Committee:	Date:
Financial Investment Board Bridge House Estates Board	9 February 2022 16 February 2022
Subject: Treasury Management Strategy Statement and Annual Investment Strategy 2022/23	**Public**
Report of: The Chamberlain	**For Decision**
Report author: James Graham – Chamberlain's Department	

Summary

The attached document sets out the Corporation's Treasury Management Strategy Statement and Annual Investment Strategy (TMSS) for 2022/23. The Treasury Management Strategy and Annual Investment Statement for 2022/23 has been updated taking account of the latest information concerning the organisation's capital plans and external factors, such as the prospects for interest rates.

The document includes various Treasury and Prudential Indicators required to be set for the City Fund to ensure that the Corporation's capital investment plans are affordable, prudent and sustainable and to help the organisation identify and control the risks around its treasury management activity.

As has historically been the case, this report covers the treasury management activity carried out across the organisation, including in respect of City's Cash and Bridge House Estates. As City's Cash borrowing is not covered by the regulatory framework established for local authorities, the City has adopted its own formal policy in 2018/19 via the City's Cash Borrowing Policy Statement which is included in the TMSS at Appendix 8.

The main proposals within the document are incorporated within the separate report entitled "City Fund 2022/23 Budget" being considered by the Finance Committee on 15 February 2022 and by the Court of Common Council on 10 March 2022.

Responsibility for approving the Corporation's borrowing plans remains with the Court of Common Council, not the Financial Investment Board.

The Bridge House Estates Board is responsible for approving the TMSS on behalf of the Bridge House Estates. The Charity does not currently have borrowing powers and thus the most relevant section for the BHE Board is section 5, the Annual Investment Strategy, which sets out how surplus cash balances will be managed in the forthcoming year (it does not apply to the Charity's longer term investments which are subject to the BHE Investment Strategy Statement). By adopting in the Corporation's treasury management policies, the BHE Board can ensure that treasury risks associated with the Charity's surplus cash balances are managed efficiently and effectively.

The key areas to highlight are:

<u>Changes to the Treasury Management and Prudential Codes</u>

CIPFA published revised versions of the Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities on 20th December 2021.

The revised Codes make several changes, including an explicit ban on borrowing to invest primarily for financial return, as well as other revisions to key definitions and reporting requirements.

Given the timing of the revised Codes' publication, CIPFA has stated that formal adoption is not required until 2023/24 and therefore the City's Treasury Management Strategy Statement for 2022/23 has been prepared in accordance with the pre-existing editions of the Codes.

Capital financing and borrowing

- The Corporation's capital plans create a borrowing requirement across both the City Fund and City's Cash. City's Cash has partially addressed this borrowing requirement through the issuance of £450m market debt in recent years.
- The City Fund borrowing requirement is expected to increase to £216.2m by 2023/24. For the City Fund, there is no immediate requirement to take on external borrowing as it is expected that the City Fund can continue to temporarily use its own cash balances (internal borrowing) for the foreseeable future. Any new external borrowing would serve to increase cash balances and create additional revenue pressures through a "cost of carry", as the rate payable on external borrowing is higher than the interest receivable from treasury management investment activity. Therefore, the proposed treasury management strategy recommends that the City Fund borrowing requirement is managed through the prudent use of internal resources during 2022/23.
- The benefits of this strategy (lower financing costs and reduced counterparty risk) need to be carefully evaluated against the risk of incurring higher borrowing costs in future. Interest rates are expected to rise gradually over the next few years but there is considerable uncertainty surrounding the forecast, particularly around how the Bank of England acts to reduce inflation. Interest rates are monitored daily and should circumstances change, the Chamberlain will maintain the flexibility to meet some or all of the City Fund borrowing requirement through external borrowing. As such the operational boundary and authorised limit for external debt (Appendix 2 of the TMSS) have been revised to enable the Corporation to secure external debt to meet some or all of the borrowing requirement.
- Local authorities are legally required to set aside a prudent amount for the provision of the repayment of prudential borrowing from revenue each year. It should be noted that this requirement applies for all unfunded City Fund capital expenditure (i.e. spending that is not immediately financed through capital grants, capital receipts etc.) not just for actual external borrowing. The Minimum Revenue Provision (MRP) Policy Statement for 2022/23 sets out this policy for the forthcoming year and is included at Appendix 2 in the TMSS.

Investments

- As at 31 December 2021, the Corporation has cash balances totalling £1,302.2m. Cash is expected to decrease in 2022/23 as the Corporation progresses spending on the major projects programme. Most of the treasury cash balances pertain to the City Fund and comprise of liabilities on City Fund's balance sheet (cash that needs to be paid out to third parties or used for a specific purpose at some point in the future) together with cash backed reserves.

- The Corporation currently manages significant short term investment balances. Although these balances are expected to decline in the next few years as the capital programme progresses, a significant level of core cash will persist for the next ten years based on current financial plans. One of the most acute challenges within the treasury management strategy is preventing the gradual erosion of the real value of these long-term cash balances from the effects of inflation. This is particularly important in the current external environment which is characterised by relatively high inflation and low investment returns. Officers have reviewed various longer term investment options with the Corporation’s treasury consultant, Link, and recommend the introduction of multi-asset funds to the list of permitted non-specified investments. Multi-asset funds have higher expected returns and exhibit higher volatility compared to the investment categories currently used and thus would only be suitable for cash that is expected to be available for investment for at least 3-5 years. Multi-asset fund investments would be subject to an overall limit of £50m to ensure the Corporation’s liquidity needs are satisfied. If the proposal is adopted officers will work with Link to identify a shortlist of suitable funds that meet the Corporation’s requirements.
- Officers have considered other options for longer term investment beside multi-asset funds. Property funds have been a popular investment for local authorities in recent years. However, given the Corporation’s existing direct exposure to this asset class, officers have discounted this option for the time being. Equity funds offer higher expected returns than multi asset funds but with more volatility and therefore are not considered appropriate at this stage. Officers have also discounted the option of investing in longer term fixed income products, which would likely involve either additional credit risk through investment in lower quality bonds or additional interest rate risk through investment in longer dated bonds.
- No other changes to the Corporation’s creditworthiness policy (as set out in section 8.2. of the main report) are proposed. Officers judge that the current criteria allow the Corporation to achieve adequate diversification amongst a range of high-quality counterparties.
- The revised CIPFA Codes include a requirement to specify the organisation’s approach to ESG factors alongside traditional creditworthiness policy. Officers have proposed an initial policy on ESG risks at paragraph 5.4 of the Treasury Management Strategy Statement. This policy includes a requirement to incorporate monitoring of relevant ESG risks into ongoing due diligence. Officers will identify suitable indicators with our treasury management consultant Link. It is anticipated that this policy will be further developed over time

The main changes to the document from last year’s version are highlighted in yellow and underlined.

Recommendations

It is recommended that the Financial Investment Board reviews and approves the attached Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23, and submits it to the Finance Committee and the Court of Common Council as part of the City Fund 2022/3 Budget Report for formal adoption.

It is recommended that the Bridge House Estates Board reviews and approves the Treasury Management Strategy Statement and Annual Investment Strategy for 2022/23 on behalf of Bridge House Estates.

Annex

Treasury Management Strategy Statement and Annual Investment Strategy 2022/23

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