasury Strategy for consultation with the Resources and Services Overview and Scrutiny Committee along with a further delegation to agree / implement the Treasury Management Practices. In respect of the first delegation, as highlighted elsewhere, this report seeks direct approval from Cabinet along with a recommendation to Council that is subject to the comments from the Resources and Services Overview and Scrutiny Committee later in the year. In respect of the second delegation, work remains in progress to reflect the necessary changes emerging from the new Codes, which will be included in revised Treasury Management Practices that will be presented to the Portfolio Holder for Corporate Finance and Governance for approval by the 31 March 2023.

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YES	The Monitoring Officer confirms they have been made aware of the above and any additional comments from them are below:
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There are no additional comments over and above those set out elsewhere in this report.

FINANCE AND OTHER RESOURCE IMPLICATIONS

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.

YES	The Section 151 Officer confirms they have been made aware of the above and any additional comments from them are below:
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The Section 151 Officer is the co-author of this report.

USE OF RESOURCES AND VALUE FOR MONEY

The following are submitted in respect of the indicated use of resources and value for money indicators:

A) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;	This is addressed in the body of the report.
B) Governance: how the body ensures that it makes informed decisions and properly manages its risks, including; and	
C) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.	

MILESTONES AND DELIVERY

This has been highlighted elsewhere within this report.

ASSOCIATED RISKS AND MITIGATION

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.

As highlighted elsewhere in this report, investments are undertaken within an overall risk-averse approach, which is reflected in Treasury Management Practices. With this in mind, a significant level of investment is undertaken with other Local Authorities and with the Government.

As with the recent case with lending money to Thurrock Council, money lent to other Local Authorities is not at risk of not being repaid, as ultimately the Government would take the necessary steps to ensure liabilities are met as part of any intervention (such as the one at Thurrock). The risk of lending money to another Local Authority is therefore not the same as lending money to a commercial / private organisation, which is one of the reasons why Councils lending to other Councils is common practice nationally.

As reported previously, the performance of the investment property in Clacton, is performing satisfactorily against the financial target set out within the original decision to purchase the

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property, with budgeted investment income continuing to be achieved each year. It is important to highlight that the rental payments can be seen as paying back the original investment made in purchasing the property. The overall performance of the investment therefore needs to take into account such considerations over the life of the Council's ownership of the property rather than a shorter term position in isolation.

It is also worth highlighting that the Council's Commercial Property Investment Policy is underpinned by robust risk management actions, which will respond to any changes to the situation. With the latter point in mind and as set out within the Commercial Property Investment Policy, the Council's wider treasury management activities are designed to ensure that the Council is not faced with a position of having to sell the property for cash flow purposes. This in turn ensures that the Council remains in control of when the property is ever exposed to the market rather than potentially having to sell the property during a period where there may be a downturn in commercial property prices.

EQUALITY IMPLICATIONS

There are no direct implications.

SOCIAL VALUE CONSIDERATIONS

There are no direct implications.

IMPLICATIONS FOR THE COUNCIL'S AIM TO BE NET ZERO BY 2030

There are no direct implications.

OTHER RELEVANT CONSIDERATIONS OR 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	Please see comments above
Health Inequalities	
Area or Ward affected	

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

The Annual Capital and Treasury Strategy for 2023/24 is set out in **Appendix A** and is based on the most up to date Treasury Management Code of Practice and the revised Prudential Code, both of which were published by CIPFA in December 2021.

The Annual Capital and Treasury Strategy for 2023/24 has been amended as a result of the changes in the Codes. The key changes made are:

- Changes to the definition of investments, splitting them between treasury investments, commercial investments and service investments, with commercial and service investments arrangements being separated out in reporting and supported by investment management practices. Tending currently has no service investments and just one commercial investment, the investment property in Clacton, so separate documentation has not been produced but instead the Strategy clearly reflects issues

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which relate to the investment property.

- Local authorities must not borrow to invest for the primary purpose of financial return.
- Local authorities must consider as part of the decision-making whether to divest any commercial investments before deciding to borrow.
- Introduction of a liability benchmark indicator which is in the form of a chart showing approved capital programmes and approved borrowing to maturity.
- A new affordability indicator showing the ratio of income from commercial and service investments as a proportion of the Council's net revenue stream.
- Requirement to include the Council's policy and practices relating to environmental, social and governance (ESG) investment considerations within TMP1 on risk management.
- Requirement to report treasury quarterly, which the Council already does via the Corporate Budget Monitoring process.
- Various wording changes and amendments resulting from the new Codes on TMPs, which will be reflected in the updated TMPs that will need to be approved by the end of March 2023.
- Amendments in areas such as the general economic outlook and interest rate forecasts.

The changes made to the attached Strategy since last year are shaded in grey and are in italic font.

By approving the Annual Capital and Treasury Strategy for 2023/24, the Council will be adopting the latest CIPFA Code of Practice for Treasury Management in the Public Services. (the '2021 code').

It is important to highlight that the changes to the Codes have not required the Council to take any direct action / remedial activities in terms of its investment / treasury processes.

The need to borrow money may 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 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. However, set against this context, officers will still continue to explore opportunities to maximise investment returns in 2023/24.

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 preferential 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 2023/24.

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In accordance with the relevant codes, the Capital and Treasury Strategy is subject to consultation with the Resources and Services Overview and Scrutiny Committee before approval. As highlighted earlier, a pragmatic approach is proposed to ensure that this can be accommodated within the current schedule of meetings in 2023/24.

PREVIOUS RELEVANT DECISIONS

The previous Capital and Treasury Strategy for 2022/23 was agreed by Full Council at its meeting on 29 March 2022.

A Treasury Performance Report for 2021/22 was considered by Cabinet at its 15 July 2022 meeting.

A mid-year Treasury Performance review was presented to Cabinet at its 4 November 2022 meeting.

BACKGROUND PAPERS AND PUBLISHED REFERENCE MATERIAL

None

APPENDICES

A9 Appendix A - Annual Capital and Treasury Strategy 2023/24

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