

BRIDGEND COUNTY BOROUGH COUNCIL

REPORT TO CABINET

22 FEBRUARY 2022

REPORT OF THE CHIEF OFFICER – FINANCE, PERFORMANCE AND CHANGE

TREASURY MANAGEMENT AND CAPITAL STRATEGIES 2022-23 ONWARDS

1. Purpose of report

- 1.1 The purpose of this report is to present to Cabinet the Treasury Management Strategy 2022-23 (**Appendix A**), which includes the Treasury Management Indicators, and the Capital Strategy 2022-23 to 2031-32 (**Appendix B**), which includes the Prudential Indicators, and the Annual Minimum Revenue Provision Statement 2022-23 (**Section 7 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 well-being 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). CIPFA issued a revised Treasury Management Code of Practice in December 2021, with full implementation from 2023-24. The TM code 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 2022-23 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 In December 2021, the Chartered Institute of Public Finance and Accountancy (CIPFA) published a new edition of the Prudential Code for Capital Finance in Local Authorities. The Code requires local authorities to determine a Capital Strategy, to be approved 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 2022-23 to 2031-32 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 2022-23 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, including the ongoing impact from coronavirus together with higher inflation and higher interest rates following the Bank of England's increase in interest rates to 0.25% in December 2021 and then again more recently to 0.50% on 2 February 2022.
- 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 3 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 and level of reserves will influence this.
- 4.4 In December 2021 CIPFA published a new edition of the Prudential Code for Capital Finance in Local Authorities (the Prudential Code). This update includes a significant change in the Code which is, that in order to comply with the Code, an authority must not borrow to invest primarily for financial return. The Code does not require existing commercial investments, including property, to be sold. However, it does set out that authorities that have a need to borrow should review options for exiting their financial investments for commercial purposes. Given the investment and borrowing requirement to support the Capital Programme, the Council does not intend to invest purely for financial return.
- 4.5 The approved investment counterparties and limits (**Table 6 in Appendix A**) are in line with the latest advice from the Council's Treasury Advisors Arlingclose. There have been no changes to these for 2022-23.

Capital Strategy

- 4.6 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.
- 4.7 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.

4.8 The Capital Strategy sets out a framework for the self-management of capital finance and examines the following areas:

- Capital Strategy Framework
- Asset Management Planning
- Risk
- Governance and Decision Making
- Capital investment programme and funding
- Managing borrowing

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

4.9 The Capital Strategy has been updated to reflect the latest CIPFA Capital Strategy Guidance 2021 and its layout is much changed from previous years. It aims to provide the strategic context for capital investment, and how the Council manages risk in relation to the Capital Programme. It also provides a focus on managing the level of debt to finance capital expenditure and appropriate levels of borrowing. Some of the key changes are noted below.

4.9.1 Capital Strategy Framework

The Capital Strategy is the policy framework document that sets out the principles to be used to guide the allocation of capital investment across the Council's services. It is an integral part of the Council's Budget and Policy Framework, as set out on page 4 of the Capital Strategy.

4.9.2 Risk

All projects involve an element of risk, and managing that risk is crucial in contributing towards the successful completion of projects. A particular risk currently facing the Council is the impact of inflation on costs of capital works and challenges in the timing of securing supplies to undertake such works. This is reflected within the section on Risk. Included also is the potential impact of recent changes to restrict Public Works Loans Board (PWLB) borrowing solely for commercial yield. This is also emphasised in the revised CIPFA Prudential Code for Local Authorities. Given the need to borrow to support significant schemes such as 21st Century Schools Band B programme, it is unlikely the

Council would wish to consider borrowing purely for commercial reasons as this would prevent it from accessing PWLB borrowing for the Band B programme.

4.9.3 Governance and Decision Making

This section brings together the prioritising of capital schemes, what happens with approvals during the year, how the programme is monitored throughout the year and post project evaluation.

4.9.4 Capital Investment Programme 2022/23 to 2031/32 and Financing

Section 4.0 of the Capital Strategy summarises the 10-year Capital Programme in line with the Council's corporate well-being objectives. It identifies some of the key projects within the programme and references the detailed 10-year Capital Programme at **Appendix 2** of the Capital Strategy. Key indicators are then included at section 5.0 – Funding the Strategy and Section 6.0 – Managing the Borrowing Requirement. These Performance Indicators are crucial in determining the effective management of borrowing to support the Capital Programme and are reported to Cabinet and Council on a quarterly basis.

4.9.5 Minimum Revenue Provision Policy Statement

The Minimum Revenue Provision Policy Statement is now included within the Capital Strategy as a separate section, rather than an Appendix. This ensures its importance of setting aside revenue resources to repay borrowing.

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 22.2 of the Financial Procedure Rules (FPRs), 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 22.3 of the 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 2010 implications

6.1 The protected characteristics identified within the Equality Act, Socio-economic Duty and the impact on the use of the Welsh Language have been considered in the preparation of the report. As a public body in Wales the Council must consider the impact of strategic decisions, such as the development or review of policies, strategies, services and functions. Projects within the Capital Programme will be subject to the preparation of Equality Impact Assessments before proceeding. However, it is considered that there will be no significant or unacceptable equality impacts as a result of this report.

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 recommend that the following be presented to Council for approval:

- the Treasury Management Strategy 2022-23 including the Treasury Management Indicators 2022-23 to 2024-25 (**Appendix A**);
- the Capital Strategy 2022-23 to 2031-32 including the Prudential Indicators 2022-23 to 2024-25 (**Appendix B**);
- the Annual Minimum Revenue Provision (MRP) Statement 2022-23 (**Appendix B – Section 7**).

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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)
CIPFA Prudential Code for Capital Finance in Local Authorities (2021)
Welsh Government Statutory Guidance on Local Government Investments (2019)