

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

25 FEBRUARY 2020

REPORT OF THE INTERIM HEAD OF FINANCE AND SECTION 151 OFFICER

TREASURY MANAGEMENT AND CAPITAL STRATEGIES 2020-21 ONWARDS

1. Purpose

- 1.1 The purpose of this report is to present to Cabinet the Treasury Management Strategy 2020-21 (**Appendix A**) which includes the Treasury Management Indicators and the Capital Strategy 2020-21 to 2029-30 (**Appendix B**) which includes the Prudential Indicators before submitting for approval by Council.

2. Connections to Corporate Improvement Objectives / Other Corporate Priorities

- 2.1 This report assists in the achievement of the following corporate priorities:-
1. Supporting a successful economy – taking steps to make the county a good place to do business, for people to live, work, study and visit, and to ensure that our schools are focused on raising the skills, qualifications and ambitions of all people in the county.
 2. Helping people to be more self-reliant – taking early steps to reduce or prevent people from becoming vulnerable or dependent on the Council and its services.
 3. Smarter use of resources – ensuring that all its resources (financial, physical, human and technological) are used as effectively and efficiently as possible and support the development of resources throughout the community that can help deliver the Council's priorities.
- 2.2 Prudent treasury management arrangements will ensure that investment and borrowing decisions made by officers on behalf of the Council support smarter use of financial resources and hence assist in the achievement of our Corporate Priorities. Also, capital investment in the Council's assets is a key factor in meeting the Council's Wellbeing Objectives as set out in the Corporate Plan.

3. Background

- 3.1 Both treasury management and the control of capital expenditure are based in legislation. The Council's treasury management activities are regulated by the Local Government Act 2003, which provides the powers to borrow and invest as well as providing controls and limits on this activity. The Local Authorities (Capital Finance and Accounting) (Wales) Regulations 2003, as amended, develop the controls and powers within the Act. This requires the Council to undertake any borrowing activity with regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities and to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services.

- 3.2 The 2003 Regulations also contain detailed provisions for the capital finance and accounting controls, including the rules on the use of capital receipts and what is to be treated as capital expenditure. They modify accounting practice in various ways to prevent adverse impacts on authorities' revenue resources. The Local Authorities (Capital Finance and Accounting) (Wales) (Amendment) Regulations 2018 relaxed the constraints around loan capital transactions, specific share capital transactions and bonds placing for local authorities in Wales and enables the Council to invest in certain instruments which were previously treated as capital expenditure (for example Money Market Funds (MMF)) without the potential revenue cost of Minimum Revenue Provision (MRP) and without the proceeds from sale being considered a capital receipt.
- 3.3 As well as the legislation, the Council manages its Treasury Management and Capital activities in accordance with the following associated guidance:-
- CIPFA's Treasury Management in the Public Services: Code of Practice
 - CIPFA's The Prudential Code for Capital Finance in Local Authorities
 - The Welsh Government (WG) revised Statutory Guidance on Local Authority Investments
- 3.4 In December 2017, CIPFA published new editions of Treasury Management in the Public Services: Code of Practice and the Prudential Code for Capital Finance in Local Authorities. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is in response to changes within the marketplace with Councils diversifying their portfolios with more investment properties.
- 3.5 The revised Prudential Code placed a new requirement on local authorities from 1 April 2019 to determine a Capital Strategy, to be approved by 31 March by full Council, which demonstrates 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. Local Authorities need to have in place a Capital Strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.
- 3.6 The Capital Strategy contains the Prudential Indicators and the Treasury Management Strategy contain the Treasury Management Indicators.
- 3.7 The Capital Strategy should demonstrate how the Council ensures that all of its capital and investment plans and borrowing are prudent and sustainable. It is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services along with an overview of how associated risk is managed and the implications for future sustainability.
- 3.8 The Treasury Management Strategy requires that formal and comprehensive objectives, policies and practices, strategies and reporting arrangements are in place for the effective management and control of treasury management activities, and that the effective management and control of risk are the prime objectives of these activities.

4. Current Situation / Proposal

- 4.1 The Treasury Management Strategy 2020-21 (**Appendix A**) confirms the Council's compliance with the Treasury Management in the Public Services: Code of Practice. It also fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Welsh Government Guidance.
- 4.2 The Treasury Management Strategy is an integrated strategy where borrowing and investments are managed in accordance with best professional practice. The Council borrows money either to meet short term cash flow needs or to fund capital schemes within the capital programme but loans taken are not associated with particular assets. The Council is exposed to financial risks including the potential loss of invested funds and the effect on revenue of changing interest rates. The Council endeavours to minimise the risks by investing its funds prudently, and having regard firstly to the security of investments then to their liquidity and finally to the seeking the highest rate of return, or yield. The Strategy outlines the Council's definition of specified and non-specified investments, the financial limits for each category of investments and the approved counterparties with associated credit ratings.
- 4.3 The Capital Strategy 2020-21 to 2029-30 (**Appendix B**) was presented to the Corporate Overview and Scrutiny Committee on 13 February 2020 for information. It confirms the Council's compliance with the Prudential Code for Capital Finance in Local Authorities. It sets out the guiding principles for capital decisions as to:-
1. Focus capital investment on delivery of the Council's Objectives and Priorities
 2. Ensure strong governance over decision-making
 3. Ensure that capital plans are affordable, sustainable and prudent
 4. Maximise and promote the best use of available funds
- 4.4 The Capital Strategy sets out a framework for the self-management of capital finance and examines the following areas:
- Capital expenditure and investment plans
 - Prudential Indicators
 - External debt
 - Treasury Management

It reports on the delivery, affordability and risks associated with the long-term context in which capital expenditure and investment decisions are made.

- 4.5 The Local Authority (Capital Finance and Accounting) (Amendment) (Wales) Regulations 2008 requires the Council to produce and approve an Annual Minimum Revenue Provision (MRP) Statement before the start of the financial year. Where a Council finances capital expenditure by debt, it must put aside revenue resources to repay that debt in later years and this is charged to revenue. This Statement is attached at **Appendix B - Schedule A**.

5. Effect on Policy Framework and Procedure Rules

- 5.1 As required by 3.5 of the Financial Procedure rules, the Chief Finance Officer will be responsible for preparing a Capital Strategy for submission to Council for approval prior to the start of each financial year.

5.2 As required by 20.2 of the Financial Procedure Rules, contained within the Council's Constitution, the Chief Finance Officer will be responsible for preparing and presenting an annual Treasury Management Strategy for Council to approve prior to the start of each financial year.

6. Equality Impact Assessment

6.1 Projects within the Capital Strategy will be subject to the preparation of Equality Impact Assessments before proceeding.

7. Well-being of Future Generations (Wales) Act 2015 Implications

7.1 The report contributes to the following goals within the Well-being of Future Generations (Wales) Act 2015:

- A prosperous Wales
- A resilient Wales
- A Wales of cohesive communities
- A globally responsive Wales

7.2 The wellbeing objectives are designed to complement each other and are part of an integrated way of working to improve wellbeing for the people in Bridgend County Borough. In developing the Treasury Management and Capital Strategies, officers have considered the importance of balancing capital resources over the short-term and minimising the revenue costs of debt with longer-term objectives of managing the Council's long term capital programme. Both the Treasury Management and Prudential Indicators are forward looking and are set to support future sustainability.

8. Financial Implications

8.1 The financial implications are reflected within the report.

9. Recommendations

9.1 Cabinet is recommended to consider the report and note that the following will be presented to Council for approval:

- the Treasury Management Strategy 2020-21 including the Treasury Management Indicators 2020-21 to 2022-23 (**Appendix A**);
- the Capital Strategy 2020-21 to 2029-30 including the Prudential Indicators 2020-21 to 2022-23 (**Appendix B**);
- the Annual Minimum Revenue Provision (MRP) Statement 2020-21 (**Appendix B - Schedule A**).

Gill Lewis CPFA
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Background documents

CIPFA Code of Practice on Treasury Management in Local Authorities (Fully Revised 2017)
CIPFA The Prudential Code for Capital Finance in Local Authorities (Fully Revised 2017)