

Public
Key Decision - Yes

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: 2024/25 Treasury Management, Capital and Investment Strategies

Meeting/Date: Cabinet – 6 February 2024

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 (Including the Annual Investment 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 purpose of the Treasury Management Strategy is to;

- Manage the Council's borrowing, investments and cash flows, including its banking, money market and capital market transactions. In addition the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks.

The 2024/25 Treasury Management Strategy includes;

- The operation of the strategy within an economic climate where growth is still weak, where inflation is above target level but may have peaked. Also interest rates have been high and are forecast to remain so.
- 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 - DMO).

- An increase in some counterparty limits (see paragraph 4.1 of the Treasury Management Strategy). This is a response to the reduction in inflation and forecast reduction in interest rates, which are likely to reduce the risks associated with investing, as a result of a reduction in the likelihood of loan defaults due to the easing interest rates and reducing inflation rates. In addition the changes to limits will give more scope to make investments outside of the DMO should the rates they offer fall faster than market rates.
- The intention to develop the Council's treasury management ESG policy. This type of investment has been slow to develop within the products the Council uses for investing, ESG considerations are more developed in equity and bond markets, which the Council does not invest in. The banking counterparty limit increases for 2024/25 are intended to make more ESG products accessible (where minimum investment limits are in place). When considering ESG investments security, liquidity and yield will still be prioritised, but with the governance aspect feeding into security considerations.

The Treasury Management Strategy (and Annual Investment Strategy) includes;

- Borrowing strategy
- Investment strategy
- Treasury management indicators
- Capital prudential indicators
- Liability benchmark
- External economic background
- Interest rate forecast
- Training and management roles

The Capital Strategy includes;

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

The Investment Strategy includes;

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

The Minimum Revenue Provision Statement;

- The policy to deal with the financing of capital projects

The Flexible Use of Capital Receipts Strategy;

- Sets out the Council's intentions on the flexible use of capital receipts

Recommendation(s):

That the Cabinet is recommended to Council the approval of;

1. The Treasury Management Strategy (including the Annual Investment 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 purpose of the Treasury Management Strategy is to provide strategic guidance on how the Council will conduct its Treasury Management activity. The Strategy will:

- 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 follow 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 and MTFS.

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 reasonable 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 2024/25, the Council is anticipating having a total capital financing requirement (which is both past and new capital expenditure) of £77.8m (reducing to £75.1m by 2026/27 based on current plans). The Council has an authorised borrowing limit for 2024/25 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 Strategies.
- 2.4 In accordance with DLUHC guidance, the Council will be asked to approve revised Treasury Management, Capital and Investment Strategies, MRP Policy and a Flexible Use of Capital Receipts Strategy, should the assumptions on which it is based change significantly. Such circumstances may include an unexpected change in interest rates, a change in the capital programme, or an intention to use capital receipts flexibly.

3. OPTIONS CONSIDERED/ANALYSIS

- 3.1 The Treasury Management, Capital and Investment Strategies are a statutory requirement and the contents and coverage of the strategies are fixed by regulations.

4. COMMENTS OF OVERVIEW & SCRUTINY

- 4.1 *The comments of the relevant Overview and Scrutiny Panel will be included in this section prior to its consideration by the Cabinet.*

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 these strategies 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

(See Corporate Plan)

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

8. RESOURCE IMPLICATIONS

- 8.1 Resource implications are included within the appendices and annexes.

9. ENVIRONMENT AND CLIMATE CHANGE IMPLICATIONS

- 9.1 Refer to the Treasury Management Strategy 2024/25, section 5.4.

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 will 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 (including Annexes)

Appendix 2: The Capital Strategy

Appendix 3: The Investment Strategy

Appendix 4: The Minimum Revenue Provision Statement

12. BACKGROUND PAPERS

Working papers held in Finance on shared drives

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