

Public
Key Decision - Yes

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: 2023/24 Treasury Management, Capital and Investment Strategies

Meeting/Date: Cabinet – 7th February 2023
Council – 22nd February 2023

Executive Portfolio: Executive Councillor for Finance and Resources

Report by: Director of Finance and Corporate Resources

Ward(s) affected: All Wards

Executive Summary:

The Council is required to approve, on an annual basis, the;

- Treasury Management Strategy;
- Capital Strategy
- Investment Strategy
- Minimum Revenue Provision Statement
- Flexible Use of Capital Receipts

This requirement is within CIPFA's Treasury Management in the Public Services: Code of Practice (2021), CIPFA's Prudential Code (2021), and DLUHC Guidance on MRP.

The aim of the Treasury Management Strategy is to

- Manage the Council's investments, cash flows, banking, money market and capital market transactions, loans and borrowings within the requirements of an effective control environment but coupling this with the pursuit of optimum performance and yield and at the same time managing the portfolio's risk profile.

The 2023/24 Treasury Management Strategy includes:

- The operation of the strategy within an economic climate that is weak, where inflation is above target level and growth rates remain influenced by the covid pandemic. Interest rates have moved upward slightly but are forecast to remain low although possibly rising slowly into the medium term.

- The continuation of the Council's policy to use mainly short-term investments which are highly liquid and as a consequence are lower risk. This includes the use of call accounts, money market funds, and short-term deposits (including the use of the HM Treasury deposit facility).
- A reduction in some counterparty limits as a response to possibly the more uncertain financial environment, in particular potential increases in bad debts in the banking sector.
- The introduction of the aim to develop the council's investing strategy over the medium term in relation to Environmental, Social and Governance (ESG) factors. The global framework for assessing ESG is under development, and the council's strategy will develop alongside this.

The Treasury Management Strategy includes;

- External economic background
- Credit outlook
- Borrowing strategy
- Investment strategy
- Treasury management indicators

The Capital Strategy includes;

- A high-level overview of the Council's capital programme and borrowing.
- The borrowing strategy and the borrowing limits
- Revenue impacts of borrowing and capital expenditure

The Investment Strategy includes;

- The performance of property assets
- The management of service loans
- Investment indicators

The Minimum Revenue Provision Statement;

- The policy to deal with the financing of capital projects and service loans

Recommendation(s):

That the Cabinet recommended to Council the approval of;

1. The Treasury Management Strategy, Appendix 1.
2. The Capital Strategy, Appendix 2.
3. The Investment Strategy, Appendix 3.
4. The Minimum Revenue Provision Statement, Appendix 4.
5. The Flexible Use of Capital Receipts Strategy Appendix 5.

1. PURPOSE OF THE REPORT

1.1 The aim of the Treasury Management Strategy is to provide strategic guidance on how the Council shall conduct its Treasury Management activity. The Strategy shall:

- Include relevant policies, objectives and treasury and prudential indicators; as well as illustrating its approach to risk management.
- Comply with the Code or Practice for Treasury Management and the Prudential Code for Capital Finance (as issued by the Chartered Institute of Public Finance and Accountancy, CIPFA) and reflect published Government advice.
- Approve the way in which the Minimum Revenue Provision is calculated.

1.2 The Treasury Management Strategy is a key element of the Council's Code of Financial Management.

1.3 The Capital Strategy gives an overview of capital expenditure and financing. The strategy includes;

- The borrowing strategy and limits
- Capital expenditure and the capital financing requirement
- Revenue implications

1.4 The Investment Strategy includes;

- Service loans
- Property investments
- Property performance indicators

1.5 The Flexible Use of Capital Receipts Strategy, outlines if the Council intends to make flexible use of Capital Receipts.

1.6 In addition to complying with CIPFA's Treasury Management in the Public Services: Code of Practice 2021 Edition, the Council must also comply with the DLUHC guidance, both of which require the approval of an annual Treasury, Investment and Capital strategies before the start of each financial year. This strategy fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DLUHC Guidance.

2. WHY IS THIS REPORT NECESSARY/BACKGROUND

2.1 To seek Council approval for the:

- i. The Treasury Management Strategy, as attached at Appendix 1, including the required indicators. The aim of the:
 - investing strategy is to provide a framework through which the Council will invest any surplus funds that balances the risk of default by the borrower against a fair rate of interest.

- borrowing strategy is to permit borrowing for cash flow purposes and for the funding of current and future capital expenditure over whatever periods are in the Council's best interests.
- ii. The Capital Strategy, which gives an overview of the capital programme and financing. Appendix 2
- iii. The Investment Strategy, giving an overview of the commercial property portfolio, and service-based loans. Appendix 3
- iv. The Minimum Revenue Provision policy. Appendix 4
- v. The Flexible Use of Capital Receipts Strategy Appendix 5

2.2 For 2023/24, the Council is anticipating having a total capital financing requirement (which is both past and new capital expenditure) of £75.3m (reducing to £73.0m by 2025/26). The Council has an authorised borrowing limit for 2023/24 of £135m. It should be noted that the Minimum Revenue Provision applicable to this capital programme is fully funded and included in next year's budget and the MTFS.

2.3 The authority has and will borrow and invest substantial sums of money and is therefore exposed to financial risks including the loss of funds and the revenue effect of changes in interest rates. The identification, monitoring and control of such risks are central to the Council's Treasury Management and Investment Strategy.

2.4 In accordance with DLUHC guidance, the Council will be asked to approve a revised Treasury Management, Capital and Investment Strategy, MRP Policy and a Flexible Use of Capital Receipts Strategy, should the assumptions on which it is based change significantly. Such circumstances could include an unexpected change in interest rates, a change in the capital programme or in the level of investment balance.

3. OPTIONS CONSIDERED/ANALYSIS

3.1 The Treasury Management, Capital and Investment Strategies are a statutory requirement; thus, it has to be considered in its entirety. However, the Strategy must not be viewed as a straight-jacket; it is a framework within which the Council will conduct its Treasury, Investment and Capital activity.

4. COMMENTS OF OVERVIEW & SCRUTINY

4.1 The comments of the relevant Overview and Scrutiny Panel will be circulated ahead of the Cabinet meeting.

5. KEY IMPACTS / RISKS

5.1 The emphasis of this report is to recognise the risks inherent in achieving a yield from investments (both treasury and commercial activities), and the management of that risk.

6. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

- 6.1 When approved this strategy will be used as an operational document for Treasury Management, Commercial and Service Investments, as well as management of capital expenditure and financing.

7. LINK TO THE CORPORATE PLAN, STRATEGIC PRIORITIES AND/OR CORPORATE OBJECTIVES

- 7.1 All the strategies support the achievement of the Corporate Plan, by ensuring that funding is available for projects.

8. RESOURCE IMPLICATIONS

- 8.1 Resource implications are included within the appendices.

9. ENVIRONMENT AND CLIMATE CHANGE IMPLICATIONS

- 9.1 Refer to the Treasury Management Strategy 2023/24, section 6.3, Environmental, Social and Governance.

10. REASONS FOR THE RECOMMENDED DECISIONS

- 10.1 The Council is required, by law, to approve on an annual basis;
- The Treasury Management Strategy and policy statement, the purpose of which is to provide the framework within which the Council can operate its Treasury related activity.
 - The Capital Strategy, the purpose of which is to give a high-level overview of how capital expenditure is managed.
 - The Investment Strategy, the purpose of which is to provide the framework to support service investments and commercial investments.
 - A policy in respect of its Minimum Revenue Provision so it can prudently account for the revenue impacts of capital investment decisions.
 - The Flexible Use of Capital Receipts, to demonstrate whether the Council will make use of these regulations.

11. LIST OF APPENDICES INCLUDED

Appendix 1: The Treasury Management Strategy

Appendix 2: The Capital Strategy

Appendix 3: The Investment Strategy

Appendix 4: The Minimum Revenue Provision Statement

Appendix 5: The Flexible Use of Capital Receipts Strategy

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