



## **CORPORATE GOVERNANCE COMMITTEE – 29 JANUARY 2021**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

## **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2021/22**

### **Purpose of the Report**

1. The purpose of this report is to provide the Corporate Governance Committee with an opportunity to review the treasury management strategy statement and annual investment strategy for 2021/22.

### **Background**

2. The Treasury Management Strategy statement and Annual Investment Strategy form part of the Medium Term Financial Strategy which will be considered by the Council at its meeting on 17 February 2021.
3. Any comments that are made by the Corporate Governance Committee will be included in the report to the Council on this matter.
4. In December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised Treasury Management Code of Practice and a revised Prudential Code. The changes to the Codes reflect concern within Central Government about a trend towards authorities making investments in assets which are not required for service reasons, in an attempt to generate additional resources to assist the revenue budget. Most (but not all) of these investments have been in commercial property and many have been funded by external borrowing. There is a view that some of these investments have been made without authorities having the requisite skills to fully understand the investment.
5. The requirements of the new Code are to ensure that members are fully informed of the details of these types of investments, and in particular that they have a better understanding of the associated risks.
6. The Code states that 'where, in addition to Treasury Management investment activity, organisations invest in other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that the same robust procedures for the consideration of risk and return are applied to those decisions'.

7. Subsequent guidance produced by the Secretary of State supports the code in requiring local authorities to prepare at least one investment strategy that will contain certain disclosures around risk, security, liquidity and yield when making these types of 'commercial' investments. The Council has had in place for some time its Corporate Asset Investment Fund (CAIF) Strategy which it first produced in 2014 prior to this guidance being produced. This has been updated annually since then, the most recent version is scheduled to be reported to the Scrutiny Commission in January 2021, and the Cabinet in February 2021, and when read in conjunction with the Treasury Management Strategy and Statement; this fulfils the Council's obligations set out within this guidance.
8. The Council's Corporate Asset Investment Fund (CAIF) Strategy sets out the approach the Council will follow when considering the acquisition investments for the purposes of inclusion within the CAIF. It specifically documents the Council's requirements for ensuring effective due diligence, risk appetite, independent and expert advice and scrutiny arrangements, and performance monitoring by the Corporate Asset Investment Board, the Cabinet and the Scrutiny Commission as part of the regular monitoring of the MTFS.
9. The period covered by the Strategy has been aligned to the MTFS, but like the MTFS this will continue to be reviewed and refreshed on an annual basis and reported to the Cabinet and the Scrutiny Commission as appropriate. The CAIF Strategy will therefore be considered by the Cabinet and the County Council as part of the MTFS 2021-25 in February 2021.
10. The County Council has not borrowed to fund the investments within the CAIF programme. Any future decisions on availability and proportionality in respect of overall resources to fund the CAIF (and the Capital Programme, the Capital Strategy, which itself is derived from the Councils Strategic Plan and Asset Management Plans), is reviewed annually as part of the MTFS and the Treasury Management Strategy Statement and Annual Investment Strategy. These documents take into account the statutory guidance issued by the Secretary of State under the Local Government Act 2003.

### **Treasury Management Strategy Statement and Annual Investment Strategy**

11. The impact of the Covid19 pandemic has reduced the number of lending options open to the council. Whereas the economic crisis of 2008 was characterised by a lack of liquidity in financial markets. The opposite is true of the current crisis. Regulatory requirements for increased capitalisation, coupled with unprecedented fiscal and monetary stimulus from central governments, have resulted in subdued demand for capital. Further to this, ratings actions, including the downgrade of the UK sovereign rating, have reduced the list of acceptable counterparties available.
12. In order to maintain a flexible, risk averse approach to treasury management, the following changes to the approved organisations or limits for lending when compared with last year have been made:
  - The limit for lending to UK institutions (that meet the counter party list requirements) and are classed as a special Institution (part nationalised) for a period of 12 months will be increased from £50m to £70m.

- The limit for lending to UK institutions (that meet the counter party list requirements) for a period of 12 months will be increased from £40m to £50m.
  - The limit for lending to UK institutions (that meet the counter party list requirements) for a period of 6 months will be increased from £25m to £30m.
  - The limit for lending to a individual money market fund will be increased from £25m to £30m.
13. Following the lasting implications of the COVID-19 pandemic, in particular, the way the pandemic demonstrated that unforeseeable events can very quickly cause significant uncertainty and shock financial markets, it is recognised that in exceptional circumstances the Director of Corporate Resources, in order to protect capital balances and liquidity, may have to take immediate action that breaches the limits within the policy on a temporary basis. The action will only be taken as a last resort and will be reported, along with the rationale behind it, to the Corporate Governance Committee at the first opportunity

### **Resource Implications**

14. The interest earned on revenue balances and the interest paid on external debt (which are directly correlated to the Treasury Management Strategy Statement and Annual Investment Strategy) will impact onto the resources available to the Council.

### **Equality and Human Rights Implications**

15. There are no discernible equality and human rights implications.

### **Recommendation**

16. The Committee is asked to comment on this report.

### **Background Papers**

17. None

### **Circulation under the Local Issues Alert Procedure**

18. None

### **Appendix**

Treasury Management Strategy Statement and Annual Investment Strategy 2021/22

### **Officers to Contact**

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