



Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	AUDIT COMMITTEE – 28 JANUARY 2021
Report Number	AGENDA ITEM 13
Subject	CAPITAL, INVESTMENT AND TREASURY MANAGEMENT STRATEGIES 2021/22
Wards affected	ALL
Accountable member	Cllr Mike Every, Deputy Leader and Cabinet Member for Finance Email: Mike.Every@cotswold.gov.uk
Accountable officer	Jenny Poole, Chief Finance Officer Email: jenny.poole@cotswold.gov.uk
Summary/Purpose	The purpose of this report is to present the draft Capital, Investment and Treasury Management Strategies 2021/22 for consultation as part of the budget setting process.
Annexes	Annex A – Draft Medium Term Financial Strategy Annex B – Capital Strategy Annex C – Investment Strategy Annex D – Treasury Management Strategy
Recommendation/s	<i>That Audit Committee considers the draft Capital, Investment and Treasury Management Strategies for 2021/22 and provides feedback to the Cabinet for consideration as part of the Council's budget setting process.</i>
Corporate priorities	The draft budget for 2021/22 reflects the financial implications of the Council Priorities as approved in the Council Plan in September 2020.
Key Decision	NO
Exempt	NO
Consultees/ Consultation	The Medium Term Financial Strategy and draft Budget for 2021/22 has been developed in consultation with the Council's statutory officers, Publica management, Ubico management, and members of the Cabinet. Consultation has been carried out with members of the Overview and Scrutiny Committee and with the District's residents, businesses and community organisations.

1. BACKGROUND

- 1.1. Cabinet approved its draft Medium Term Financial Strategy (MTFS) for the period 2021/21 to 2024/25 and the associated budget proposals for 2021/22 for consultation on 7 September 2020. The Overview and Scrutiny Committee considered the proposed MTFS and 2021/22 budget on 1 December 2020. The budget and MTFS have now been updated to reflect the following:
 - A. The government's announcement of the provisional local government settlement 2021/22;
 - B. Estimates of the income from the Business Rates Retention Scheme 2021/22;
 - C. Estimated council tax base 2021/22 and the Collection Fund deficit from council tax collection in 2020/21; and
 - D. Provision for changes which have arisen since 7 September 2020;
- 1.2. The MTFS, attached as **Annex A**, has been updated to reflect all of the above changes and the draft Capital, Investment and Treasury Management Strategies have been prepared using the latest iteration of the MTFS and the detailed budget proposals for 2021/22.
- 1.3. The Audit Committee fulfils the role of the Council's Treasury Management Advisory Panel. The Audit Committee's role is to consider the draft Capital, Investment and Treasury Management Strategies and to provide views to the Cabinet for consideration as part of the Council budget setting process. Council will also consider the views of the Audit Committee when setting the Budget and MTFS in February 2021.

2. MAIN POINTS

- 2.1. Local authorities are legally obliged to "have regard" to the CIPFA Treasury Management Code and the Prudential Code by relevant Capital Finance Regulations.
- 2.2. Local authority investment decisions in property and assets as a means to generate income have been under increased scrutiny in the past year. This has resulted in changes to the Treasury Management Code, the Prudential Code and increased scrutiny on loans from the Public Works Loan Board.
- 2.3. The Council is required to approve a Capital Strategy, an Investment Strategy as well as a Treasury Management Strategy. The three Strategies also link with the Council's Capital Programme, Medium Term Financial Strategy and the detailed budgets for 2021/22. Any changes to the draft Capital Programme, Medium Term Financial Strategy or 2021/22 revenue budget require changes to the three Strategic documents. Cabinet and Council will consider a report which brings together all of these strategic documents in February 2021.
- 2.4. The proposed Capital Strategy for 2020/21 is attached as **Annex 'B'**, the Investment Strategy is attached as **Annex 'C'** and the Treasury Management Strategy is attached as **Annex 'D'**.
- 2.5. The draft Strategies have been based on a template provided by the Council's treasury advisors, Arlingclose, which has been modified to this Council's circumstances.

- 2.6. The Treasury Management Strategy investment options have been selected to minimise the risk to the Council's investments whilst providing the scope and flexibility of investment options to enable the Council to maximise its investment returns.
- 2.7. In response to the Council's Climate Emergency declaration, an additional policy on Environmental, Social and Governance Investment is in development. The Council is working with its treasury advisors, Arlingclose, on this draft policy. The policy will be presented to the next Audit Committee for consideration.
- 2.8. The views of the Audit Committee will be reported to Cabinet and Council during February 2021.

3. FINANCIAL IMPLICATIONS

- 3.1. The savings due from the Council's Recovery Investment Strategy and the income from Treasury Management transactions are included in the Council's Medium Term Financial Strategy and detailed budget proposals for 2021/22. The Cabinet will consider these proposals in February 2021.
- 3.2. With the Bank of England base rate now at an historical low of 0.1%, the 2021/22 budget includes a reduction of income from Treasury Management investment returns of £189,000. The 2020/21 budget of £545,000 reduces to £356,000 in 2021/22.

4. LEGAL IMPLICATIONS

- 4.1. None directly as a result of this report.

5. RISK ASSESSMENT

- 5.1. There are risks of financial institutions failing given the current economic conditions. These risks are mitigated through application of the Council's Treasury Management Strategy. The strategy sets out the minimum credit criteria that are required before the Council will invest with a counterparty, but it should be noted that these are not the sole criteria applied. For example, credit default swaps and information from the financial press will also be taken into account.
- 5.2. There are risks of interest rates remaining low over the medium term which impact upon the Council's ability to generate investment income. These risks are considered in the draft Treasury Management Strategy, the Capital Strategy and the Medium Term Financial Strategy and the associated Budget detailed budget papers.
- 5.3. The processes for identification and management of risks associated with the Capital Strategy are set out within the document.

6. ALTERNATIVE OPTIONS

- 6.1. The Audit Committee can recommend changes to the draft Strategies for the Cabinet and Council to consider.