

City Council - 7 March 2022

Report of the Portfolio Holder for Finance and Resources

Corporate Director:

Clive Heaphy, Interim Corporate Director of Finance and Resources

Report Author and Contact Details:

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Title: Treasury Management Strategy 2022/23 and Capital Strategy 2022/23

Does the report form part of the Budget or Policy Framework?

Yes No

Does this report contain any information that is exempt from publication?

No

Relevant Council Plan Key Outcome:

Clean and Connected Communities	<input checked="" type="checkbox"/>
Keeping Nottingham Working	<input checked="" type="checkbox"/>
Carbon Neutral by 2028	<input checked="" type="checkbox"/>
Safer Nottingham	<input checked="" type="checkbox"/>
Child-Friendly Nottingham	<input checked="" type="checkbox"/>
Healthy and Inclusive	<input checked="" type="checkbox"/>
Keeping Nottingham Moving	<input checked="" type="checkbox"/>
Improve the City Centre	<input checked="" type="checkbox"/>
Better Housing	<input checked="" type="checkbox"/>
Financial Stability	<input checked="" type="checkbox"/>
Serving People Well	<input checked="" type="checkbox"/>

1. Summary

1.1 This report seeks approval for a series of strategies relating to treasury management and capital investment in 2022/23. The strategies were considered as part of a number of reports on the 2022/23 budget process. They were submitted for endorsement to Executive Board on 22 February 2022.

1.2 The Treasury Management Strategy 2022/23 and Capital Strategy 2022/23 are attached as appendices 1 and 2 respectively. A document relating to the Capital Strategy that is exempt from publication can be viewed in the Executive Board papers. Full details of the strategies and other material referred to below are shown within those documents. The specific strategies included are:

- the overall Treasury Management Strategy for 2022/23 (Appendix 1);
- the Debt Repayment Strategy (Minimum Revenue Provision Statement) in 2022/23 (Appendix 1, section 5.2);
- the Treasury Management Investment Strategy for 2022/23 (Appendix 1, section 4)

- the Borrowing Strategy for 2022/23 (Appendix 1, section 3)
- the Treasury Management Policy Statement (Appendix 1, section 5.3)
- the Capital Strategy for 2022/23 (Appendix 2) including the Voluntary Debt Reduction Policy Statement and Debt Policy (Appendix B).

1.3 Approval is also required for the Prudential Indicators and limits from 2022/23 to 2024/25 (Appendix 1, section 5.1)

2. Recommendations

2.1 To approve the 2022/23 Treasury Management Strategy document, including the borrowing strategy, the debt repayment strategy (Minimum Revenue Provision Statement) and the investment strategy, as detailed in Appendix 1.

2.2 To approve the Prudential Indicators and limits from 2022/23 to 2024/25, as detailed in Appendix 1, section 5.1.

2.3 To adopt the current Treasury Management Policy Statement, as detailed in Appendix 1, section 5.3.

2.4 To approve the 2022/23 Capital Strategy document including the Voluntary Debt Reduction Policy Statement, as detailed in Appendix 2 and Appendix B of the Capital Strategy.

3. Reasons for recommendations

3.1 Approval of a Treasury Management Strategy is a legal requirement, to comply with:

- Financial Regulations and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management by submitting a policy and strategy statement for the ensuing financial year;
- guidance issued by the Secretary of State under section 15(1) (a) of the Local Government Act 2003 in approving, at Council, an Annual Investment Strategy before 1 April;
- guidance issued by the Secretary of State under section 21 (1A) of the Local Government Act 2003 which requires the preparation of an annual statement of the Council's policy on making a Minimum Revenue Provision (MRP) for the repayment of debt.

3.2 The Capital Strategy is a requirement to comply with:

- The Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the Code of Practice on Treasury Management;
- regulations requiring the Council to have regard to the Code are issued under section 1 of the Local Government Act 2003.
- guidance issued by the Secretary of State under section 15(1) (a) of the Local Government Act 2003 in approving, at Council, an Annual Investment Strategy before 1 April.

4. Other options considered in making recommendations

4.1 To do nothing: the approval of a Treasury Management Strategy and Capital Strategy is a requirement of the CIPFA code, so this option is rejected. The Department of

Levelling Up, Housing and Communities (DLUHC) formerly known as The Ministry of Housing, Communities and Local Government (MHCLG) Guidance and the CIPFA Code do not prescribe any particular strategies for local authorities to adopt. The Chief Financial Officer, having consulted the Portfolio Holder, believes that the proposed strategies represent an appropriate balance between risk management and cost effectiveness.

5. Consideration of Risk

- 5.1 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is maintained for the treasury function.
- 5.2 Risks inherent in the capital programme are mitigated through the strict implementation of the Capital Strategy, the Voluntary Debt Reduction Policy and the governance from the Capital Board. A key example of this is the capital principle that the Council will not commit to schemes until the resources such as capital receipt have been secured.

6. Background (including outcomes of consultation)

- 6.1 The Government commissioned a non-statutory review of the Council in November 2020 with the findings being published on the 17th December 2020. The published review highlighted the level of risk and planned further borrowing within the capital Programme, the high level of debt held by the council and the reduction in the balances of reserves held which further reduces budget flexibility.
- 6.2 Following the review the Council published the Nottingham City Council Recovery and Improvement Plan 2021 – 2024. This plan has now been refreshed, renamed as the Together for Nottingham plan, and was approved at a meeting of Full Council on the 10 January 2022. As part of this plan the Capital Strategy and this Treasury Management Strategy continue with the aim to support the Council returning to financial and operational stability.
- 6.3 The borrowing and debt management strategies intend to provide a sound framework for managing debt, to reduce the Council's future overall borrowing requirement (known as the Capital Financing Requirement (CFR)) and to reduce the level of debt held by the Council. The CFR is forecast to reduce by around £248m in the period 2022/23 to 2026/27 as covered by these strategies. This represents an improved position against the original forecast in debt reduction policy reported 12 months ago.
- 6.4 Treasury management is a term used to describe the management of an organisation's borrowing, investments and other financial instruments, their associated risks and the pursuit of optimum performance or return consistent with those risks.
- 6.5 The Treasury Management Strategy (TMS) as set out in **Appendix 1** sets the strategic context, within the Council's planning cycle, for how treasury management activity will take place. The various aspects of the strategy require approval by Full Council these include the Treasury Management and Treasury Investment strategies for 2022/23, the Debt Repayment Strategy, the Borrowing Strategy, the Prudential Indicators and the associated treasury policies.

- 6.6 The Investment Strategy for 2022/23 includes some changes to counterparty and investment limits as detailed in section 4.1 of Appendix 1.
- 6.7 The Capital Strategy as set out in **Appendix 2** provides the Council with a framework in which capital investment and financing decisions can be aligned with the Council's corporate priorities over the medium term and includes the Voluntary Debt Reduction Policy Statement. This strategy requires approval by Full Council.
- 6.8 The Together for Nottingham plan acknowledges that a well-managed capital programme is a critical contributor to the overall financial recovery of the City Council and recommends a review of the capital programme which will look to stabilise the current programme and put it on a sustainable footing for the longer term. Development of an effective Capital Strategy and a strengthened governance and control framework supports the Council in achieving this. Implementation of the Plan is a key priority of the Council and the Capital Strategy forms a key component part.

Key continuing activities include: -

- A full review of the capital programme to remove de-prioritised schemes and add in future liabilities (for example around EnviroEnergy and the former Broadmarsh Shopping Centre).
 - Compliance with the Council's Debt Reduction Policy to reduce Council debt to a sustainable level.
 - A maturing of the capital prioritisation process and the separation of spending and funding decisions.
 - Providing a strengthened Governance and Control Framework and ensuring that this is put into practice across the Council.
- 6.9 The treasury management and capital functions are governed by provisions set out under Part 1 of the Local Government Act 2003, whereby the Council must have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice. The Council formally adopts the requirements of these codes (as updated in 2017) as part of its Treasury Management Policy Statement and its Capital Strategy. The update to the codes released in December 2021 will be formally adopted before the commencement of financial year 2023/24 as required by the guidance.
- 6.10 The Treasury Management Strategy and the Capital Strategy were considered by Audit Committee on 25 February 2022, as part of the scrutiny process required by the CIPFA Code of Practice.

7. Finance colleague comments (including implications and value for money)

- 7.1 Net treasury management expenditure comprises interest charges, interest receipts and a revenue provision for debt repayment. A proportion of the Council's debt relates to capital expenditure on council housing and from 1 April 2012 separate arrangements have been established for the Housing Revenue Account (HRA). The remaining costs are included within the treasury management section of the General Fund budget, although there remain a number of recharges between the General Fund and the HRA.
- 7.2 The Treasury Management forecast outturn for 2021/22 is reflected within the Corporate Budget report on this agenda. The budget for 2022/23 is based on the financial implications of the various proposed strategies, as detailed in Appendix 1. The budget estimate of £53.953m is included within the 2022/23 budget and Medium Term Financial Outlook (MTFO).

- 7.3 The financial implications of the two strategies are intrinsically linked, as the Capital Strategy defines the capital expenditure plans of the Council including the element that is to be financed by borrowing. The Treasury Management Strategy defines how the associated cash flows from this borrowing requirement are to be managed.

Comments provided by Sue Risdall, Team Leader – Technical Accounting 31 January 2022

8. **Legal colleague comments**

- 8.1 This report seeks authority to approve the Treasury Management Strategy Statement 2022/23 and the Capital Strategy for 2022/23 for approval by Full Council.
- 8.2 The City Council has power to invest in accordance with section 12 of the Local Government Act 2003 ('the Act').
- 8.3 Section 12 provides a power for Local Authorities to invest for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. "Investment" also covers loans made by a local authority to one of its wholly-owned companies or associates, to a joint venture or to a third party.
- 8.4 In accordance with section 15 of the Act, Local Authorities are required to "have regard" to "such guidance as the Secretary of State may issue". Statutory guidance on local authority investments has been issued by the Secretary of State in accordance with this provision.
- 8.5 That guidance sets out key principles to be followed by Local Authorities. One such key principle is transparency and which requires the publication of the Local Authority's Investment Strategy. The Investment Strategy is required to be approved by Full Council hence the requirement for this report. In addition Local authorities are required to have regard to the current editions of the CIPFA codes by regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146] as amended.

Advice provided by Dionne Screamon, Senior Solicitor, Contracts and Commercial 23 February 2022.

9. **Other relevant comments**

- 9.1 None

10. **Crime and Disorder Implications (If Applicable)**

- 10.1 Not applicable

11. **Social value considerations (If Applicable)**

- 11.1 Not applicable

12. **Regard to the NHS Constitution (If Applicable)**

- 12.1 Not applicable

13. **Equality Impact Assessment (EIA)**

13.1 Has the equality impact of the proposals in this report been assessed?

No



An EIA is not required as the report does not contain proposals for new or changing policies, services, or functions.

14. **Data Protection Impact Assessment (DPIA)**

14.1 Has the data protection impact of the proposals in this report been assessed?

No



A DPIA is not required because the strategies within this decision do not themselves require a Data Protection Impact Assessment. Capital projects within the Capital Programme will be individually assessed as appropriate.

15. **Carbon Impact Assessment (CIA)**

15.1 Has the carbon impact of the proposals in this report been assessed?

No



A CIA is not required because the Capital Plan includes the Council's target of being Carbon Neutral by 2028, however when individual projects are developed and approved these project will be subject to CIAs.

16. **List of background papers relied upon in writing this report (not including published documents or confidential or exempt information)**

16.1 None.

17. **Published documents referred to in this report**

10.1 Executive Board Report dated 22 February 2022 – Treasury Management Strategy 2022/23 and Capital Strategy 2022/23

10.2 Money Market and PWLB loan rates

10.3 Treasury Management in the Public Services Code of Practice 2017–CIPFA

10.4 Prudential Code 2017-CIPFA

10.5 Treasury Management in the Public Services Guidance Notes 2018 - CIPFA

10.6 Statutory guidance on local government investments 3rd Edition 2018

10.7 Statutory guidance on Minimum Revenue Provision (MRP) 2018

10.8 Treasury Green Book

10.9 Corporate Asset Management Plan

10.10 The Strategic Council Plan 2021-2023

10.11 The Together for Nottingham plan

10.12 Non-Statutory Review of Nottingham City Council, led by Max Caller CBE, on behalf of MHCLG/DLUHC

Councillor Sam Webster
Portfolio Holder for Finance and Resources