

Treasury Management Strategy 2020/21 26 February 2020

Report of Cabinet

PURPOSE OF REPORT

This report sets out the 2020/21 treasury management framework for Council's approval.

This report is public.

RECOMMENDATIONS:

- (1) **That the Council notes the report and approves the Treasury Management Framework and associated Prudential Indicators as set out in Appendices A to C.**

1 INTRODUCTION

- 1.1 The Code of Practice on Treasury Management ("the Code") requires that a strategy outlining the expected treasury activity for the forthcoming 3 years be adopted, but that it be reviewed at least annually. It needs to reflect treasury policy and cover various forecasts and activities, in order to integrate the Council's spending and income plans with decisions about investing and borrowing.
- 1.2 Over the years, the regulatory and economic environment has changed significantly and this has led the sector to consider more innovative types of investment activity. Reflecting this, Members will be aware that changes have been made regarding the capital and treasury management framework.
- 1.3 The main objective of these changes was to respond to the major expansion of local authority investment activity over the last few years into the purchase of non-financial investments, particularly property. The updated framework distinguishes between treasury management activities and investment in non-financial investments.
- 1.4 Treasury management activities represent the placement of residual cash held in the bank resulting from the authority's day to day activities in relation to s12 Local Government Act investment powers. The Treasury Management Strategy, therefore deals principally with investments and borrowing.
- 1.5 Non-treasury investments include commercial investments where the objective is primarily to generate capital or revenue resources. The resources generated help facilitate the delivery of council services.

- 1.6 The Prudential Code 2017 also introduced a new requirement to produce an annual capital strategy. This is an over-arching corporate document which deals with the key areas of strategic context, corporate priorities, capital investment ambition, available resources, affordability, capacity to deliver, risk appetite, risk management and determining an appropriate split between non-financial and treasury management investments in the context of ensuring the long term financial sustainability of the authority. It sets the context for the Treasury Management and Investment Strategies.

2 TREASURY MANAGEMENT FRAMEWORK

- 2.1 The proposed Strategy for 2020/21 to 2023/24 is set out at **Appendix C** for Cabinet's consideration. The document contains the necessary details to comply with both the Code and Government investment guidance. The strategy put forward reflects the more ambitious nature of the Council and facilitates the principles outlined in both the Funding the Future and Property Investment Strategies. Responsibilities for treasury management are set out at **Appendix A** and the policy statement is presented at **Appendix B**.
- 2.2 Key elements and assumptions feeding into the proposals are outlined below. These take account of Cabinet's existing budget proposals as far as possible at this stage. Should there be any changes to the budget, then the treasury framework would need to be updated accordingly before being referred on to Budget Council. For these reasons, delegated arrangements are being sought for finalising the framework.

3 BORROWING ASPECTS OF THE STRATEGY

- 3.1 Based on the draft budget, the overall physical borrowing position of the Council is projected to increase significantly over the next three to five years from its current position of £62M to £118M (2021/22) potentially raising to £162M (2023/24) as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities.
- 3.2 This level of borrowing is assessed for affordability, sustainability and prudence in line with the Council's Treasury Management Strategy and requires annual approval by Council. Changes in the Council's Capital Financing Requirement and forward borrowing projections are summarised below

Table 1: Capital Financing Requirement

	2018/19 Actual £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M
Capital Financing Requirement						
CFR – Non Housing	43.55	43.33	57.67	68.00	77.91	81.25
CFR – Housing	39.34	38.29	37.25	36.21	35.17	34.13
CFR – Commercial activities/non-financial investments	0.00	15.00	30.75	46.19	61.62	77.06
Total CFR	82.89	96.62	125.67	150.40	174.70	192.44

Table 2: Borrowing Projections

	2018/19 Actual £M	2019/20 Estimate £M	2020/21 Estimate £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M
External Debt						
Debt at 1 April	64.21	63.17	62.13	94.09	118.05	143.01
Expected change in Debt	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)	(1.04)
Other long-term liabilities (OLTL)	0.00	0.00	0.00	0.00	0.00	0.00
Expected change in OLTL	0.00	0.00	33.00	25.00	26.00	20.00
Actual gross debt at 31 March	63.17	62.13	94.09	118.05	143.01	161.97
The Capital Financing Requirement	82.89	96.62	125.68	150.40	174.70	192.43
Under Borrowing	(19.72)	(34.50)	(31.59)	(32.35)	(31.69)	(30.46)

4 INVESTMENT ASPECTS OF THE STRATEGY

- 4.1 Where short term treasury management investments are required the Council retains a comparatively low risk appetite with focus on high quality deposits. The 2020/21 strategy continues to use the same short term investment criteria as approved by Members in 2019/20.
- 4.2 The proposed investment aspects of the strategy for treasury activities continues to provide for investing with other local authorities given that these, in effect, are as secure as investing with the Government but they offer greater returns, and from an Officer perspective, it makes sense to keep the benefits of such temporary cash investing/borrowing wholly within the local authority family. Where this is not possible for liquidity reasons the Council is looking to place more emphasis on investment counterparties that are consistent with its own Priorities in particularly around climate change and ethical investments.

5 CONSULTATION

- 5.1 Officers have liaised with Link Asset Services, the Council's Treasury Advisors, in developing the proposed framework. The framework will be considered by Budget and Performance Panel at its meeting on 18 February.

6 CONCLUSION

- 6.1 The Treasury Management Framework must fit with other aspects of the budget, such as such as commercial investments together with traditional deposit interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators
- 6.2 Any alternative proposals or amendments to the proposed Strategy in **Appendix A** would have to be considered in light of legislation, professional and economic factors, and importantly, any alternative views regarding the Council's approach to risk

RELATIONSHIP TO POLICY FRAMEWORK

The proposed Treasury Management framework forms part of the Council's budget and policy framework, and fits into the Medium Term Financial Strategy.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc) No direct implications arising.

FINANCIAL IMPLICATIONS

The Strategy is in support of achieving the borrowing cost and investment interest estimates included in the budget.

OTHER RESOURCE IMPLICATIONS

None directly arising.

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has authored this report and his comments and advice are reflected in its content.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

None

Contact Officer: Paul Thompson

Telephone: 01524 582603

E-mail: pthompson@lancaster.gov.uk