

Report to: **Council**

Date: **30 April 2020**

Title: **2020/21 Capital Strategy, 2020/21 Treasury Management Strategy and 2020/21 Investment Strategy**

Portfolio Area: **Support Services – Cllr H Bastone**

Wards Affected: **All**

Urgent Decision: **N** Approval and clearance obtained: **Y**

Date next steps can be taken: Full Council

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**Recommendations:**

- 1. That the Council approves the 2020/21:**
  - (a) Capital Strategy (as attached at Appendix A);**
  - (b) Treasury Management Strategy (as attached at Appendix B); and**
  - (c) Investment Strategy (as attached at Appendix C);**
  
- 2. That delegated authority be given to the Section 151 Officer, in consultation with the Leader of the Council and the lead Executive Member for Finance, to make minor amendments to these Strategies if required throughout the 2020/21 Financial Year.**

**1. Executive summary**

- 1.1 This report seeks approval of the proposed Capital Strategy, Investment Strategy and Treasury Management for 2020/21, together with their associated prudential indicators.

- 1.2 Revised reporting is required since the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes included the introduction of a capital strategy, to provide a longer-term focus to the capital plans and greater reporting requirements surrounding any commercial activity undertaken.
- 1.3 The current guidance for a Council's level of borrowing is the Prudential Code (2017) and as "proper practice" must be adhered to. The following extracts from the Code summarise the Code's approach to level of borrowing (self-regulating) and the governance that should apply.

"the local authority shall ensure that all its capital and investment plans are affordable, prudent and sustainable.

'A local authority shall determine and keep under review how much money it can afford to borrow.'

"the level of capital investment that can be supported will, subject to affordability and sustainability, be a matter for local discretion"

**Capital Strategy** - As from 2019/20, all local authorities are required to prepare an additional Capital Strategy report. The Capital Strategy for 2020/21 is attached in Appendix A.

In 3.5.3, the Capital Financing Requirement, the measure of the Council's underlying need to borrow for the capital programme, has been projected to be £34.4 million for 2020/21. Within the limits and estimates set out within the Strategies in this report, there is headroom for renewable energy projects, the Dartmouth Health and Wellbeing Hub and the Community Housing projects.

5.3 of the Capital Strategy sets out that the Council is currently undertaking due diligence work on the opportunity for the Council to purchase shares in a Special Purpose Vehicle (SPV) so as to own, operate or invest in renewable energy generation. This business case would also involve the Council entering into a loan in 2020/21 at a commercial rate with the Special Purpose Vehicle.

The due diligence work is currently in progress.

**Investment Strategy** - The guidance includes a new requirement for Councils to prepare an Investment Strategy since 2019/20. Councils are required to prepare indicators that enable Members and the public to assess the Council's investments and

the decisions taken. The new indicator measures net commercial income as a percentage of net service expenditure and total investment exposure.

**Treasury Management Strategy** - Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to the CIPFA Code.

- 1.4 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout all three of the Strategies presented for approval.

## **2. Outcomes/outputs**

- 2.1 The budget for investment income has been increased by £20,000 from 2019/20 and has been set at £203,000 in 2020/21. The recent reduction of the Bank of England Base Rate to 0.1% on 19<sup>th</sup> March 2020, will mean that the Council is unlikely to achieve this budgeted income in 2020/21 and this will be reported in the next Budget Monitoring report for 2020/21.
- 2.2 External treasury management training (by Link Services) was arranged for all Members in March 2020 to ensure Members have up to date skills to continue to make capital and treasury management decisions.

## **3. Options available and consideration of risk**

- 3.1 It is a statutory requirement for the Council to annually approve its Capital Strategy, Treasury Management Strategy and Investment Strategy. This was originally scheduled to be an agenda item on both the Audit Committee meeting and the Council meeting on 26<sup>th</sup> March 2020. These meetings were cancelled due to the COVID19 pandemic and the Strategies have been presented to Council for approval at this meeting.

## **4. Proposed Way Forward**

- 4.1 It is recommended for the Council to approve the Capital Strategy (Appendix A), Treasury Management Strategy (Appendix B) and Investment Strategy (Appendix C) for 2020/21.

## 5. Implications

Implications	Relevant to proposals Y/N	Details and proposed measures to address
Legal/Governance	Y	<p>The elements set out in paragraph 2 cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.</p> <p>It is within the Terms of Reference of the Audit Committee to receive regular reports on the treasury management function.</p> <p>It is within the Terms of Reference of the Executive to receive regular monitoring reports on the Council's Capital Programme and Capital Plans.</p>
Financial implications to include reference to value for money	Y	<p>Good financial management and administration underpins the entire treasury management strategy. The budget for investment income for 2020/21 has been set at £203,000.</p> <p>The recent reduction of the Bank of England Base Rate to 0.1% on 19<sup>th</sup> March 2020 will mean that the Council is unlikely to achieve this budgeted income in 2020/21 and this will be reported in the next Budget Monitoring report for 2020/21.</p>
Risk	Y	<p>The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation. The Council produces an Annual Capital Strategy, Investment Strategy and Treasury Management Strategy in accordance with CIPFA guidelines.</p> <p>The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and the Executive as part of budget reports.</p>

Supporting Corporate Strategy		The treasury management function supports all six of the Corporate Strategy Themes of Council, Homes, Enterprise, Communities, Environment and Wellbeing.
Climate Change - Carbon / Biodiversity Impact		Recently the Council has prioritised tackling Climate Change by moving a motion to declare a Climate Change Emergency and targeting proactive measures to meet these challenges. As a result of this, in December 2019 the Council approved (Minute C53/19) a revised Commercial Investment Strategy in order to enable the Council to invest (and to borrow to invest) in renewable energy.
<i>Comprehensive Impact Assessment Implications</i>		
Equality and Diversity		None directly arising from this report.
Safeguarding		None directly arising from this report.
Community Safety, Crime and Disorder		None directly arising from this report.
Health, Safety and Wellbeing		None directly arising from this report.
Other implications		None directly arising from this report.

### **Supporting Information**

#### **Appendices:**

Appendix A – Capital Strategy 2020/21

Appendix B – Treasury Management 2020/21

Appendix C – Investment Strategy 2020/21

#### **Background Papers:**

Council: 21 March 2019 - Capital Strategy 2019/20, Investment Strategy 2019/20, Treasury Management Strategy 2019/20 (C67/18)

Council: 19 December 2019 - Updated Investment Strategy 2019/20 and Capital Strategy (C53/19 – Appendix B and Appendix C)

Audit Committee: 7 November 2019 - Treasury Management Mid Year Review 2019/20 (A24/19)