

For publication

Treasury Management Strategy 2022/23

Meeting:	Standards and Audit Committee Council
Date:	16 th February 2022 23 rd February 2022
Cabinet portfolio:	Deputy Leader
Directorate:	Finance

1.0 Purpose of report

- 1.1 To approve the Treasury Management Strategy Statement for the financial year 2022/23.
- 1.2 To approve the Capital Strategy Report for the financial year 2022/23.
- 1.3 To approve the Investment Strategy Report for the financial year 2022/23.
- 1.4 To approve the Minimum Revenue Provision (MRP) policy for the financial year 2022/23.

2.0 Recommendations

That the Standards and Audit Committee recommends to the full Council that:

- 2.1 That the Treasury Management Strategy Statement be approved.
- 2.2 That the Capital Strategy Report, including the Prudential Code Indicators be approved.
- 2.3 That the Investment Strategy Report be approved.
- 2.4 That the Minimum Revenue Provision policy be approved.

3.0 Reasons for recommendations

- 3.1 To keep Members informed about the council's treasury management, capital and investment strategies and to comply with the CIPFA Code of Practice for Treasury Management in the Public Services.

4.0 Report Details

4.1 Background

- 4.1.1 The key aims of the CIPFA 'Code of Practice for Treasury Management in the Public Services' (the Code) are:
- a) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities;
 - b) Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities;
 - c) They should acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools to employ.
- 4.1.2 CIPFA amended the Code in 2017 to take account of recent developments in the financial market place and the introduction of the Localism Act.
- 4.1.3 CIPFA also amended the Prudential Code for Capital Finance in Local Authorities in 2017, which now includes the requirement for the Council to produce a separate Capital Strategy.
- 4.1.4 CIPFA have further amended both the Treasury Management Code and the Prudential Code in December 2021, however the changes to reporting requirements in respect of these amendments are not required to be incorporated into the strategies until the 2023/24 financial year.

- 4.1.5 In 2018 the then Ministry of Housing, Communities and Local Government completely revised their statutory guidance on treasury management investments. This included the requirement for the Council to produce an Investment Strategy for non-treasury investments.

4.2 Treasury Management Strategy

- 4.2.1 The Treasury Management Strategy defines what categories of investments are to be used and the restrictions placed on their use. The primary objective is to protect capital and the maximisation of returns is secondary. However, the strategy allows sufficient flexibility for the Council to diversify into higher yielding asset classes where appropriate. The credit ratings of the approved counterparties for investments are regularly reviewed.
- 4.2.2 The Treasury Management Strategy Statement 2022/23 can be found at Appendix A.

4.3 Capital Strategy Report

- 4.3.1 The Prudential Code for Capital Finance in Local Authorities (the Code) is a professional Code that provides a framework for self- regulation of capital spending.
- 4.3.2 The Code was revised in 2017 and introduced the requirement for the Council to produce a capital strategy, with the purpose of demonstrating that capital expenditure and investment decisions are taken in line with service objectives, and take account of stewardship, value for money, prudence, sustainability and affordability. The Capital Strategy Report 2022/23 can be found at Appendix B.
- 4.3.3 To facilitate the decision making process, the Code also requires the Council to agree and monitor a number of prudential indicators covering affordability, prudence, capital expenditure, debt levels and treasury management.
- 4.3.4 Capital Expenditure - This prudential indicator is a summary of the Council's capital expenditure plans.

Capital Expenditure £millions	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
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General Fund	12.3	42.7	10.9	16.6	14.0
HRA	19.1	32.5	22.9	20.4	21.3
Total	31.4	75.2	33.8	37.0	35.3

The table below shows how these plans are being financed by external sources such as grants and contributions, internal sources such as reserves and capital receipts and debt.

Capital Expenditure £millions	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Financed by:					
External sources	5.6	5.9	9.3	14.5	7.9
Capital resources	3.4	6.6	5.7	3.2	3.4
Revenue Resources	15.8	26.5	15.2	14.6	15.5
Debt	6.6	36.2	3.6	4.7	8.5
Total	31.4	75.2	33.8	37.0	35.3

4.3.5 The Council's Borrowing Need – Capital Financing Requirement

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources, and measures the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life.

£millions	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Capital Financing Requirement					
CFR – General Fund	23.8	59.6	59.8	58.0	60.2
CFR – HRA	126.4	124.6	126.3	129.1	131.7
Total CFR	150.2	184.2	186.1	187.1	191.9
Movement in CFR	4.3	34.0	1.9	1.0	4.8

Movement in CFR represented by					
Net financing need for the year (above)	6.6	36.2	4.9	4.7	8.5

Less MRP/VRP and other financing movements	-2.3	-2.2	-3.0	-3.7	-3.7
Movement in CFR	4.3	34.0	1.9	1.0	5.2

- 4.3.6 Affordability Ratio - Estimates of financing costs to net revenue stream shows the trend in the cost of capital based on the programme against the net revenue stream (i.e. council tax for the General Fund and rent income for the Housing Revenue Account). The estimates of financing costs include current commitments and the proposals in the budget report.

%	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
General Fund	3.75	4.66	10.05	11.70	11.10
HRA	17.89	17.34	16.35	15.24	14.20

The General Fund ratio increases from 2021/22 to 2023/24 due to increased financing costs associated with the capital programme. The HRA ratio decreases steadily over the forthcoming years due to an increased revenue stream.

- 4.3.7 External Debt - The Code specifies a number of prudential indicators in respect of external debt. These are described below:

Limits to Borrowing Activity

- ◆ Operational Boundary - this is an estimate of the probable external borrowing during the year, it is not a limit and actual borrowing can vary for short periods during the year.
- ◆ Authorised Limit - represents the limit beyond which borrowing is not permitted. It includes estimates for long and short-term borrowing. The limit must be set and can be revised by the Council.

£millions	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Operational Boundary (£m)	175.6	167.3	169.0	174.9
Authorised Limit (£m)	188.8	185.7	187.6	194.1

- 4.3.8 Borrowing Strategy - The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in the future. The Authority has previously raised the majority of its long-term borrowing from the PWLB. However, 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 instead.

4.4 Investment Strategy

- 4.4.1 In 2018 the Ministry for Housing, Communities and Local Government's Investment Guidance was revised, and introduced the requirement for Authorities to produce an Investment Strategy Report.
- 4.4.2 The report focuses on non-treasury investments and sets out how these contribute towards the Council's core objectives to deliver services to residents, and the procedures for risk assessing potential investments.
- 4.4.3 The Investment Strategy Report 2022/23 can be found at Appendix C.

4.5 Minimum Revenue Provision (MRP) Policy

- 4.5.1 The Local Authorities (Capital Finance & Accounting) (England) Amendment Regulations 2008 require local authorities to agree a policy on the calculation of the Minimum Revenue Provision (MRP) for each financial year. The MRP is the amount the authority has to provide for the repayment of debt. The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).
- 4.5.2 The Minimum Revenue Provision (MRP) Policy 2022/23 can be found at Appendix D.

5 Alternative options

- 5.1 The strategies within this report have been prepared in accordance with legislation and external treasury management advice. No alternative options are proposed.

6 Implications for consideration – Council Plan

- 6.1 These arrangements enable the priorities set out in the Council Plan to be achieved.

7 Implications for consideration – Financial and value for money

7.1 The report in its entirety deals with financial and value for money implications.

8 Implications for consideration – Legal

8.1 This report provides a framework for treasury management in accordance with legislation. There are no other legal implications.

9 Implications for consideration – Human resources

9.1 There are no human resource considerations arising from this report.

10 Implications for consideration – Risk management

10.1 There are a number of risks inherent within any treasury management strategy, and these are covered in detail within the individual strategies appended to this report. The most significant risks at the moment include:

- Reporting is not compliant with statutory guidelines.
- Investment and borrowing activity is outside the approved TM framework.
- Long term borrowing is taken at rates that are not advantageous.
- Investment of principal sums with insecure counterparties.
- Investment returns are volatile and may not meet budgeted amounts.
- Borrowing is not affordable.

11 Implications for consideration – community wellbeing

11.1 There are no community wellbeing implications arising from this report.

12 Implications for consideration – Economy and skills

12.1 There are no Economy and skills implications arising from this report.

13 Implications for consideration – Climate Change

13.1 There are no climate change implications arising from this report.

14 Implications for consideration – Equality and diversity

14.1 There are no and diversity impact implications arising from this report.

Decision information

Key decision number	
Wards affected	

Document information

Report author	Contact number/email
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Background documents These are unpublished works which have been relied on to a material extent when the report was prepared.	
<i>This must be made available to the public for up to 4 years.</i>	
Appendices to the report	
Appendix A	Treasury Management Strategy 2022/23
Appendix B	Capital Strategy 2022/23
Appendix C	Investment Strategy 2022/23
Appendix D	Minimum Revenue Provision (MRP) Policy 2022/23