Non-Executive Report of the: **Audit Committee 22nd January 2024** **and** **Council 28th February 2024**	TOWER HAMLETS
Report of: Julie Lorraine, Corporate Director Resources	**Classification:** Unrestricted
Treasury Management Strategy Statement, Investment Strategy Report and Capital Strategy Report for 2024-25 to 2026-27	

Originating Officer(s)	Abdulrazak Kassim, Director of Finance, Procurement and Audit John Harrison, Interim Director of Finance, Procurement and Audit Paul Audu, Interim Head of Pensions & Treasury
Wards affected	All wards

EXECUTIVE SUMMARY

1) This Report has been updated from the version reviewed by the Audit Committee at their meeting of 21 January 2024. The amendments reflect the final proposed capital programme, capital receipt forecasts and reserve movements which were approved by Cabinet on 31 January 2024. Whilst the indicators and tables have been updated to reflect the latest forecasts, there are no changes to the Borrowing, Investment or Capital strategies considered and recommended by the Audit Committee.

2) This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DLUHC Guidance on Treasury Management.

3) The Council is required by legislation and guidance to produce three strategy statements in relation to its treasury management arrangements. The three statements are:

   a) Treasury Management Strategy Statement which sets out the Council's strategy for the management of the Council's treasury investments and debt portfolio, including potential new borrowing, for the financial year and establishes the parameters (prudential and treasury indicators) within which officers under delegated authority may undertake such activities.

   b) Investment Strategy which sets out the Council's service and commercial investments, its policies for managing existing investments and the governance/decision-making arrangements for new investments.

   c) Capital Strategy Report which sets out an overview of how the Council's capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. The Capital Strategy Report incorporates the Minimum Revenue Provision (MRP) Policy Statement.

4) This report also covers the requirements of the 2021 Prudential Code and Treasury Management in the Public Services: Code of Practice 2021 Edition (the CIPFA TM Code) and Department for Levelling Up Housing & Communities (DLUHC) issued revised Guidance on Local Authority Investments.

5) Clear delegated responsibility for overseeing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions is required. For this Council, the delegated body is the Audit Committee. Officers will report details of the Council's treasury management activity to the Audit Committee through presentation of a mid-year and outturn report.

6) The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be arranged as required for members of the Audit Committee charged with reviewing and monitoring the Council's treasury management policies. The training of treasury management officers is also periodically reviewed and enhanced as appropriate.

Recommendations:

It is recommended to Audit Committee to recommend to Council to:

1) Approve and adopt the following policy and strategies:

   1.1) The Treasury Management Strategy Statement (TMSS) contained in Appendix A;

   1.2) The recommended investment counterparties and limits in Appendix A paragraph 5.7;

   1.3) The Investment Strategy Report contained in Appendix B;

   1.4) The Capital Strategy, which includes the Minimum Revenue Provision (MRP) Policy Statement, contained in Appendix C;

   1.5) The Prudential and Treasury Management indicators contained in Appendix D; and

   1.6) The Treasury Management Policy Statement as set out in Appendix E.

1 REASONS FOR THE DECISIONS

1.1 The Council has adopted the relevant CIPFA Treasury Management and Prudential Codes and has regard to the DLUHC Investment Guidance (which came into force on 1st April 2018), as required to comply with the Local Government Act 2003. The guidance prescribes the production of three strategy documents, to be approved by the Council before the start of the financial year to which they relate.

1.2 The Prudential Code for Capital Finance in Local Authorities (2021) produced by CIPFA guides the Council in the production of a framework designed to ensure that the Council's capital expenditure and financing plans are prudent, sustainable and affordable.

1.3 The Treasury Management in the Public Services: Code of Practice (2021) produced by CIPFA guides the Council in setting a risk management framework for the management of its surplus cash and new and existing borrowing.

1.4 The DLUHC Investment Guidance guides the Council in setting a decision-making, governance and risk management policy for its service and commercial investments.

1.5 The three strategy documents that the Council should produce are:

- Treasury Management Strategy, including prudential indicators
- Investment Strategy
- Capital Strategy

2 ALTERNATIVE OPTIONS

1.2 The Council is bound by legislation to have regard to the CIPFA Codes and DLUHC Investment Guidance. If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that the Council's capital investment plans are affordable, sustainable and prudent, and its treasury management activity is managed within an adequate risk control framework.

3 DETAILS OF THE REPORT

Background to Treasury Management

3.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low-risk appetite, with adequate liquidity primarily, before considering investment return. A portion of the investment balance is invested on a long-term basis to preserve purchasing power and generate higher returns to support the revenue budget.

3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses.

3.3 CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, 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."

3.4 The Treasury Management Strategy Statement report forms part of an annual cycle of Committee and Council reports. The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

I. **A treasury management strategy statement** (Appendix A)

II. **A mid-year treasury management report** – This will update members on year-to-date performance against the prudential and treasury indicators, amending indicators as necessary, and whether any policies require revision.

III. **A treasury outturn report** – This provides details of annual actual performance against the prudential and treasury indicators.

3.5 The Council uses Arlingclose Limited as its external treasury management advisor. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and officers will ensure that undue reliance is not placed upon the external service providers.

3.6 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

<u>The 2023-24 Strategy and Current Investment Position and Performance</u>

3.7 The Strategy for 2023-24 was approved by Full Council on 1 March 2023 and the Audit Committee received a Treasury Management mid-year review on 22 January 2024 which stated that:

a) The investment income budget for 2023-24 was £2m.

b) From a benchmarking exercise, a total return of 5.14% was achieved for the reporting period, which was 0.8% above the average 4.34% for similar Local Authorities return and 1.48% higher than the average return of 3.66% for all Local Authorities in the exercise; and

c) The Prudential Indicators and Treasury Management indicators have been fully complied with.

Treasury Management Strategy

3.8 The Treasury Management Strategy Statement contained in Appendix A sets out the Council's proposed borrowing strategy, in the context of the UK's economic outlook, credit outlook and interest rate forecast as well as the local context of the requirement to borrow. Given the significant cuts to public expenditure, in particular local government funding, the Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

3.9 The Authority had previously raised the majority of its long-term borrowing from the Public Works Loans Board (PWLB) but will consider long-term loans from other sources including banks, pension funds and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Authority intends to avoid this activity to retain its access to PWLB loans.

3.10 Alternatively, the Authority may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

3.11 All long-term borrowing decisions will be reported to the appropriate decision-making body at the next available opportunity. Please note that the borrowing of monies purely to lend on and make a return is unlawful and the Council will not engage in such activity.

3.12 Where spend is financed through the creation of debt, the Council is required to pay off an element of the accumulated capital spend each year. The payment is made through a revenue charge (the minimum revenue provision - MRP) made against the Council's expenditure, although it is also allowed to undertake additional voluntary payments where affordable (voluntary revenue provision (VRP). The MRP policy is set out in the Capital Strategy contained in Appendix C.

3.13 There is no requirement to make an MRP for Housing Revenue Account (HRA) debt. To maximise resources available for investment in the existing stock and the new build programme, there will be no budgeted VRP to repay HRA debt. In order to assess borrowing affordability and constraints in the HRA, the Council will ensure that the interest cover ratio does not exceed 1.15. This change has been discussed with the Council's technical advisor and is in line with the policies of other London Boroughs.

3.14 Although reducing, the Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Both the CIPFA Code and the CLG Guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3.15 The investment strategy has been developed using the principle that the Council will also achieve optimum return on its investments commensurate with proper levels of security and liquidity. The majority of the Authority's surplus cash remains invested in short-term unsecured bank deposits, money market funds and local authority deposits.

3.16 The proposed structure for selecting counterparties is set out in the TMSS. This methodology has been proposed by Arlingclose Limited and, after review, is being proposed to the Council for adoption. The Council has not listed all the counterparties that meet these criteria as these counterparties will naturally change over time. The Council, in conjunction with its treasury management advisor, Arlingclose, will use Fitch, Moodys and Standard and Poor's ratings to derive its credit criteria. The Council's treasury advisor alerts officers to changes in ratings of all agencies.

3.17 The Corporate Director of Resources has delegated responsibility to add or withdraw institutions from the counterparty list when circumstances change, either as advised by Arlingclose Limited (the Council's advisor) or from another reliable market source.

Investment Strategy Report 2024-25

3.18 The Investment Strategy Report is contained in Appendix B. This strategy meets the requirement of the Guidance issued by Government in January 2018 and sets out the Council's Strategy in relation to supporting local public services by lending to or buying shares in other organisations and earning investment income other than investment returns on cash balance (commercial investments).

Capital Strategy Report for 2024-25

3.19 The Capital Strategy gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written in an accessible style to enhance members' understanding of these sometimes-technical areas.

3.20 Decisions made this year on capital and treasury management will have financial consequences for the Authority for many years into the future. They are, therefore, subject to both a national regulatory framework and to a local policy framework, summarised in this report.

3.21 The Capital Strategy Report is contained in Appendix C. The report sets out how the Capital Financing Requirement (CFR) for both the General Fund (GF) and the Housing Revenue Account (HRA) will change through to 2026-27, along with the Authorised Limit and the Operational Limit for borrowing and Prudential Indicators (PIs). Any shortfall of resources results in a borrowing need.

Other Treasury Management Issues

3.22 To meet statutory requirements, clear delegated responsibility for overseeing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions rests with the Audit Committee. Officers will report details of the Council's treasury management activity to the Audit Committee through presentation of a mid-year and outturn report. The responsibilities and delegated decision-making path are set out in Appendices F and G.

3.23 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny, for whom training will be arranged as required. The training needs of treasury management officers are periodically reviewed and form part of the annual learning and development plan for individual officers.

4 EQUALITIES IMPLICATIONS

4.1 The Equality Act 2010 requires the Council in the exercise of its functions to have due regard to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not.

4.2 Capital investment will contribute to achievement of the corporate objectives, including all those relating to equalities. Establishing the statutory policy statements required facilitates the capital investments and ensures that it is prudent.

5 OTHER STATUTORY IMPLICATIONS

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),

- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

a. **Best Value Implications:** The Treasury Management Strategy, Investment Strategy, Capital Strategy and the arrangements put in place to monitor them should ensure that the Council optimises the use of its monetary resources within the constraints placed on the Council by statute, appropriate management of risk and operational requirements. Assessment of value for money is achieved through monitoring against benchmarks and operating within budget.

b. **Risk Management:** There is inevitably a degree of risk inherent in all treasury activity. The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk. Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the Council. The Council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place, the Council has obtained independent advice from Arlingclose who specialise in Local Authority treasury issues.

6 COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 This report contains the three strategy statements in relation to the Council's treasury management arrangements. As this report is financial in nature the comments of the Chief Finance Officer have been incorporated throughout this report.

7 COMMENTS OF LEGAL SERVICES

7.1 The Local Government Act 2003 ('the 2003 Act') provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

7.2 The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the 2003 Act. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

7.3 It is a key principle of the Treasury Management Code that an authority should put in place "comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities". Treasury management activities cover the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the Council to adopt the strategies and policies proposed in the report.

7.4 The report proposes that the treasury management strategy will incorporate treasury and prudential indicators. The 2003 Regulations also requires the Council to have regard to the CIPFA publication "Prudential Code for Capital Finance in Local Authorities" ("the Prudential Code") when carrying out its duty under the Act to determine an affordable borrowing limit. The Prudential Code specifies a minimum level of prudential indicators required to ensure affordability, sustainability and prudence. The report properly brings forward these matters for determination by the Council. If after having regard to the Prudential Code the Council wished not to follow it, there would need to be some good reason for such a deviation.

7.5 The Local Government Act 2000 and regulations made under the Act provide that adoption of a plan or strategy for control of a local authority's borrowing, investments or capital expenditure, or for determining the authority's minimum revenue provision, is a matter that should not be the sole responsibility of the authority's executive and, accordingly, it is appropriate for the Cabinet to agree these matters and for them to then be considered by Council.

7.6 The report sets out the recommendations of the Corporate Director of Resources in relation to the Council's Minimum Revenue Provision, Treasury Management Strategy and its Annual Investment Strategy. The Corporate Director Resources has responsibility for overseeing the proper administration of the Council's financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.

7.7 When considering its approach to the treasury management matters set out in the report, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector equality duty).

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

Appendix A - Treasury Management Strategy Statement

Appendix B - Investment Strategy Report

Appendix C - Capital Strategy Report

Appendix D - Prudential and Treasury Indicators

Appendix E - Treasury Management Policy Statement

Appendix F - Treasury Management Scheme of Delegation

Appendix G - Treasury Management Reporting Arrangement

Appendix H - Glossary

Background Documents – Local Authorities (Executive Arrangements)(Access to Information) (England) Regulations 2012

- None

Officer contact details for documents:
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