

TREASURY MANAGEMENT STRATEGY 2021/22 - UPDATE

SUMMARY:

The purpose of this report is to inform Members' of the changes will be made to the Council's Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy for 2021/22.

RECOMMENDATIONS:

It is recommended that the committee note the update Report

1 INTRODUCTION

- 1.1 The Council is required to approve a Treasury Management Strategy and Non-Treasury Investment Strategy (Investment Strategy) for 2021/22 before 1 April 2021.
- 1.2 This report will be considered by Cabinet at their meeting in February 2021 with a recommendation to Council. Ordinarily, an early draft of the report would have been available to members of Licensing, Audit and General Purposes Committee given the role the committee has on Treasury Management activities. Regrettably, an early draft of the Strategy is not available for this meeting. This is largely due to ongoing work needed to finalise the capital programme for 2021/22 to 2024/25 and taking account of revised Public Works Loan Board: future lending terms, which feeds into the prudential indicators and wider Treasury Management Strategy consideration.
- 1.3 The committee is considering the 'half-year' report on Treasury Management activities (FIN2033) at this meeting. This reports updates members on Treasury Management performance in the first half of 2020/21 and outlines the prospects for the remainder of the financial year. This report will inform changes to the Treasury Management Strategy for 2021/22 given the current economic outlook, impact from Covid-19, and the Council's budget and medium-term financial forecasts.

2 UPDATING THE TREASURY MANAGEMENT STRATEGY

- 2.1 The significant changes to the Treasury Management Strategy will be due to the revised PWLB Lending Terms.
- 2.2 The Government published their response to the Public Works Loan Board: future lending terms consultation that was open until 31 July 2020. The

response was published alongside the wider Spending Review announced on 25 November 2020.

- 2.3 The new lending terms take effect for all PWLB loans from 26 November 2020. The lending terms are more restrictive and will require the Council to review its capital expenditure and financing plans. However, the Government will, as a result of the reforms, lower the interest rate of PWLB lending by 100bps (1.00%) for all new loans arranged from 26 November 2020 that were announced by the Government in the Spending Review on 25 November 2020.
- 2.4 The new lending terms reflect the Government's view that local authorities should not undertake capital expenditure on investments assets that will be held primarily for yield. The lending terms sets out four broad areas of activity that are supported:
 - **Service Spending** is activity that would normally captured in the following areas in the MHCLG Capital Outturn Return (COR): education, highways & transport, social care, public health, culture & related services, environmental & regulatory services, police, and fire & rescue services
 - **Housing** is activity normally captured in the HRA and General Fund housing sections of the COR, or housing delivered through a local authority housing company. This is given separately from 'service spending' because of the relative concentration of cross-subsidy and other innovative financing arrangements in housing projects
 - **Regeneration Projects** addressing economic or social market failure; generates significant additional activity that would not otherwise happen without the local authority's intervention, creating jobs and/or social or economic value
 - **Preventative Action** where intervention prevents a negative outcome such as by buying and conserving assets of community value that would otherwise fall into disrepair, or providing support to maintain economic activity that would otherwise cease
- 2.5 As a result of these changes, the Capital Strategy, Capital Programme and the Treasury Management Strategy and Annual Non-Treasury Investment Strategy will be amended to explicitly remove any capital expenditure activity that is not compliant with the new lending terms.
- 2.6 The Strategy will also be updated to reflect updated forecasts for Investment Income (from Pooled Funds in particular), borrowing requirement and other prudential indicators.
- 2.7 The Strategy will also need to consider the Borrowing Strategy in light of interest rate forecasts and the changes to the PWLB Lending Terms.
- 2.8 The Treasury Management Strategy will be considered by Cabinet and Council at their meetings in February 2021. However, it is likely that the Strategy will require significant updates during the forthcoming financial year given the decision(s) that are likely to come forward on the Union Street and Civic Quarter Regeneration schemes. These schemes, given their scale and complexity, will

not be included in the Capital Programme and will be brought forward to Cabinet and Council in due course upon completion of the due diligence work.

- 2.9 Any updates to the Strategy will be brought to future meetings of this committee for consideration.

3 CONCLUSION

- 3.1 Members of the committee should consider the Treasury Management and Non-Treasury Investment Operations 2020/21 (FIN2033) and note the anticipated updates that will be included in the Strategy to be considered by Cabinet and Council in February 2021.

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