



**Cumberland
Council**

Report to Council

Meeting Date 6 March 2024

Key Decision No

Public/Private Public

Portfolio Cllr Barbara Cannon, Executive Member - Financial Planning & Assets

Directorate Resources

Lead Officer Catherine Bell, Chief Finance Officer (s151 Officer)

Title Treasury Management Strategy Statement, Annual Investment Strategy & Minimum Revenue Provision Policy Statement 2024-25

Summary:

This report, prepared in accordance with the statutory framework and codes of practice issued by CIPFA in relation to treasury management and capital finance, presents for approval by the Full Council, the Authority's proposed:

- Treasury Management Strategy Statement and Investment Strategy for 2024-25
- Minimum Revenue Provision Policy Statement for 2024-25
- Prudential and treasury indicators for 2024-25 to 2026-27.

Recommendations:

It is recommended that Members approve:

- a) the proposed Treasury Management Strategy Statement & Investment Strategy for 2024-25 (included in sections 2 and 3 of Appendix 1)
- b) the MRP Policy Statement for 2024-25 set out in section 4 (of Appendix 1)
- c) the prudential and treasury indicators for 2024-25, 2025-26 and 2026-27, including the Authority's Authorised Borrowing Limit, set out in Section 5 (of Appendix 1).
- d) the revised prudential and treasury indicators for 2023-24 (set out in Section 5 of Appendix 1) which have been updated to reflect the changes made to the 2023-24 capital budget as part of the 2024-25 capital budget proposals.

Tracking

Audit Committee:	22 February 2024
Scrutiny:	N/A
Council:	6 March 2024

Reason for Recommendations:

Provisions contained in the Local Government Act 2003, statutory guidance issued by the Department for Levelling Up, Housing and Communities (DLUHC) and codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) require the Authority to prepare and approve, before the start of each financial year:

- a Treasury Management Strategy Statement (TMSS) and Investment Strategy setting out its proposed treasury management activities for the year and policies for the prudent management of its investments
- a statement of its policy on making Minimum Revenue Provision (MRP) indicating how it is proposed to discharge the duty to make prudent MRP in the forthcoming financial year
- a set of prescribed prudential and treasury indicators for the forthcoming and following years - including the Authority's Authorised Borrowing Limit - demonstrating that its capital expenditure plans are affordable and that external borrowing is within prudent and sustainable levels.

1. Background and Introduction

1.1 Provisions contained in the Local Government Act 2003, statutory guidance and regulations issued by the Department for Levelling Up, Housing and Communities (DLUHC) and codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), require the Authority to prepare and approve, before the start of each financial year:

- a Treasury Management Strategy Statement (TMSS) and Investment Strategy setting out its proposed treasury management activities for the year and policies for the prudent management of investments held for treasury management purposes
- a statement of its policy on making Minimum Revenue Provision (MRP) indicating how it is proposed to discharge the duty to make prudent MRP in the forthcoming financial year
- a set of prescribed prudential and treasury indicators for the forthcoming and following years - including the Authority's Authorised Borrowing Limit - demonstrating that its capital expenditure plans are affordable and that external borrowing is within prudent and sustainable levels.

1.2 This report, prepared in accordance with the statutory framework and codes of practice issued by CIPFA in relation to treasury management and capital finance, presents for approval by the Full Council, the Authority's proposed:

- Treasury Management Strategy Statement and Investment Strategy for 2024-25
- Minimum Revenue Provision Policy Statement for 2024-25
- Prudential and treasury indicators for 2024-25 to 2026-27
- revised indicators for 2023-24 which have been updated to reflect the changes made to the 2023-24 capital budget as part of the 2024-25 capital budget proposals.

1.3 The Authority's proposed Treasury Management Strategy Statement, Investment Strategy and Minimum Revenue Provision (MRP) policy for 2024-25 are set out in Appendix 1 to this report.

- 1.4 The statutory framework for treasury management and capital finance within local authorities is laid out in a series of legislations, statutory guidance and codes of practice, the key elements of which are:
- The CIPFA Prudential Code for Capital Finance in Local Authorities ('the Prudential Code') and
 - The Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes ('the Treasury Management Code') issued by CIPFA
 - statutory guidance issued by the Ministry of Housing, Communities and Local Government (now the Department for Levelling Up, Housing and Communities) on:
 - Local Government Investments, and
 - the Minimum Revenue Provision.
- 1.5 For public sector organisations, the Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:
- “the management of the organisation’s borrowing, investments and cash flows, including its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.*
- 1.6 Consistent with the definition of treasury management set out in paragraph 1.5 above, the treasury management and investment strategies contained the Authority’s Treasury Management Strategy Statement and Investment Strategy are focused on borrowing and investments in financial instruments held for treasury management purposes (i.e. investments that arise from the Authority’s cash flows or treasury risk management activity and which ultimately represent balances that need to be invested until the cash is required for use in the course of business).
- 1.7 Investments in financial and non-financial assets (for example investment property, loans supporting service outcomes and investments in subsidiaries and joint ventures) made for commercial or service purposes, rather than for treasury management purposes, are dealt with in the Authority’s Capital Strategy.
- 1.8 To enable the Audit Committee to fulfil its responsibilities for ensuring effective scrutiny of the treasury management strategy and policies, the Authority’s Constitution and Treasury Management Practices (TMPs) require treasury management reports, including the report covering those matters listed in paragraph 1.2 above, to be submitted to the Audit Committee prior to their consideration by Full Council.

1.9 The following sections provide an overview and summary of the contents of the proposed TMSS, Investment Strategy and MRP policy statement included in Appendix 1 to this report.

2. Treasury Management Strategy Statement

2.1 The Treasury Management Strategy Statement (TMSS) sets out the Authority's proposed treasury management activities for the year based on budget proposals, interest rate forecasts and economic outlook.

2.2 The issues covered in the Treasury Management Strategy Statement include:

- the current treasury position
- treasury indicators, required by CIPFA's Prudential and Treasury Management Codes, designed to limit the Authority's treasury risk exposures
- economic background and prospects for interest rates
- borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- policy on the use of derivatives
- the process adopted for reviewing and addressing the training needs of officers and members in relation to treasury management
- use of treasury management consultants including services provided and procedures employed for monitoring the quality of those services.

2.3 The Authority's Treasury Management Policy Statement set out in Appendix 2 highlights the successful identification, monitoring and control of risk as being the prime criteria by which the effectiveness of its treasury management activities will be measured. Risk management is therefore central to the Authority's adopted treasury management and investment strategies. The Authority's treasury activities expose it to a number of financial and operational risks including credit and counterparty risk, liquidity risk, and interest rate risk. The TMSS explains the principal means through which these risks will be managed.

3. Investment Strategy

- 3.1 The Annual Investment Strategy for 2024-25, is set out in section 3 of Appendix 1. It outlines the Authority's policies for the prudent financial management of its treasury management investments and for giving priority first to the security of those investments (i.e. to protect the capital sum invested from loss) and secondly, to their liquidity (i.e. ensuring funds invested can be accessed to meet expenditure when needed).
- 3.2 The contents of the Authority's Investment Strategy follow the recommendations set out in the DLUHC (formerly MHCLG) Guidance on Local Government Investments (third edition) issued in February 2018 and the reporting principles set out in CIPFA's Treasury Management Code. It sets out:
- procedures for determining the counterparties with whom investments may be placed, including the Authority's approach on the use of credit ratings and other sources of information to assess credit and counterparty risk
 - the types of investment instruments that may be used
 - limits on the amount that may be invested with any single institution or group of institutions
 - limits on the maximum period for which funds may be prudently committed
 - reporting arrangements.

Changes to the Strategy for 2024-25

- 3.3 For 2024-25, the following minor changes have been made to the Authority's investment Strategy:
- (i). including alongside application of adding the creditworthiness service provided by the Authority's treasury advisors, the requirement for all approved investment counterparties to hold a minimum rating across all three main credit rating agencies of A- (or equivalent) - long-term, and A-1 (or equivalent) - short-term
 - (ii). placing an upper maturity period of 365 days on all (new) investments placed.

4. Minimum revenue provision (MRP) policy statement 2024-25

4.1 The Minimum Revenue Provision (MRP) is an annual amount required to be set aside from the General Fund to meet the capital cost of expenditure funded by borrowing or through credit arrangements such as on balance sheet PFI and leasing arrangements. The Authority's proposed MRP policy, setting out how it will discharge the duty under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended) to make prudent MRP in the financial year, is set out in section 4 of Appendix 1. It includes:

- a description of what MRP is intended to achieve
- commentary on the Authority's underlying duty to make prudent provision and ensure that debt is repaid over a period commensurate with that over which the capital expenditure provides benefits, or - for historic borrowing originally supported by central government funding rolled into Revenue Support Grant - over the period implicit in the determination of that original grant funding
- consideration of the 'options' for calculating MRP outlined in the statutory guidance on MRP and the restrictions on their use
- the policy proposed for the forthcoming year.

4.2 Having regard to the statutory guidance on MRP issued by DLUHC (formerly MHCLG) and the 'options' for calculating MRP set out in that guidance, no changes to the existing method of calculating MRP are proposed. In 2024-25 the Authority will therefore continue to calculate MRP

- for all capital expenditure funded from borrowing incurred by sovereign councils prior to local government reorganisation on 1 April 2023, using the MRP policies applied by the Sovereign Councils prior to reorganisation
- for all (unsupported) capital expenditure funded from borrowing expenditure incurred on or after 1 April 2023, by applying Option 3 - Asset life method - using either the equal instalments or annuity method.

4.3 The Authority's approach to calculating MRP in 2024-25 is summarised in table 1 below.

Table 1: Methodology for charging MRP in 2024-25

Unfinanced capital expenditure incurred by:	Method of calculation	
	Supported capital expenditure incurred before 1 April 2008	Supported & unsupported capital expenditure incurred after 1 April 2008,
Allerdale Borough Council	Option 2 - CFR method - 4% of Capital Financing Requirement at the end of the preceding financial year	Option 3 - Asset Life Method, using either the equal instalments or annuity method
Carlisle City Council	N/A [CFR attributable to pre 2008 expenditure calculated as £nil/£negative]	3% of opening CFR net of Adjustment A (calculated in accordance with the formula set out in the Statutory Guidance). For 2024-25 the calculated MRP also includes a reduction of £241k in respect of a prior year overpayment of MRP following a change in MRP policy in 2017-18.
Copeland Borough Council	Option 2 - CFR method - 4% of Capital Financing Requirement at the end of the preceding financial year.	Option 3 - Asset Life Method, using either the equal instalments or annuity method
Cumbria County Council	2% straight line basis, net of Adjustment A. 2% calculated on CFR at 31.3.16 (net of Adjustment A) plus 2% of the reduction in MRP taken between 2017-18 to 2020-21 following change in MRP policy in 2016-17.	Option 3 - Asset Life Method, using either the equal instalments or annuity method
Cumberland Council	N/A	Option 3 - Asset Life Method, using either the equal instalments or annuity method

- 4.4 For credit arrangements, such as on balance sheet PFI and leasing arrangements, MRP will be calculated in line with statutory guidance by charging as MRP an amount equal to the element of the rent/charge that goes to write down the balance sheet liability.
- 4.5 A full review of the current MRP policy will be undertaken during 2024-25 following the publication of the Sovereign Councils' (audited) financial statements for the year ending 31 March 2023 and the completion of all outstanding balance sheet disaggregation work associated with local government reorganisation. The aim of this review will be to replace the existing hybrid policy with a single harmonised policy consistent with the requirements of the Statutory Guidance Authority. Details of proposed changes to the Authority's MRP policy, following conclusion of this review, will be presented to the Audit Committee and Full Council for approval prior to implementation.

- 4.6 The review of the Authority's MRP policy will also take into consideration the outcome of the consultation on changes to statutory guidance and regulations in relation to the Minimum Revenue Provision launched by DLUHC in December 2023. Feedback from this consultation is expected in March 2024.

5. Prudential & Treasury Indicators

- 5.1 The Prudential Code for Capital Finance in Local Authorities requires local authorities to self-regulate the affordability, prudence and sustainability of their capital expenditure and borrowing plans, by setting estimates and limits and by publishing actuals for a range of prudential indicators. It also requires them to ensure their treasury management practices are in accordance with good practice and demonstrate a full understanding of the risks involved and how these risks will be managed to levels that are acceptable to the organisation.
- 5.2 The prudential and treasury indicators for the forthcoming and following years must be set before the beginning of the forthcoming year. They may be revised at any time, following due process, and must be reviewed, and revised if appropriate, for the current year when the prudential indicators are set for the following year.
- 5.3 The Authority's prudential and treasury indicators for 2024-25 and following years along with revised indicators for 2023-24, are set out in section 5 of Appendix 1. They include:
- indicators required by the Prudential Code, covering affordability, prudence, capital expenditure, external debt and treasury management. These include the statutory limit on borrowing determined under section 3 of the Local Government Act 2003 (the Authorised Limit for External Debt)
 - indicators required by the sector guidance accompanying the Treasury Management Code to ensure the Authority operates its treasury activities within defined limits.

6. Alternative options considered

- 6.1 Not applicable to this decision/report.

7. Conclusion and reasons for recommendations

7.1 It is recommended that Members approve:

- a) the proposed Treasury Management Strategy Statement & Investment Strategy for 2024-25 (included in sections 2 and 3 of Appendix 1)
- b) the MRP Policy Statement for 2024-25 set out in section 4 (of Appendix 1)
- c) the prudential and treasury indicators for 2024-25, 2025-26 and 2026-27, including the Authority's Authorised Borrowing Limit, set out in Section 5 (of Appendix 1).
- d) the revised prudential and treasury indicators for 2023-24 (set out in Section 5 of Appendix 1) which have been updated to reflect the changes made to the 2023-24 capital budget as part of the 2024-25 capital budget proposals.

8. Implications

Contribution to the Cumberland Plan Priorities - Effective treasury management and compliance with the Prudential Code will provide support towards the achievement of the Council's business and service objectives.

Relevant Risks - The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Risk implications associated with the Authority's treasury activity is considered in Appendix 1 to this report.

Consultation / Engagement - Not applicable to this decision/report.

Legal and governance implications - Provisions contained in the Local Government Act 2003, statutory guidance issued by the Department for Levelling Up, Housing and Communities and codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) require the Authority to prepare and approve, before the start of each financial year:

- a Treasury Management Strategy Statement (TMSS) and Investment Strategy setting out its proposed treasury management activities for the year and policies for the prudent management of its investments
- a statement of its policy on making Minimum Revenue Provision (MRP) indicating how it is proposed to discharge the duty to make prudent MRP in the forthcoming financial year
- a set of prescribed prudential and treasury indicators for the forthcoming and following years - including the Authority's statutory limit on borrowing determined under section 3 of the Local Government Act 2003 (the Authorised Limit for External Debt) -

demonstrating that its capital expenditure plans are affordable and that external borrowing is within prudent and sustainable levels.

Finance – The Prudential and Treasury management indicators set out in Appendix 1 form a key element in demonstrating the affordability, prudence and sustainability of the Authority’s capital expenditure and borrowing plans.

Impact Assessments - Not applicable to this decision/report.

9. Contact details:

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10. Appendices attached to this report:

Appendix	Title of Appendix
1	Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Policy Statement - 2024-25
2	Treasury Management Policy Statement

11. Background papers - None