

South Lakeland District Council
Overview and Scrutiny Committee
Friday, 4 February 2022
Cabinet Wednesday, 9 February 2022
Council Tuesday, 22 February 2022
Treasury Management and Capital Strategies

Portfolio: Finance and Resources Portfolio Holder
Report from: Section 151 Officer
Report Author: Claire Read – Finance Specialist
Wards: (All Wards);
Forward Plan: Treasury Management Framework 2022/23 to 2025/26 first published on the forward plan published on 8 November 2021

Links to Council Plan Priorities: This report sets out the framework and limits for managing the Council's finances enabling the Council's priorities to be delivered. Setting a sound framework assists in the delivery of all corporate outcomes of:

Working across boundaries

Delivering a balanced community

A fairer South Lakeland

Addressing the climate emergency

1.0 Expected Outcome and Measures of Success

1.1 It is expected that the Treasury Management Strategy for 2022/23 – 2025/26 and Capital Strategy for 2022/23 – 2033/34, will be approved by Council on 22 February 2022. 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 and operational borrowing limits within the report**

2.2 It is recommended that Cabinet:-

- (1) **Note and recommends to Council the Treasury Management Strategy, Capital Strategies; and the authorised and operational borrowing limits within the report**

2.3 It is recommended that Council:-

- (1) **Approve the Treasury Management and Capital Strategies; and**
- (2) **Approve the authorised and operational borrowing limits within the report**

3.0 Background and Proposals

3.1 This report sets out the Council's Treasury Management Strategy for 2022/23 – 2025/26 and the Capital Strategy for 2022/23 -2033/34. These strategies have been updated to reflect the 2022/23 budget and capital programme being considered as part of this agenda.

3.2 In setting these strategies we continued to follow best practice, which is to set them for at least 3-4 financial years, based on the medium term plans of the Council. While this is the last year SLDC's existence due to local government reorganisation by doing this it will help inform Westmorland and Furness Council when it looks to set its own Treasury and Capital Strategies for 2023/24.

3.3 The strategies fulfil 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

3.4. 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.

3.5. 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.

3.6. CIPFA defines treasury management as:

"The management of the local authority's borrowings, 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."

3.7. 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 the Overview and

Scrutiny 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

- 3.8. At its meeting in December 2021 the Bank of England Monetary Policy Committee (MPC) raised the bank rate to 0.25%. Against a backdrop of rising inflation, 5.1% in November 2021 compared to 4.2% in October 2021 and better than expected unemployment data following the end of the furlough scheme in September 2021.
- 3.9 Looking forward the expectation is that the bank rate will rise at least two times in 2022/23 taking the bank rate to 0.75% by March 2023.
- 3.10 More detail can be found in Section 6 of **Appendix 1**.

Treasury Management Strategy

- 3.11. This strategy has been set with regard to the updated CIPFA Treasury Management and Prudential Codes which was published in December 2021 and has an implementation date of 01/04/2022, though there is a soft landing period up to 01/04/2023 to allow council time to implement all the changes. Commentary is available in the appropriate sections of the strategy where we still have to comply with the new codes and our progress in meeting these.
- 3.12 **Appendix 1** contains the 2022/23 to 2025/26 Treasury Management Strategy 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;
- 3.13 **Appendix 2** contains an indicative lending list based on the proposed investment strategy
- 3.14 The strategy is based on the proposed capital programme for 2022/23 – 2025/26 being considered on this agenda and sets key controls around investment and borrowing activities.

- 3.15 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.
- 3.16 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.
- 3.17 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 bringing lease funding in to the Council's borrowing requirement. An initial estimate has been included in the calculation of the Operational Boundary and Authorised limits. This is likely to be updated before Council as officers continue to work their way through the Council's lease agreements to determine the new correct accounting treatment.

Capital Strategy

- 3.18 **Appendix 3** contains the Capital Strategy and is supported by a copy of the Capital Programme for 2022/23 – 2025/26 in **Appendix 4**.
- 3.19 The main principles of the Capital Strategy are affordability, prudence and sustainability.
- 3.20 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 2022/23 capital programme. The resulting indicators in the Capital Strategy are therefore higher as it includes potential expenditure and borrowing which may not arise, depending on future decisions around service delivery.
- 3.21 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 Appendices Attached to this Report

Appendix No.	Name of Appendix
1	Treasury Management Strategy for 2022/23 to 2025/26
2	Example 2022/23 Counterparty List
3	Capital Strategy for 2022/23 to 2033/34
4	Capital Programme for 2022/23 to 2025/26

5.0 Consultation

- 5.1 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 22 February 2022.

6.0 Alternative Options

- 6.1 No alternative options are proposed; the Treasury Management Strategy, in particular, is driven largely by legislation and external guidance and reflects the 2022/23 budget.

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 and Sustainability Impact Assessment

- 7.4 Have you completed a Health and Sustainability 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

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

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 Overview and Scrutiny Committee, 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 incurs 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 2022/23 Budget and Medium Term Financial Plan.

Contact Officers

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Background Documents Available

Name of Background document	Where it is available
2022/23 Revenue and Capital budget	On the same agenda

Tracking Information

Signed off by	Date sent	Date Signed off
Section 151 Officer	13/01/2022	25/01/2022
Monitoring Officer	13/01/2022	25/01/2022
CMT	13/01/2022	19/01/2022

Circulated to	Date sent
Lead Specialist	13/01/2022
Human Resources Lead Specialist	N/A
Communications Team	N/A
Leader	N/A
Committee Chairman	N/A
Portfolio Holder	13/01/2022
Ward Councillor(s)	N/A
Committee	04/02/2022
Executive (Cabinet)	09/02/2022
Council	22/02/2022