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Key Decision Required:	Yes	In the Forward Plan:	Yes
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CORPORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER

7 APRIL 2021

A. ANNUAL CAPITAL AND TREASURY STRATEGY FOR 2021/22 (INCLUDING PRUDENTIAL AND TREASURY INDICATORS)

(Report prepared by Richard Barrett and Wendy Borgartz)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To seek the agreement of the Portfolio Holder for Corporate Finance and Governance to the Annual Capital and Treasury Strategy for 2021/22 (including the Prudential and Treasury indicators) for consultation with the Resources and Services Overview and Scrutiny Committee.

EXECUTIVE SUMMARY

- The Local Government Act 2003 and supporting regulations require the Council to set out its treasury strategy for borrowing, and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act) that sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments, "having regard" to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice. Revised editions of both documents were issued in December 2017.
- From 2019/20 the Capital Strategy has been combined with the Treasury Strategy into one document, which is required to be updated / approved annually.
- The proposed Annual Capital and Treasury Strategy for 2021/22 is set out in **Appendix A**.
- The Capital Strategy element of the combined document covers the various elements surrounding capital investment decisions and the key criteria that investment decisions should be considered against.
- The Treasury Strategy element of the combined document covers the various elements that satisfy the requirements of the various codes that govern the borrowing and investment activities of the Council and has been prepared in the light of advice received from the Council's Treasury advisors and reflects the latest codes and guidance.
- Prudential and Treasury indicators are included as an Annexe to the combined strategy and are therefore included within **Appendix A**.
- Under the Prudential Code the Council has freedom over capital expenditure as long as it is prudent, affordable and sustainable. The Prudential Indicators either measure the expected activity or introduce limits upon the activity, and reflect the

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underlying capital appraisal systems and enable the Council to demonstrate that it is complying with the requirements of the Prudential Code.

- The Council's investments will be undertaken in accordance with its Treasury Management Practices. These were expanded to include use of non-specified investment in property to yield both rental income and capital gains from 2016/17. If credit ratings remain at their current extremely low levels it is likely that a significant proportion of the Council's investments will continue to be in government securities such as with other Local Authorities. The business rates grant process associated with COVID 19 has demonstrated a need to maximise flexibility in the range of counterparties the Council uses plus rates paid by the Debt Management Office have frequently been negative since autumn 2020, which is why two Money Market Funds were opened up in December 2020.
- As part of the same report last year, the Capital and Treasury Strategy reflected the exploration of using property investment funds as part of the Council's wider investment portfolio. However, at the present time this is no longer being actively pursued given the significant impact from COVID 19 and how unclear it has made the risk / reward equation going forward. All references to this type of investment have now been removed from the strategy for 2021/22. However, it will be revisited once the economic recovery from COVID 19 has reached the point where it may again be considered as a potential useful addition to the investment portfolio.
- As is always the case, other 'quality' investment opportunities will always be explored during the year in consultation with the Council's external advisors to maximise returns on investments within a continuing and overall risk-averse approach.

RECOMMENDATIONS

That the Portfolio Holder for Corporate Finance and Governance approves the Annual Capital and Treasury Strategy for 2021/22 (including Prudential and Treasury Indicators) for consultation with the Resources and Services Overview and Scrutiny Committee.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The adoption of the Capital and Annual Treasury Strategy for 2021/22 will ensure that the Council's Investment and Treasury Management activities are carried out and managed in accordance with best practice, thereby safeguarding money held by the Council and making an appropriate contribution to the Council's overall financial position.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

Treasury and Capital Management Strategies and procedures will ensure that the Council's investments and borrowing will be undertaken in such a way as to minimise the Council's exposure to risk. At the same time they will seek to maximise income from investments and minimise the costs of borrowing within the Council's accepted level of risk.

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Risk

The placing of investments involves a number of risks. These risks and how the Council will manage them are set out in the Council's Treasury Management Practices.

LEGAL

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance. By adopting / approving an Annual Treasury Strategy and a Capital Strategy based on the requirements of the relevant and updated codes, the Council is complying with the regulations.

At its meeting on 29 January 2021 Cabinet agreed a delegation to the Portfolio Holder for Corporate Finance and Governance to approve the Capital and Treasury Strategy 2021/22 for consultation with the Resources and Services Overview and Scrutiny Committee.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no other implications.

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

The Annual Capital and Treasury Strategy for 2021/22 is set out in **Appendix A** and is based on the most up to date Treasury Management Code of Practice and the revised Prudential Code, both of which were published by CIPFA in December 2017.

No significant changes are proposed in the Annual Capital and Treasury Strategy for 2021/22 with limited amendments in areas such as the general economic outlook and interest rate forecasts – the changes made to the strategy since last year are shaded in grey and are in italic font.

In respect of CIPFA's Treasury Management Code of practice, the most recent and fundamental revision to the code was in 2017 which has been incorporated within the Annual Treasury Strategy where relevant. By approving the Annual Treasury Strategy for 2018/19, the Council adopted the latest CIPFA Code of Practice for Treasury Management in the Public Services. (the '2017 code').

Although not specified within the Treasury Strategy, the need to borrow money may arise in future years to reflect the Council's current commitments, corporate priorities and strategies. If the need / option to borrow money was identified, then it would form part of the associated and separate decision making process and would be considered within the overall Treasury Strategy framework.

The Council maintains a very low risk appetite approach to its treasury activities. Given the extremely low interest rate environment, even if the Council were to increase the level of risk it would be willing to accept, the increased returns would only be marginal and therefore would not provide a credible / alternative option at the present time. However, officers will continue to explore opportunities to maximise investment returns, within this

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overall context in 2021/22.

One of the key elements within the Capital Strategy is to have processes in place to ensure projects are delivered on time and within budget. However, COVID 19 has had a significant and unprecedented impact on the delivery of a number of projects over the past 12 months. However, the Council has taken steps that seek to accelerate the delivery of a number of projects as part of recovering from the pandemic's impact which includes increasing officer capacity which was backed by a £200k commitment by Cabinet at its 19 March meeting.

In terms of sources of funding, the Government introduced a significant new constraint in terms of borrowing from the Public Works Loan Board (PWLb) during the year. If a local authority purchases assets or plans to purchase assets over a future three year period to generate investment income, then they will no longer be able to borrow money from the PWLB. This applies to all such purchases regardless of how they are funded. Although no such purchases are currently planned, this constraint may need to be considered in the future, as the Council could lose access to the preferential rates available from the PWLB.

Draft Prudential Indicators are set out in Annex 1 to Part 2 of the Capital and Treasury Strategy. Annex 2 to Part 2 of the Treasury Strategy sets out the specified and Non-Specified investments the Council may use in 2021/22.

In accordance with the relevant codes, the Capital and Treasury Strategy is subject to consultation with the Resources and Services Overview and Scrutiny Committee before being recommended to Council for approval before the start of each financial year.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A - Annual Capital and Treasury Strategy 2021/22