

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

23 FEBRUARY 2021

REPORT OF THE INTERIM CHIEF OFFICER – FINANCE, PERFORMANCE AND CHANGE

TREASURY MANAGEMENT AND CAPITAL STRATEGIES 2021-22 ONWARDS

1. Purpose of report

1.1 The purpose of this report is to present to Cabinet the Treasury Management Strategy 2021-22 (**Appendix A**), which includes the Treasury Management Indicators, and the Capital Strategy 2021-22 to 2030-31 (**Appendix B**), which includes the Prudential Indicators, and the Annual Minimum Revenue Provision Statement 2021-22 (**Schedule A of Appendix B**), before submitting for approval by Council.

2. Connection to corporate well-being objectives / other corporate priorities

2.1 This report assists in the achievement of the following corporate well-being objectives under the **Well-being of Future Generations (Wales) Act 2015**:

1. **Supporting a successful sustainable economy** – taking steps to make the county borough a great 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 borough.
2. **Helping people and communities to be more healthy and resilient** – taking steps to reduce or prevent people from becoming vulnerable or dependent on the Council and its services. Supporting individuals and communities to build resilience, and enable them to develop solutions to have active, healthy and independent lives.
3. **Smarter use of resources** – ensure that all resources (financial, physical, ecological, human and technological) are used as effectively and efficiently as possible and support the creation of resources throughout the community that can help to deliver the Council's well-being objectives.

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 well-being objectives. 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 (2017) and to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services (2017) (TM Code). This includes a requirement for the Council to approve a Treasury Management Strategy (TMS) before the start of each financial year which sets out the Council's and Chief Financial Officer's responsibilities, delegation, and reporting arrangements. The proposed TMS for 2021-22 is attached as **Appendix A**.
- 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 The 2017 version of CIPFA's Prudential Code for Capital Finance in Local Authorities placed a requirement on local authorities to determine a Capital Strategy, to be approved by 31 March each year 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. The Strategy needs to set out the long-term context in which capital expenditure and investment decisions are made and give due consideration to both risk and reward and impact on the achievement of priority outcomes. The proposed Capital Strategy 2021-22 to 2030-31 is attached as **Appendix B**.
- 3.4 As well as the legislation, the Council manages its Treasury Management and Capital activities in accordance with the Welsh Government (WG) revised Statutory Guidance on Local Authority Investments.

4. Current situation/proposal

Treasury Management Strategy

- 4.1 The Treasury Management Strategy 2021-22 at **Appendix A** confirms the Council's compliance with the CIPFA Code, which 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. It also contains the Treasury Management Indicators for a three year rolling period.
- 4.2 The Treasury Management Strategy has been updated to reflect the current economic context, not least the holding of interest rates at 0.10% by the Bank of England, but also the challenges of the exit from the European Union and the impact of the coronavirus pandemic.
- 4.3 The maturity of long term debt has been included, and the forecast is that the Council may need to borrow over the next 2 years to support the Capital Programme. To date the Council has been able to use reserves to support its capital expenditure, known as internal borrowing. However this position is a short-term one and as reserves are used and balances reduced, it will be necessary to borrow. This will be closely monitored during the year as changes to the Capital Programme will influence this.
- 4.4 An important amendment to the Treasury Management Strategy reflects the revised lending terms for Public Works Loan Board (PWLB) borrowing by local authorities, which sets out that local authorities purchasing assets primarily for yield in the current or future two financial years will be precluded from borrowing from the PWLB. Given the need to support the capital programme through borrowing it is unlikely that that Council would therefore seek to invest in any land or buildings primarily for a financial return.
- 4.5 The approved investment counterparties and limits (Table 6 in the TMS) has been simplified and amended to take account of the latest advice from the Council's Treasury Advisors, Arlingclose. There has been a change to the limits for Money Market Funds, which had been increased to £30 million as approved by Council in November 2020. This limit has been removed so that there is no overall limit on investments in Money Market Funds. However, no more than £6 million would be invested in any single Fund, to minimise any potential impact of default risk to the Council.
- 4.6 The Council may make loans to third parties for the purpose of capital expenditure. The proposed limit for such loans has been increased from £1 million to £2 million. This is to support potential investment in a Special Purpose Vehicle to support the delivery of the proposed Bridgend Town Heat Network.

Capital Strategy

- 4.7 The Capital Strategy at **Appendix B** gives 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. In doing so, it includes the prescribed Prudential Indicators for a three year rolling period.
- 4.8 The principles within the Capital Strategy at **Appendix B** have been applied to the allocation of capital resources and schemes within the Capital Programme included within the Medium Term Financial Strategy (MTFS). This will be approved by Council before the start of the financial year in accordance with the Constitution. Following approval, any schemes for which external funding has been approved will be added to the capital programme once the funding has been accepted and included in the next capital programme report to Council. Urgent expenditure not included in any budget approval, which needs to be agreed prior to the next meeting of Council, may only be incurred with the approval of the Chief Finance Officer.
- 4.9 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.

- 4.10 Whilst much of the content of the Strategy is similar to previous years, there are a number of changes which need highlighting:

4.10.1 Accounting for Leases

Changes to Accounting for Leases will have an impact on the Capital Strategy as current operating leases, where costs are currently charged to revenue, will have to be brought onto the balance sheet as a 'right of use' asset, which will increase the Council's capital financing requirement. The implementation of these changes has been delayed to the 2022-23 financial year, by CIPFA/LASAAC (Local Authority (Scotland) Accounts Advisory Committee) due to the impact of the Coronavirus pandemic, and consequently the impact of these changes is still under review. The Capital Strategy will need to be amended once these impacts are known, in advance of Council formally approving the 2022-23 Strategy. This is detailed within section 2.1 of the Capital Strategy.

4.10.2 Borrowing for Commercial Activities

An important change to the strategy relates to changes to the lending terms of the PWLB in respect of borrowing by local authorities for commercial activities, as set out in section 3.4 of the Strategy. As a condition of borrowing from the PWLB, local authorities will have to confirm that there is no intention to buy investment assets primarily for yield in the current, or next two financial years, irrespective of how that purchase will be financed. This may act as a barrier to investing in commercial assets for return as other elements of the capital programme will require borrowing in order to deliver a number of schemes, and this would become prohibitive.

4.10.3 Recommendations from Internal Audit

Following an internal audit review of capital expenditure and feasibility studies, the recommendation to require a detailed feasibility assessment of capital projects has been added at Section 5.0, and the need for a post project evaluation to learn from best practice is included at section 5.3.

5. Effect upon 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. Paragraph 20.3 of the Financial Procedure Rules (FPRs) requires that all investments and borrowing transactions shall be undertaken in accordance with the Council's Treasury Management Strategy as approved by Council.

6. Equality Impact Assessment

6.1 There are no equality implications directly attached to this report. 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 Act provides the basis for driving a different kind of public service in Wales, with 5 ways of working to guide how public services should work to deliver for people. The following is a summary to show how the 5 ways of working to achieve the well-being goals have been used to formulate the recommendations within this report:

- **Long-term:** the consideration and approval of this report will assist in the capital planning and treasury management activities in both the short and

long-term. The Prudential Indicators are forward looking and are set to support future sustainability.

- **Prevention:** the consideration and approval of this report will assist in the planning of capital expenditure by approving projects and funding thereof to support future service delivery for the benefit of communities. Ensuring the Council has in place an approved Treasury Management Strategy will ensure that the Council manages its cash flows appropriately.
- **Integration:** the report supports all the well-being objectives.
- **Collaboration:** the Capital Strategy ensures collaboration across the Council in the delivery of its Capital Programme.
- **Involvement:** publication of the report ensures that the public and stakeholders can review the strategies, which are considered by Governance and Audit Committee (Treasury Management Strategy) and Scrutiny Members (Capital Strategy).

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 2021-22 including the Treasury Management Indicators 2021-22 to 2023-24 (**Appendix A**);
- the Capital Strategy 2021-22 to 2030-31 including the Prudential Indicators 2021-22 to 2023-24 (**Appendix B**);
- the Annual Minimum Revenue Provision (MRP) Statement 2021-22 (**Appendix B - Schedule A**).

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Background documents:

CIPFA Code of Practice on Treasury Management in Local Authorities (2017)
CIPFA Prudential Code for Capital Finance in Local Authorities (2017)
Welsh Government Statutory Guidance on Local Government Investments (2019)