EXTRACT MINUTE FROM GOVERNANCE AND STANDARDS COMMITTEE

17 FEBRUARY 2021

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| **21/13** | **INVESTMENT STRATEGIES 2021/2022** |
|  | The Financial Services Manager informed the Committee that the report detailed the Councils Investment Strategies for the coming financial year, which the Council is required to produce under statutory guidance in relation to its investment and borrowing activities.  These Strategies include:  • The Treasury Management Strategy 2021/22 to 2023/24  • The Minimum Revenue Provision (MRP) Strategy 2021/22  • The Capital Strategy 2021/22 to 2041/42  • The Asset Investment Strategy 2021/22  • The Commercial Property Investment Strategy 2021/22  • The Service Investment Strategy 2021/22  This report seeks the approval of the Committee to recommend these strategies for approval when the Council meets on 9 March 2021.  The Officer advised that all the Committee Members attended a very successful training session on the Strategies last week. It was very good that the Committee took part in this training. As the Committee were taken through all of the detail of the report at this time this would be a brief summary.  The Officer summarised the 6 Strategies as per the report detailed in section 3.3 to 3.9 of the report.  The Officer then referred to Section 4 – Public Works Loan Board (PWLB). The Committee were advised earlier in the year the response to consultation on the future lending terms of the PWLB which took place in spring 2020. The Officer advised that the HM Treasury confirmed its aim to prevent local authorities using the PWLB loans to buy commercial assets primarily for yield, without impeding their ability to pursue service delivery, housing and regeneration under the prudential regime as they do now. The Officer further clarified that this was confirming that loans could not be used to invest in commercial properties as the main aim of generating revenue income would not be permitted. However, this would not prevent the Council from using PWLB for any other reason which would further the Councils service objectives.  The consultation response also stated that, given that borrowing cannot easily be linked to a specific scheme within the capital programme, access to PWLB loans would be denied if a council had plans to buy commercial properties anywhere in their capital programme. This is the case even if that purchase would have been funded from another source  The Treasury confirmed that the new lending terms were to be in place from 26th November 2020.  Given the restrictions on borrowing for commercial properties now in place, the Council can confirm that there are no planned commercial property acquisitions within the 2021/22 – 2023/24 capital programme.  Councillor Sutcliffe – The Member referred the Officer to pages 51, 52 and 55 where the Member had some questions.  The Member referred the Officer to page 51, Table 3 the CFR lease liabilities in 2022-2023 and 2023 -2024 columns then asked for clarification on what these were.  The Officer responded that in that financial year there would be a change to how lease accounting was to be done. It was going to be implemented this year but was delayed due to Covid, then it was deferred to next year and was again deferred due to Covid.  The Financial Services Manager advised that currently the Council has some leases that are under the current accounting laws where the Council are allowed to show these within the revenue accounts, as at 2022-2023 they have to be shown on the balance sheet instead.  This means that there are different accounting transactions that have to take place for these leases and these have an impact on the financial capital requirement. The Officer clarified that this was nothing new, it was just a new standard that needed to be incorporated into the table.  The Member then referred to page 52 -Table 4 expected change in debt. In the Column headed 2021/2022 there was quoted a deficit of £27,5M, 2022/2023 £19M, then there was a reported surplus for 2023/2024 of £14.5M. The Member queried why there was a change of income happening then.  The Officer did not have the detail and referred to the Head of Finance for further clarification.  The Head of Finance stated that the table did not refer to a change of income, this was where the Council were anticipating where the peaks and troughs within the Council’s Capital Programme will fall, also where the Council need to repay some of the loans. As you are aware there are some HRA loans that will need to be repaid based on the self-financing that the Council took out and this will fall in line with when these loans need to be repaid. This is as it is known at the moment subject to the approval of any further schemes at Council.  The Members final question was on page 55 - New Financial Institutions as a source of borrowing and/or types of borrowing  The Member read out “As an alternative to borrowing from the PWLB, consideration will also need to be given to sourcing funding at cheaper rates from the following”  One of these was listed as Local authorities. I understand that Salford Authority has taken out a loan with Mansfield District Council. The Member queried if the funding was to be at cheaper rates then why was the Council lending to Salford at a cheaper rate than the PWLB?  The Head of Finance responded that the Council would borrow from the PWLB and that the Council would not lend to the PWLB. Generally any lending to a local authority is on a short term basis, when the Council borrow from the PWLB it is generally for long term projects and over a longer term. Lending between local authorities is generally shorter term. It was put into the strategy to provide an option if the rates were in the Council’s favour. This would only be implemented if this was the most favourable option at that time.  The Chair advised the Committee that he had a point that he would like to raise.  The Chair wanted to propose an amendment to the Treasury Management Strategy.  The Chair stated that the proposal would increase the security of our money held on deposit, whilst only slightly reducing the choice of banks from 50 to 52. Currently the Treasury Management Strategy takes into account financial indicators in coming up with a shortlist of banks and countries, it does not take into account our shared values. The Chair advised that the Committee that he felt that they were all staunch democrats, yet the existing Treasury Management Strategy does allow us to invest in banks from repressive regimes. The Chair stated it was his belief that this should now change. It was time for this Committee to show some clear moral leadership and put business sense to our officers, Cabinet and full Council on this issue.  The Chair stated that his proposed change to the Treasury Management Strategy was that for all future investments, Officers would only use countries that are established democracies, and that the banks must meet the minimum required standards on credit worthiness. When money matures in countries that are not established democracies it should not be rolled over or reinvested in that country. This would mean that Qatar and the United Arab Emirates should be removed from our approved Countries List.  The Chair then asked for approval from Committee Members on this amendment.  Councillor Sutcliffe – stated that he would support this. The Member stated that the banks on the lists for AA- rated and he felt that the Council should be looking at AAA rated banks. The Member felt that the Council should consider specifically Australia as we as a country are talking about going into a Pacific Trading Deal. The Member stated that he would support the recommendations on the moral grounds and that this would be on the financial grounds as well.  The Member then queried the Full Individual Listings of Counterparties and Counterparty Limits list. The Member wanted to know if this was a Government recommendation or was this one that Mansfield District Council had drawn up.  The Financial Services Manager stated that it would be drawn up in consultation with the Council’s Treasury Management Advisors.  Councillor Brian Lohan stated that whilst he was fully in support of the recommendation he felt that this was something that needed to be recommended to Full Council to approve.  Head of Finance stated that to follow on from Councillor Lohan, it was the responsibility of the Committee to recommend to the Full Council for approval. The Committee need to recommend an approved Strategy to Full Council.  Councillor Andy Sissons stated that he was happy to second the proposal.  Proposer Councillor Mark Fretwell  Seconder Councillor Andy Sissons  A unanimous show of hands accepted the amendment to the Treasury Management Strategy as previously stated.  The Chair asked if the Committee had any amendments for the remaining strategies or if there was agreement from the Committee for the remaining Strategies to be approved for recommendation to the Council.  There were no amendments from the Committee.  Councillor Ann Norman proposed and this was seconded by Councillor Roger Sutcliffe.  A unanimous show of hands accepted the remaining Investment Strategy Polices for recommendation to the Council without amendment.  To be recommended to Council:  ii) That the Treasury Management Strategy for the 2021/22 to 2023/24 financial year be approved with the amendment that for all future investments, Officers would only use countries that are established democracies, and that the banks must meet the minimum required standards on credit worthiness. When money matures in countries that are not established democracies it should not be rolled over or reinvested in that country. This would mean that Qatar and the United Arab Emirates should be removed from our approved Countries List.  iii) That the Minimum Revenue Provision (MRP) Strategy for the 2021/22 financial year be approved, as per Appendix 2 and the Council adopts the Regulatory Method for Supported Borrowing (Option 1) taken out by the Council prior to 1 April 2008 and the Asset Life Method for unsupported borrowing (Option 3) taken out after 1 April 2021 (if any new borrowing is taken on by the council).  Where the Council takes on additional borrowing in order to purchase land and property assets for regeneration or housing purposes (in line with the Asset Investment Policy for non-commercial assets) or to provide a Service Investment the business case will set out whether a MRP charge is appropriate.  iv) That the Capital Strategy for the 2021/22 to 2041/42 financial year be approved, as per Appendix 3  v) That the Commercial Property Investment Strategy for the 2021/22 financial year be approved, as per Appendix 4  vi) That the Service Investment Strategy for the 2021/22 financial year be approved, as per Appendix 5 |