Report Number: SWT 57/22

Somerset West and Taunton Council

Full Council – 29 March 2022

Capital, Investment and Treasury Strategies 2022/23 to 2024/25

This matter is the responsibility of Executive Councillor Ross Henley

Report Author: John Dyson, Corporate Finance Manager (Interim)

1 Executive Summary / Purpose of the Report

1.1 The purpose of this report is to bring to Members three recommended strategies covering Capital, Investment and Treasury Management (CIT Strategies) for their consideration and adoption.

1.2 Appendix A to this report combines three Strategies together with the Council's Minimum Revenue Provision (MRP) Statement. Its format has been developed to meet the requirements of statutory guidance issued under Part 1 of the Local Government Act 2003, with particular reference to CIPFA's Prudential Code of Practice and Treasury Management Code of Practice.

2 Recommendations

2.1 Full Council is recommended to approve the CIT Strategies and MRP Statement for adoption with effect from 1 April 2022.

3 Background and Full Details of the Report

3.1 In line with regulatory guidance, the Council is required to produce a Capital Strategy, and Investment Strategy and a Treasury Management Strategy annually. These have again been combined into a draft consolidated document as Appendix A to this report. Appendix A also contains the Minimum Revenue Provision (MRP) Statement, which is also an annual requirement to be set by the Council.

3.2 It is recognised this is a large document that contains complex information and draws from a multitude of information sources. Most notably, the Strategies combine with and sit alongside the annual Revenue Budges and Capital Programme for the General Fund and the Housing Revenue Account.

3.3 The report is also expanded to include a range of graphs and charts that may make some of this information more accessible to a wider audience. Whilst the Assistant Director – Finance (S151 Officer) has explored potential to make this report and future iterations into a condensed strategy document, new and lengthy Code updates (published in late December 2021, with parts released as late as February 2022) have signalled greater emphasis on the need to prepare robust and detailed Capital, Investment and Treasury Strategies by local authorities.

3.4 The capital programme for the Housing Revenue Account (HRA) was approved by Council on 8 February. The Executive agreed the recommended capital programme for the General Fund, with amendment, on 9 February with the General Fund full Budget Report presented to Council for approval at its meeting on 24 February 2022. A minority of aspects of this Draft strategy document will be finalised after this report is published for Scrutiny.

3.5 Aligned with the Council's approved programme of investment in Commercial Properties with a view to generating yield, HM Treasury and CIPFA have been instrumental in their expectations for local authorities ceasing making these types of investment after publication of the new CIPFA Prudential Code in December 2021. Central government had already announced changes with effect from 26 November 2020 that prevents use of PWLB (Public Works Loans Board) borrowing for financing commercial property acquisitions.

3.6 The impact of these substantial developments is covered in detail within the Strategies in Appendix A.

3.7 Meanwhile, the Council has still been able to deliver its CIT Strategies without breaching any of the parameters of the revised Codes of Practice, and ongoing financing of capital investment remains fully achievable.

4 Links to Corporate Aims / Priorities

4.1 The Capital, Investment and Treasury Management strategies support the delivery of all Corporate Aims.

5 Finance / Resource Implications

5.1 Any financial / resource implications are contained within the Appendix to this covering report.

6 Legal Implications

6.1 None in respect of this report.

7 Scrutiny Comments / Recommendation(s)

7.1 The report was considered by the Corporate Scrutiny Committee on 2 March 2022. The recommendation was supported.

7.2 The Committee identified that, within the Capital Strategy, Paragraph 3.8 contains an error in the typing following updated figures. The first sentence of text in that paragraph is to be substituted with:

"3.8 The CFR is expected to increase by £26.71million during 2022/23 (comprising £10.44million for the General Fund and £16.27million for the HRA)."

7.3 The main comments/ discussion points were:

a) The level of qualifications (in particular CIPFA qualification) possessed by the Finance team was examined; this Council's Finance team carries a high coverage of professional accountancy qualifications, including CIPFA.

b) The importance of managing the Risk Register was raised, reflecting the speed at which volatility and uncertainty is creeping into economic markets; officers reported that, the Risk Register is managed on an ongoing basis across the authority. In relation to Treasury Management, the approach taken pays great attention to the management of risk, spreading risk through the composition and management of treasury portfolios and drawing upon the expertise of the Council's appointed external treasury advisors.

c) The drop in net income from Commercial Investments (Table 9) from £4.49m in 2022/23 to £3.36m in 2023/24 and into 2024/25 was queried. Officers reported that the budget has made allowance for increasing costs from potential interest rate rises, building in the worst-case outcome (at the time of reporting) for those costs. The risk of yet further rate interest increases is recognised, and estimates are updated as we follow the markets; also, each year, the Council does reduce debt by setting aside proper provision.

d) Members asked for an indication of the split between short-term borrowing and long-term borrowing; the current portfolio was briefly examined and identified that 28% of borrowing is short-term (below one-year to maturity), 72% is long-term (duration of one-year and over). The substantial portion of long-term loans relates to HRA loans.

e) Members considered that the report differentiates between short- and long-term borrowing, but that medium-term borrowing is not quite so obvious to identify. The merits of considering medium-term borrowing opportunities were positively regarded by Members. In response, officers identified that medium-term borrowing opportunities have been taken, whilst all loan durations remain under consideration. A balance is being drawn between the legacy of debt that may be handed across to the new Unitary Council and providing opportunities for the new authority to ascertain its future direction of travel in respect of capital investment and financing. Meanwhile, Members were advised that year-end reporting of this Council's treasury portfolios is planned to provide clearer analysis of short- medium- and long-term borrowing.

f) Aligned with the additional recommendation concerning the correction of Paragraph 3.8 of the Capital Strategy, the Committee wished to draw to the attention of the Executive that there needs to be a clear understanding of when the figures are current and when they change.

g) Members highlighted that, in the Capital Strategy, Table 4 depicts spending of 21.53% of the Council's 2021/22 budget on interest, increasing each year thereafter to 38.76% in 2024/25. This raises concern regarding long-term sustainability. Officers explained that compilation of the existing table follows CIPFA definitions; in the case of this Council's finances, measuring the cost of borrowing against a low-value net revenue stream over-emphasises the level of risk. A better alternative is to measure the financing costs as a proportion of Turnover, which places the risk into context against total income. (This alternative Table 4 has now been incorporated into this report to the Executive).

h) Other queries and comments raised by the Committee covered the following issues:
   - Protecting against hyperinflation.

- More-stringent reporting rules likely (from CIPFA, HM Treasury, etc).
- The Council faces greater year-end probity by external auditors.
- There is clearly added complexity in borrowing arrangements with a growing impact on officer time; the high degree of responsive management and due care does, in turn, benefit the Council in terms of controlling both cost and risk.
- The Committee would like to receive further updates on Treasury Management activities, particularly on the approach to formation of the new Unitary Council.

7.4

Democratic Path:

- Corporate Scrutiny Committee – 2 March 2021
- Audit and Governance Committee – 14 March 2021
- Executive – 16 March 2021
- Full Council – 29 March 2021

Reporting Frequency: Annually

List of Appendices

Appendix A	Capital, Investment and Treasury Strategies 2022/23 to 2024/25

Contact Officers

Name	Paul Fitzgerald
Direct Dial	01823 217557
Email	p.fitzgerald@somersetwestandtaunton.gov.uk

Name	John Dyson
Direct Dial	01823 356468
Email	j.dyson@somersetwestandtaunton.gov.uk