

CABINET – 15TH OCTOBER 2020

Report of the Head of Finance and Property Services

Lead Member: Councillor Tom Barkley

Part A

ITEM CAPITAL STRATEGY (INCLUDING THE TREASURY
MANAGEMENT STRATEGY) FOR 2020/21

Purpose of Report

This report introduces the Capital Strategy, which is required under the terms of the 'Prudential Code', a statutory code of practice. The report also sets out the Treasury Management Strategy Statement together with the Annual Investment Strategy and Minimum Revenue Provision (MRP) Policy. These latter strategies and the MRP policy are integral to the overarching Capital Finance Strategy and are therefore presented within a single report for context.

This Cabinet report recommends the approval of the above strategies to Council.

Recommendations

1. That the Capital Strategy, as set out at Appendix A of this report be approved and recommended to Council.
2. That the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy as shown at Appendix B of this report be approved and recommended to Council.
3. That the Prudential and Treasury Indicators, also set out in within Appendix B of this report be approved and recommended to Council.

Reasons

1. To enable the Council to comply with the statutory code of practice issued by CIPFA: 'The Prudential Code for Capital Finance in Local Authorities, 2017 Edition'.
2. To ensure that the Council's governance and management procedures for Treasury Management reflect best practice and comply with the CIPFA Treasury Management in the Public Services Code of Practice, Guidance Notes and Treasury Management Policy Statement.
3. To ensure that funding of capital expenditure is taken within the totality of the Council's financial position and that borrowing and investment is

only carried out with proper regard to the Prudential Code for Capital Finance in Local Authorities.

Policy Justification and Previous Decisions

The Capital Strategy must be approved by Council on an annual basis.

The Treasury Management Strategy Statement, Prudential and Treasury Indicators and Annual Investment Strategy must be approved by Council each year and reviewed half yearly.

The original version of the Medium Term Financial Strategy (covering financial years 2020 - 2023) outlined the prospective financial challenges facing the Council and the contribution expected of the Investment Strategy in mitigating these challenges. Whilst the COVID-19 has exacerbated these challenges as reflected in the updated Medium Term Financial Strategy for 2020 – 2023, the Investment Strategy remains a key part of the Council's response.

Implementation Timetable including Future Decisions and Scrutiny

The implementation of this Strategy was previously scheduled for April 2020 but has been delayed due to cancellation of Council meetings due to the COVID-19 outbreak. If approved by Council the Capital Strategy (including its component strategies) will come into effect from 9 November 2020.

In line with the Financial Regulations the Audit Committee had the opportunity to review the draft Financial Strategy at its meeting of 22 September 2020. [meeting comments to add]

This report is also available for the consideration of the Scrutiny Commission on 12 October 2020.

Report Implications

The following implications have been identified for this report.

Financial Implications

There are no direct financial implications arising from this report.

Financial issues arising from the implementation of the strategies are covered within the report.

Risk Management

<i>Risk Identified</i>	<i>Likelihood</i>	<i>Impact</i>	<i>Overall Risk</i>	<i>Risk Management Actions Planned</i>
Poor treasury investment decisions due to inadequate treasury management strategies in place	Unlikely 2	Serious 3	Moderate 6	Strategy developed in accordance with CIPFA guidelines and best practice. Adherence to clearly defined treasury management policies and practices
Loss of council funds through failure of borrowers	Remote 1	Major 4	Low 4	Credit ratings and other information sources used to minimise risk Adherence to clearly defined treasury management policies and practices
Volatile market changes (such as interest rates or sector ratings) occur during year	Likely 3	Significant 2	Moderate 6	Approved strategy in place, regular monitoring of position and use of Treasury Consultants and other sources to provide the latest advice.
Significant losses arising from investments in non-financial instruments (such as loans to third parties or property investments)	Unlikely 2	Major 4	Moderate 8	Professional advice will be sought in advance of non-standard or new investment activity. Adherence to strategy which set out limits to investment in individual asset classes.

Key Decision: Yes

Background Papers: Investment Strategy 2019 - 20, Cabinet Report 19 September 2019
Treasury Management mid-year update – Cabinet Report 14 Nov 2019
Revised Capital Plan 2020 – 2023 – Cabinet Report 15 October 2020

Officers to contact: Lesley Tansey
Head of Finance and Property Services
(01509) 634828
lesley.tansey@charnwood.gov.uk

Simon Jackson
Strategic Director of Corporate Services
(01509) 634699
simon.jackson@charnwood.gov.uk

Part B

Background

1. The implementation of this version of the Capital Strategy has been delayed. Initially scheduled for approval at the Council meeting of 24 February 2020, it was necessary to reschedule the Strategy for approval at the Council meeting of 27 April 2020. This meeting was subsequently cancelled due to the COVID-19 outbreak and hence the Strategy as originally drafted in respect of 2020/21 was not approved by Council.
2. Due to the impact of COVID-19 it has been considered appropriate to modify the original draft Strategy for 2020/21 and hence a second Cabinet report is necessary to recommend the modified version to Council.
3. The Capital Strategy is a requirement arising from the extant version of the 'Prudential Code'. This code is a statutory code of practice and was published by the Chartered Institute of Public Financial Accountants (CIPFA) taking effect from 1 April 2019. It was issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. Under that section local authorities are required to 'have regard' to 'such guidance as the Secretary of State may issue'.
4. The Council's treasury management activities also fall within the scope of the Prudential Code.
5. The Capital Strategy forms part of the Council's integrated revenue, capital and balance sheet planning. It sets out the long-term context in which capital expenditure and investment decisions are made, considers risks and rewards and the potential impacts on Council objectives
6. The Capital Strategy is an overarching strategy that encompasses the following aspects:
 - Capital expenditure and governance
 - Capital financing and the borrowing
 - Treasury management investments (essentially financial assets) set out within the Annual Investment Strategy
 - Commercial strategy – investment in non-financial assets (including commercial properties and prospective housing development)
 - Access to knowledge and skills (enabling the strategy to be delivered)
 - Treasury Management policy statement and practices (presented as a separate appendix)

7. The Treasury Management Strategy Statement, incorporating the Annual Investment Strategy, have been prepared in accordance with the revised code and accordingly include:

- the treasury limits in force which will limit the treasury risk and activities of the council,
- the Prudential and Treasury Indicators
- the current treasury position
- the borrowing requirement
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- the use of external fund managers and treasury advisers
- Minimum Revenue Provision (MRP) Policy

Salient features of the proposed Capital Strategy for 2020/21

8. The principal changes and matters of note proposed within the Strategies and other Appendices to this report are:

- An amendment to the Annual Investment Strategy to increase counterparty limits on deposits with HSBC (the Council's bankers) to take advantage of an easily accessible term deposit at favourable interest rates (see Appendix B – B3)
- An amendment to the Annual Investment Strategy to increase the maximum maturity period for local authority investments from 24 to 60 months (see Appendix B – B3)
- An amendment to the Annual Investment Strategy to add Housing Associations (with adequate credit references) to the list of allowed non-specified investments, again to offer the potential of achieving greater investment returns (see Appendix B – B3)
- Other amendments to the Strategies to allow:

- The development of a commercial property portfolio enabled by total borrowings of up to £25m
 - Creation of a fund to take opportunities arising from the Town Deal, or other regeneration opportunities enabled by total borrowings of up to £15m
 - Creation of a fund to allow 'forward funding' of buildings or infrastructure within the Enterprise Zone enabled by total borrowings of up to £15m
 - Implementing the above requires:
 - Uplift to the estimates of the Capital Financing Requirement (see Appendix B, section 2.2)
 - Increasing the allowed limits to borrowing and investment activity (see Appendix B, sections 3.2 and 4.4)
 - Implementing a policy on MRP which specifically addresses prospective acquisitions of commercial property (see Appendix B, sections 2.4 and Appendix B (2))
9. For the purposes of the Capital Strategy and other documents associated with this report it is assumed that the Council will also approve the Revised Capital Plan 2020 – 2023 which is scheduled for the same Cabinet and council date as this report.
10. As stated in Part A, this report also requests that the Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy together with the Prudential and Treasury Indicators, be approved and recommended to Council.

Appendices

Appendix A: Capital Finance Strategy

Appendix B: Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy for 2019-20

Sub appendices contained within this document:

B (1) Economic background

B (2) Minimum Revenue Provision

B (3) Treasury Management Practice

B (4) Approved countries for investment

B (5) List of approved brokers for investment

B (6) Current investments (illustrative snapshot)

B (7) Treasury management scheme of delegation

B (8) Treasury management role of the Section 151 Officer