

<b>Report to:</b>	<b>Cabinet</b>
<b>Date:</b>	<b>10 February 2021</b>
<b>Title:</b>	<b>Treasury Management and Prudential Indicators 2021/22, Capital Strategy and Investment Strategy</b>
<b>Report of:</b>	<b>Homira Javadi, Chief Finance Officer</b>
<b>Cabinet member:</b>	<b>Councillor Holt, Portfolio Holder for Financial Services</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of the report:</b>	<b>To approve the Council's Annual Treasury Management Strategy, Capital Strategy &amp; investment Strategy together with the Treasury and Prudential Indicators for the next financial year.</b>
<b>Decision type:</b>	<b>Budget and policy framework</b>
<b>Recommendation:</b>	<p><b>Cabinet is asked to recommend the following proposals to full Council to :</b></p> <ol style="list-style-type: none"> <li><b>a. Approve the Treasury Management Strategy and Annual Investment Strategy for 2021/22 as set out in Appendix A;</b></li> <li><b>b. Approve the Minimum Revenue Provision Policy Statement 2021/22 as set out at paragraph 8;</b></li> <li><b>c. Approve the Prudential and Treasury Indicators 2021/22 to 2023/24, as set out at paragraph 6;</b></li> <li><b>d. Approve the Capital Strategy set out in Appendix E.</b></li> </ol>
<b>Reasons for recommendations:</b>	<b>It is a requirement of the budget setting process for the Council to review and approve the Prudential and Treasury indicators, Treasury Strategy, Capital Strategy and Investment Strategy.</b>
<b>Contact Officer:</b>	<p><b>Ola Owolabi, Deputy Chief Finance Officer</b></p> <p><b>Telephone: 01323 415083</b></p> <p><b>E-mail address: <a href="mailto:Ola.Owolabi@lewes-eastbourne.gov.uk">Ola.Owolabi@lewes-eastbourne.gov.uk</a></b></p>

## **1. Introduction**

- 1.1** The Prudential and Treasury Indicators and Treasury Strategy covers:
- the capital prudential indicators;
  - the Minimum Revenue Provision Policy (how residual capital expenditure is charged to revenue over time);
  - the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
  - an investment strategy (the parameters on how investments management);

- Capital Strategy.

1.2 The Council has adopted CIPFA's Treasury Management code of Practice and this code is supported by treasury management practices (TMPs) that set out the manner in which the council seeks to achieve the treasury management strategy and prescribes how it manages and controls those activities.

1.3 CIPFA defines treasury management as:

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

1.4 The Council will continue to regularly review the position on its long-term borrowing requirement, its affordability and the capital financing costs impact on the Council's future financial planning. Borrowing will only be undertaken for temporary liquidity or to fund the capital programme and will be undertaken as necessary in accordance with the 2021/22 borrowing strategy. The Council will continue to assess all financing options when making long term borrowing decisions to achieve best financial value for the Council.

1.5 The HM Treasury has recently published details of new Public Works Loans Board (PWLB) lending terms reducing rates by 1% from 26 November 2020 but also confirming that it will **not lend to an authority that plans to buy investment property primarily for yield** anywhere in their capital plans. The Council will therefore no longer seek to purchase investment properties primarily for the return they provide.

1.6 The report includes the Capital Strategy (Appendix E), which provides a longer-term focus on the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The aim of the capital strategy is to ensure that all elected members on the full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Capital Strategy covers the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

#### 1.7 **Policy on the use of external service providers**

The Council uses Link Market Services as its external treasury management advisors, and recognises that responsibility for treasury management decisions remains with the Council at all times. It also recognises that there is value in employing external providers of treasury management services in order to have access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## **2. End of year investment report**

- 2.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

## **3. Outcome expected and performance management**

- 3.1 Loans, Investments and Prudential Indicators will be monitored regularly during 2021/22 and performance will be reported to members quarterly.

## **4. Financial appraisal**

- 4.1 These are included in the main body of the report.

## **5. Legal implications**

- 5.1 This report covers the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

## **6. Equality analysis**

- 6.1 The equality implications of decisions relating to Treasury Management covered in this report are addressed within other relevant Council reports or as part of programmed equality analysis.

## **7. Minimum Revenue Provision (MRP)**

- 7.1 The Council has adopted an annuity method, under this methodology, MRP will be lower in the early years and increases over time. This is considered a prudent approach as it reflects the time value of money (i.e. the impact of inflation) as well as providing a charge that is better matched to how the benefits of the asset financed by borrowing are consumed over its useful life. That is, a method that reflects the fact that asset deterioration is slower in the early years of an asset and accelerates towards the latter years. The MRP Policy Statement (Section 8) reflects this policy.

## **8. Conclusion**

- 8.1 Capital prudential indicators are set to demonstrate plans for borrowing are affordable. The movement in the Capital Financing Requirement (CFR) forecasts for 2020/21, 2021/22, 2022/23 and 2023/24 are set as £7.9m, £18.3m, £28.4m and £16.2, respectively. This borrowing has been reflected in the Capital Financing Requirement, which sets out the Council's outlining requirement for borrowing, and includes both the use of internal resources and external borrowing.
- 8.2 The Minimum Revenue Provision Policy has been updated to ensure that prudent provision is made for the repayment of borrowing.
- 8.3 All Treasury indicators have been set to reflect the treasury strategy and funding requirements of the capital programme.

## **Appendices**

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| <b>A</b> | Treasury Management Strategy Statement, Minimum Revenue Provision and Annual Investment Strategy. |
| <b>B</b> | The Treasury Management Role of the Section 151 Officer.  |
| <b>C</b> | Counterparty List.  |
| <b>D</b> | Link Asset Services on the Economic Background and Forward View.                                  |
| <b>E</b> | Capital Strategy.   |

## **Background papers**

The background papers used in compiling this report were as follows:

- CIPFA Treasury Management in the Public Services code of Practice (the Code);
- Cross-sectorial Guidance Notes;
- CIPFA Prudential Code;
- Treasury Management Strategy and Treasury Management Practices;
- Council Budget 10 February 2021;
- Finance Matters and Performance Monitoring Reports 2020;
- CIPFA Prudential Property Investment.

To inspect or obtain copies of background papers please refer to the contact officer listed above.