Item No.	Classification:	Date:	Meeting Name:
14	Open	17 November 2021	Audit, governance and standards committee
Report title:		Capital and treasury management strategy 2022-23	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the audit governance and standards committee note the draft Capital Strategy and Treasury Management Strategy 2022-23.

BACKGROUND INFORMATION

2. Each year council assembly agrees an annual strategy covering the management of council debt, capital and treasury investments. The strategy is to be agreed following consultation with the audit, governance and standards committee.

3. Treasury management is the management of the authority’s cash flows, borrowing and investments. The council is exposed to financial risks from treasury management activity including possible losses associated with council investment and potential for increased borrowing costs arising from market movements. The identification, monitoring and control of financial risks are therefore a crucial part the financial management and governance arrangements of the council.

4. Since 2019-20 the council is required to produce a capital strategy report (Appendix A) providing a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how any associated risks are managed and the implications for future financial sustainability.

5. The impact on the UK from coronavirus, together with its exit from the European Union and future trading arrangements, will remain a major influence on the Authority’s treasury management strategy for 2022-23.

6. Under financial delegation, the strategic director of finance and governance is responsible for all executive and operational decisions on treasury management. This treasury management strategy, together with supporting prudential indicators and policies will ensure that these responsibilities can be carried out effectively.

KEY ISSUES FOR CONSIDERATION

Borrowing strategy and debt management activity and position

7. The council's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

8. The council's debt management strategy is to pursue a policy of internal borrowing, which is the use of existing reserves and balances to temporarily fund capital expenditure, where possible, rather than the use of external borrowing.

9. The use of internal borrowing allows the council to minimise unnecessary external borrowing costs by only borrowing when needed for liquidity, or to benefit from advantageous borrowing rates. Efficient use of existing council resources to fund capital expenditure through internal borrowing also reduces the council's counterparty risk inherent in the investment of cash balances.

10. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans. By doing so, the Authority is able to reduce net borrowing costs and reduce overall treasury risk.

11. The benefits of internal/short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. This will help inform decisions on whether the council borrows additional sums at long-term fixed rates in 2022-23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

12. The council has an ambitious capital programme for both General Fund and Housing Revenue Account capital expenditure, as set out in the approved Capital Programme. Projects for capital expenditure and financing, as well as long term cashflow forecasts, indicate that the council may require additional borrowing of £1.3bn by the end of 2025.

13. Historical long term debt for the council has traditionally been drawn from the PWLB. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield. The Authority will consider the most appropriate source for long-term loans. Any borrowing decision will be made in consideration of capital and cashflow forecasts, market conditions, interest rate expectations and with respect to associated risks. The council will also utilise the advice of external treasury advisor Arlingclose.

Proposed Investment Strategy

14. The council's investment objectives are to preserve principal, provide liquidity and secure a return on investments consistent with the prior objectives of security and liquidity. This is in line with investment guidance produced by the Ministry of Housing, Communities and Local Government (MHCLG), now the Department of Levelling Up Housing and Communities (DLUHC).

15. The annual investment management strategy 2022-23 is attached at Appendix C. The strategy will allow investment access to highly rated sovereigns, banks and other corporates, quasi-sovereigns, covered bonds whilst limiting excessive exposure to market volatility and maintaining the overarching objective of ensuring appropriate security and liquidity. External fund managers will be utilised to implement the strategy when appropriate.

16. In considering the investment strategy for 2022-23 the council has taken advice from the external treasury advisor Arlingclose, in addition to ongoing engagement with the council's external fund managers, to ensure that any investment limits and restrictions remain appropriate to meet the investment objectives.

17. The investment strategy for the council for 2022-23 is proposed to remain unchanged as it is considered overall to be well structured to limit any undue risks to the security of assets and preservation of liquidity whilst also allowing the council and delegated managers to access suitable investment opportunities.

Minimum Revenue Provision

18. Each year, the General Fund sets aside sums known as the minimum revenue provision to reduce its borrowing liabilities. The HRA may also set aside sums to reduce its own borrowing liabilities. The policy for MRP is set out in Appendix D and complies with the latest guidance issued by the MHCLG (DLUHC).

19. Government guidance on the MRP requires that the general fund set aside prudent sums to reduce debt and long term liabilities (such as PFI schemes) arising from capital spend and that the council produces a statement on its MRP policy. MRP costs fall on revenue budgets and runs on for many years into the future, usually over the period to which the capital item provides an economic benefit or the duration of the revenue grant supporting the expenditure.

20. A council may not change the total MRP it is liable for but may prudently modify the timing of payments to improve affordability and take account of individual spend and financing characteristics. No changes are proposed for 2022-23.

Prudential Indicators

21. Local authority borrowing, investment and capital finance activity is supported by the Prudential Code for Capital Finance and the Treasury Management in the Public Services Code of Practice and Guidance published by the Chartered institute of Public Finance and Accountancy, backed by the Local Government Act 2003. The codes introduced a series of indicators and limits, which the council assembly should agree annually.

22. The indicators needing approval relate to 2022-23 to 2024-25 and are set out at Appendix E. The indicators are of a technical nature and include a self-imposed authorised limit on debt which the council assembly must determine each year. Approval will ensure that the council meets its obligations under the 2003 Act and that the strategic director of finance and governance can carry out their financial responsibilities in this area.

Community, equalities (including socio-economic) and health impacts

23. This report is not considered to have a direct impact on local people and communities. However, good governance arrangements are important to the delivery of local services and to the achievement of outcomes.

Climate change implications

24. There are no climate change implications arising directly from this report.

Resource implications

25. There are no direct resource implications in this report.

Consultation

26. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

27. None required.

REASONS FOR URGENCY

28. The council is required to report the Draft Capital and Treasury Management Strategy for the following year to Audit and Governance Standards prior to the presentation of the Strategy at Council assembly in Feb 2022.

REASONS FOR LATENESS

29. The delay was due to the need to include the latest economic data and specifically to incorporate advice and guidance from the council's external treasury management advisors.

BACKGROUND DOCUMENTS

Background Papers	Held at	Contact
None		

APPENDICES

No.	Title
Appendix A	Capital Strategy 2022-23
Appendix B	Treasury Management Strategy 2022-23
Appendix C	Annual Investment Management Strategy 2022-23
Appendix D	Annual Minimum Revenue Provision Statement
Appendix E	Prudential Indicators

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Timothy Jones, Departmental Finance Manager	
Version	Final	
Dated	10 November 2021	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comment included**
Director of Law and Democracy	No	N/A
Strategic Director of Finance and Governance	No	N/A
Cabinet Member	**No**	**N/A**
Date final report sent to Constitutional Teams		11 November 2021