

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL LIMITS 2021/22 TO 2024/25		
DATE OF DECISION:	15 FEBRUARY 2021		
REPORT OF:	SERVICE DIRECTOR FINANCE (S151)		
<u>CONTACT DETAILS</u>			
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STATEMENT OF CONFIDENTIALITY			
NOT APPLICABLE			
BRIEF SUMMARY			
<p>With overall annual expenditure in excess of £600M and an extensive capital programme, the Council is required to actively manage its cash-flows on a daily basis. The requirement to invest or to borrow monies to finance capital programmes, and to cover daily operational needs is an integral part of daily cash and investment portfolio management.</p>			
<p>This report explains the context within which the Council's treasury management activity operates and sets out a proposed strategy for the coming year in relation to the Council's cash flow, investment and borrowing, and the management of the associated risks, including the loss of invested funds and the revenue effect of changing interest rates. Investment limits within this report have been increased to allow for a possible change in strategy.</p>			
GOVERNANCE COMMITTEE			
It is recommended that Governance Committee:			
	(i)	Approve the Council's Treasury Management (TM) Strategy and Indicators for 2021/22 to 2024/25, as detailed in appendix 1.	
	(ii)	Note that at the time of writing this report it has been assumed that the budget proposals within the Medium Term Financial Strategy, Budget and Capital Programme 2021/22 to 2024/25 report, to be submitted to Council on the 24 February 2021, will be approved. Should the recommendations change and have any impact on the Prudential Indicators this will be reported to Council on 24 February 2021.	
	(iii)	<p>Continue to delegate authority to the Chief Financial Officer (CFO) to approve any changes to the Prudential Indicators or borrowing limits that will aid good treasury management.</p> <p>The CFO will report any amendments and in year revisions to the TM Strategy as part of quarterly financial and performance monitoring.</p>	
	(iv)	Endorse the proposal to continue to explore an alternative Treasury Strategy to generate additional income that can support local services, whilst maintaining a prudent approach.	

REASONS FOR REPORT RECOMMENDATIONS	
1.	In order to comply with Part 1 of the Local Government Act 2003, and the established TM procedures that have been adopted by the Council, each year the Council must set certain borrowing limits and approve the Treasury Management Strategy, as detailed in Appendix 1.
2.	This report only covers treasury investments, investments held for service purposes or for commercial profit are considered in a separate report being taken to Full Council on 24 February 2021.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	Alternative options for borrowing would depend on decisions taken on the review of the capital update report being taken at Full Council on 24 February 2021.
DETAIL (Including consultation carried out)	
	CONSULTATION
4.	The proposed Capital Update report on which this report is based has been subject to separate consultation processes.
	BACKGROUND
5.	<p>Since 2012, the Council has pursued a strategy of internal borrowing – minimising external borrowing by running down its own investment balances and only borrowing short term to cover cash flow requirements. This has both reduced the credit risk exposure and saved the Council money in terms of net interest costs.</p> <p>If opportunities arise long term borrowing would be considered as demonstrated last year when the benchmark gilt rates for PWLB loans fell to historic lows and a £90M 15 year EIP (Equal Instalment Payment) loan was taken at 1.12% to secure this advantageous rate and add some certainty to the debt portfolio.</p>
6.	<p>As reported previously consideration continues to be given to an alternative Treasury Strategy which could generate income to support local services. This would be to invest further in external pooled funds which would require the Council to externalise some or all of debt long term which is currently being financed internally. To assist with this appraisal the Council has consulted its financial advisers, Arlingclose, to analyse the scope within the Council's current and projected balance sheet for longer-term investment, and analyse suitable longer-term asset classes and investment options available to the Council, although in the current economic environment this will be more difficult to achieve.</p> <p>Any change to the current strategy would require approval by full council and additional Treasury Training would be provided to assist members in understanding the risks and implications of any change to the current strategy.</p>
7.	<p>The strategy takes into account the impact of the Council's proposed revenue budget and capital programme, to be report to Council on 24 February 2021, on the balance sheet position, the prudential indicators and the current and projected treasury position.</p> <p>There is no longer a requirement to include indicators relating to Prudence, Affordability & Sustainability in the Treasury Strategy as they are now reported as part of the Capital Strategy which will be approved at Council on 24 February. The economic background and outlook for interest rates (Annex 2 to Appendix 1) has also been taken into account in developing this strategy.</p>

8.	The Council acknowledges that effective TM will provide support towards the achievement of its business and service objectives. It is committed to achieving value for money, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management. To assist the Council in carrying out its TM function, it has appointed TM Advisors (Arlingclose), who advise on strategy and provide market information to aid decision making. However it should be noted that the decisions are taken independently by the CFO taking into account this advice and other internal and external factors.
9.	In accordance with the MHCLG Guidance, Governance committee will be asked to approve a <i>revised Treasury Management Strategy Statement</i> should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates; material change to the Council's capital programme or in the level of its borrowing or investment balances.
10.	<p>The core elements of the 2021/22 Treasury strategy are:</p> <ul style="list-style-type: none"> • To extend the use of short term variable rate debt to take advantage of the current market conditions of low interest rates. • To constantly review longer term forecasts and to lock into longer term rates through a variety of instruments as appropriate during the year, in order to provide a balanced portfolio against interest rate risk. • To secure the best short term rates for borrowing and investments consistent with maintaining flexibility and liquidity within the portfolio. • To invest surplus funds prudently, the Council's priorities being: <ul style="list-style-type: none"> - Security of invested capital - Liquidity of invested capital - An optimum yield which is commensurate with security and liquidity. • To approve borrowing limits that provide for debt restructuring opportunities and to pursue debt restructuring where appropriate and within the Council's risk boundaries.

RESOURCE IMPLICATIONS

Capital/Revenue

11.	The revenue and capital implications are considered as part of ongoing monitoring which is reported to Cabinet each quarter and as part of the budget setting process.
12.	<p>The forecast for borrowing costs in 2021/22 is £17.41M, of which £5.55M relates to the HRA. This is made up of interest on borrowing of £9.29M (based on an average debt portfolio of £334.23M) at an average interest rate of 2.64% plus MRP and other costs of £8.12M. This is expected to rise to £27.65M (£8.30M HRA) by 2024/25 to accommodate the capital programme and refinancing of borrowing.</p> <p>Investment income for 2021/22 is forecast at £1.04M based on an average portfolio of £50M at an average of 3.68%.</p> <p>If actual levels of investments and borrowing, and/or interest rates differ from those forecast, performance against budget will be correspondently different</p>

<u>Property/Other</u>	
13.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
14.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System.
15.	<p>From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1) (a) of the 2003 Act.</p> <p>A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management.</p> <p>This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.</p>
<u>Other Legal Implications:</u>	
16.	None
POLICY FRAMEWORK IMPLICATIONS	
17.	This report has been prepared having regard with the CIPFA Code of Practice on Treasury Management.
KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Treasury Management Strategy 2021-22
2.	Treasury Management Practices
3.	Glossary of Treasury Terms
Annex 1	Treasury Management Policy Statement
Annex 2	Economic and Interest Outlook
Annex 3	Existing Investment & Debt Portfolio Position and Projections
Annex 4	Projected Movement on Capital Financing Requirement
Equality Impact Assessment	
Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out.	No

Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		No
Other Background Documents		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.	None	