

**South Lakeland District Council**  
**Overview and Scrutiny Committee 15/01/21**  
**Treasury Management and Capital Strategies**

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<b>Portfolio:</b>	Finance and Resources Portfolio Holder
<b>Report from:</b>	Section 151 Officer
<b>Report Author:</b>	Claire Read – Finance Specialist
<b>Wards:</b>	(All Wards);
<b>Forward Plan:</b>	Treasury Management Framework 2021/22 to 2025/26 first published on the forward plan published on 29 September 2020

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**1.0 Expected Outcome**

1.1 It is expected that the Treasury Management Strategy for 2021/22 – 2025/26 and Capital Strategy for 2021/22 – 2033/34, will be approved by Council on 23 February 2021. The Strategies ensure that the Council have robust arrangements for investing and only borrows where it is appropriate and affordable.

**2.0 Recommendation**

**2.1 It is recommended that Overview and Scrutiny Committee:-**

- (1) Note and recommends to Cabinet and Council the Treasury Management Strategy, Capital Strategies, the authorised limit and operational borrowing limits within the report;**
- (2) Notes and recommends to Cabinet and Council the permanent increase to £10m of the limit for investing with individual Money Market Funds and the disregarding of Government Covid-19 funds when applying the counterparty limit to the Council's Bankers NatWest; and**
- (3) Notes and recommends to Cabinet and Council the introduction of a new local prudential indicator for internal borrowing.**

**3.0 Background and Proposals**

3.1 This report sets out the Council's Treasury Management Strategy for 2021/22 – 2025/26 and the Capital Strategy for 2021/22 -2033/34. These strategies have been updated to reflect the 2021/22 budget and capital programme being considered as part of this agenda.

3.2 The strategies fulfils five key legislative requirements:

- Chartered Institute of Public Finance and Accounting (CIPFA)'s Prudential Code requires the Council to set a number of **Prudential Indicators** setting out the expected capital activities and financing.
- The Council's **Minimum Revenue Provision (MRP) Policy**, sets out how the Council will pay for capital assets through revenue each year.

- The **Treasury Management Strategy Statement** sets out how the Council's treasury service will support the capital decisions taken, the day to day treasury management and the limitations on activity through treasury prudential indicators;
  - The **Investment Strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.
  - The **Capital Strategy**, to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability
- 3.3. The Council is required to set a balanced annual revenue budget. The timing and nature of income and expenditure within the budget needs to be understood and managed so that cash is available when it is required. This is a key function of the treasury management operation.
- 3.4. The second key function is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council. This may involve arranging new or replacement loans or the planned use of cash balances.
- 3.5. 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. "
- 3.6. 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. These reports are required to be adequately scrutinised by committee before being recommended to the Council. These are as follows:
- **Capital Strategy and Treasury Management Strategy** (this report), setting out the expectations for a minimum of three years, linked into the Council's wider budget setting process.
  - **A Mid-Year Treasury Management Report** – This will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision. This report is incorporated into the Council's quarterly corporate monitoring reports.
  - **An Annual Treasury Report** – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

### **Economic Update**

- 3.7. As a result of the Covid-19 pandemic the UK economy fell into recession with GDP levels not expected to reach pre pandemic levels until 2023.
- 3.8. So far the Bank of England Monetary Policy Committee (MPC) has held the Bank Rate at 0.1% following cuts in March. Expectation is that rates will not rise before March 2024 and could well not increase in the next five years due to slow rate of recovery.
- 3.9. Central Government support to business and individuals has led to significant increases in Public Borrowing and Gilt issuances. In normal times this would have

led to an increase in Gilt yield and therefore PWLB rates. However due to the level of quantitative easing Gilt yields are at historically low levels. Making interest on new borrowing manageable.

- 3.10. Brexit remains a risk to the UK economy and predicted responses to the withdrawal deal could be between a 1% and 2.5% fall in GDP, though relative to the slump in GDP as a result of the pandemic any hit from Brexit would be small.
- 3.11 More detail can be found in Section 6 of **Appendix 1**.

### **Treasury Management Strategy**

3.7. The Treasury Management Strategy is contained in **Appendix 1** and includes:

- prudential and treasury indicators;
- the Minimum Revenue Provision statement.
- high level Treasury Management Policy statement;
- prospects for interest rate;
- the current treasury position;
- the borrowing strategy;
- policy on borrowing in advance of need;
- the investment strategy including creditworthiness policy;
- non treasury management investments
- policy on use of external service providers;

3.8. **Appendix 2** contains an indicative lending list based on the proposed investment strategy

3.9. The strategy is based on the proposed capital programme for 2021/22 – 2025/26 being considered on this agenda and sets key controls around investment and borrowing activities.

3.10. Investment controls focus on counterparty security, liquidity and then yield, in that order, in line with the CIPFA Code. The controls include counterparty selection criteria, limits on investments and types of investments officers can use.

3.11 As part of the review on the investment strategy at the start of the pandemic, on 31 March 2020 Emergency Decision 003 was taken to amend the Treasury Management Counterparty limit as follows:

- a. To disregard grant funding from government to be redistributed in relation to Covid-19 when applying the counterparty limit with the Council's own bankers (Nat West).
- b. To increase the counterparty limit for Money Market Funds from £5m to £10m.

This was reviewed in September and Council agreed to extend this decision until 31<sup>st</sup> March 2020 at its meeting on 6<sup>th</sup> October 2020 in minute C/49.

The economic and market conditions that the Council finds itself operating in have not changed significantly since then. Therefore with Council requested to approve an update to the Investment Strategy to increase the counterparty limit for money market funds to £10 million and, whilst the Council still hold government Covid-19 grant funds, to disregard these amounts when applying the Counterparty limit for the Councils Bankers NatWest.

This will enable the Council to maintain the liquidity of its cash flows when the money market for short dates has all but disappeared due to the increase in the funding for lending scheme.

- 3.12. Borrowing controls are focused on ensuring the Council's borrowing position is affordable and sustainable and sets a limit on the amount of borrowing officers can do within the year.
- 3.13 To approve the introduction of a new local prudential indicator for internal borrowing to provide the council, along with cash flow concerns, an indication of when a reviewing of its borrowing position is required.
- 3.12. When compiling the strategy, consideration was given to the changes in IAS16 Leases. The impact of which is to increase the number of leases classified as finance leases, with the knock on effect of bring lease funding in to the Council's borrowing requirement. In this Council's case this was deemed to be negligible as we have very few to no leases that would meet the necessary criteria for a finance lease.

### **Capital Strategy**

- 3.13. **Appendix 3** contains the Capital Strategy and is supported by a copy of the Capital Programme for 2021/22 – 2025/26 in **Appendix 4**.
- 3.14. The main principles of the Capital strategy are affordability, prudence and sustainability. With this in mind it should be noted that the historic balance of general capital receipts is expected to run out in 2021/22, therefore we will only have the low annual amounts from new sales which to fund schemes. This will restrict what we can do with the majority of future capital schemes needing to come with funding, use revenue contributions or be funded through borrowing, which may not always be optimal in terms of affordability and value for money. Given this situation it advisable that the Council review its ring-fencing of receipts for specific schemes, to see if funding could be releases for other schemes.
- 3.15 The Capital Strategy includes potential capital expenditure not currently in the proposed programme, which comes from the review of Council assets in 2018/19, adjusted for any proposal brought as part of the 2021/22 capital programme. The resulting indicators in the Capital Strategy are therefore higher as it includes potential expenditure and borrowing which may not arises, depending on future decisions around service delivery.
- 3.16. For example the 2020/21 capital programme includes a programme of works to the shopping centre car park which will extend its life beyond the capital strategy timeframe. This has resulted in £12 million of spend for 2029-30 – 2033/34 being removed from the longer term programme.
- 3.17. The Capital Strategy will assist in ensuring that the Council has funds available in the future to meet opportunities which may arise. It also considers organisational issues including how the capital programme will be prioritised and considerations including capacity to deliver.

### **4.0 Consultation**

- 4.1 The strategies have been prepared in consultation with the Council's Treasury advisor (Link Asset Services). The draft strategies will be considered by Cabinet and Overview and Scrutiny Committee before the final version is presented to Council for approval on 25 February 2021.

## **5.0 Alternative Options**

- 5.1 No alternative options are proposed; the Treasury Management Strategy, in particular, is driven largely by legislation and external guidance and reflects the 2021/22 budget.

## **6.0 Links to Council Priorities**

- 6.1 These arrangements enable the priorities as set out in the Council Plan to be achieved. Performance indicators are included within the report.

## **7.0 Implications**

### **Financial, Resources and Procurement**

- 7.1 Although concerned with good financial management, the report in itself has no direct financial implications.

### **Human Resources**

- 7.2 This report has no direct impact on the staffing of the Council.

### **Legal**

- 7.3 This report provides a framework for treasury management in accordance with legislation. There are no other legal implications.

### **Health, Social, Economic and Environmental**

- 7.4 Have you completed a Health, Social, Economic and Environmental Impact Assessment? No
- 7.5 If you have not completed an Impact Assessment, please explain your reasons: This has not been carried out as this policy does not directly impact individuals

### **Equality and Diversity**

- 7.6 Have you completed an Equality Impact Analysis? No
- 7.7 If you have not completed an Impact Assessment, please explain your reasons: This has not been carried out as this policy does not directly impact individuals.

## Risk

Risk	Consequence	Controls required
Reporting is not compliant with the statutory guidance.	Members do not have the opportunity to scrutinise the Treasury function.	Full year TM report to be presented to Scrutiny, Cabinet and Council.
Investment and borrowing activity is outside of the approved TM framework.	The Council is exposed to an unauthorised level of Treasury related risk.	Robust governance arrangements to control day to day operations, based on the approved strategy, with regular reporting of compliance.
Long-term borrowing is taken at rates that are not advantageous.	Council incurs unnecessary interest costs.	Treasury advice is taken on optimum timing of borrowing
Repayment of long term borrowing at rates that are not advantageous	Council occurs unnecessary premium costs	Treasury advice is taken on optimum timing of loan repayment
Investment of principal sums with insecure counterparties.	Loss of principal due to default by borrower.	Stringent and cautious lending criteria are built into the Council's Investment Strategy.
Investment returns are volatile and may fall short of expectations.	Underperformance and underachievement of budgeted income levels.	Monitoring performance of in-house investments
Borrowing is not affordable.	Financial pressure on the General Fund.	Prudent borrowing in accordance with the Strategy and indicators.  Forecast borrowing costs are factored into the 2019/20 Budget and Medium Term Financial Plan.
Brexit - there is considerable uncertainty at the time of preparation of this report (late December 2018) as the format of Brexit is yet to be determined and as such this report assumes no changes to inflation or interest rates	Potential increased costs and lost opportunities	Close monitoring of developments surrounding Brexit

## Contact Officers

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## Appendices Attached to this Report

Appendix No.	Name of Appendix
1	Treasury Management Strategy for 2021/22 to 2025/26
2	Example 2021/21 Counterparty List
3	Capital Strategy for 2021/22 to 2033/34
4	Capital Programme for 2020/21 to 2025/26

## Background Documents Available

Name of Background document	Where it is available
2021/22 Revenue and Capital budget	On the same agenda

## Tracking Information

Signed off by	Date sent
Legal Services	31/12/2020
Section 151 Officer	05/01/2021
Monitoring Officer	31/12/2020
CMT	15/12/2020

Circulated to	Date sent
Lead Specialist	N/A
Human Resources Lead Specialist	N/A
Communications Team	N/A
Leader	N/A
Committee Chairman	N/A
Portfolio Holder	04/01/2021
Ward Councillor(s)	N/A
Committee	15/01/2021
Executive (Cabinet)	03/02/2021
Council	23/02/2021