

BRECKLAND DISTRICT COUNCIL

Report of: Maxine O'Mahony, Executive Director Strategy & Governance

To: Governance and Audit Committee, 17th December 2020
Full Council, 21 January 2021

Author: Alison Chubbock, Chief Accountant

Subject: Treasury Management Policy & Strategy 2021-22

Purpose: This report outlines the Council's Prudential Indicators for 2021-22 to 2023-24 and sets out the expected treasury operations for this period and requests approval for the Treasury Management Policy, Strategy and Prudential Indicators for 2021-22 to 2023-24

Recommendation(s):

Recommend to Full Council that the following be approved:

- 1) The Treasury Management Strategy 2021-22 to 2023-24 at **Appendix A**
- 2) The Minimum Revenue Provision (MRP) statement contained within **Appendix A** which sets out the Council's policy on MRP
- 3) The Prudential & Local Indicators and limits contained within **Appendix A** (Tables 1-11)
- 4) The Investment Strategy 2021-22 (**Appendix B**) and the detailed criteria included in **Appendix B1**
- 5) The Treasury Management Policy at Appendix B2

1.0 BACKGROUND

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activity (arising usually from capital expenditure) and are separate from day to day treasury management activity.

Treasury management is defined as: "The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

The Capital Strategy provides a longer term focus to the capital plans of the authority and is reported on separately through the budget setting.

1.1 Reporting Requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and treasury indicators and treasury strategy (this report) – the first and most important report covers:

- The capital plans (including prudential indicators);
- A minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- The treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- An investment strategy (the parameters on how investments are to be managed).

A mid-year treasury management report – (separate report to this meeting) - This updates members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

An annual treasury report - This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy. (separate report to this meeting)

Scrutiny – The above reports are required to be adequately scrutinised and this role is undertaken by the Governance and Audit Committee.

1.2 Treasury Management Strategy for 2021-22

The strategy for 2021-22 covers two main areas:

Capital issues

- The capital plans and the associated prudential indicators
- The minimum revenue provision (MRP) policy.

Treasury management issues

- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- The investment strategy;
- Creditworthiness policy; and
- Policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.3 Training

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This also applies to Members responsible for scrutiny. Treasury training for Members last took place 3rd October 2019. The training needs of treasury management officers are reviewed on an ongoing basis.

1.4 Treasury management consultants

The Council's external treasury management advisors are Link Asset Services. There have been no changes to the contractual arrangements which end 31st March 2021. At the time of writing this report an extension to the current arrangement is being negotiated. The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The Council does not have a retained advisor for non-financial investments but subject to procurement rules will engage the use of external advice on legal and property matters as required.

1.5 Summary of key issues and changes

The Council has a borrowing need from 2020-21. This is currently a cashflow issue which can be managed through internal borrowing and to help manage this, Table 10 of Appendix A suggests a continued overdraft limit of £2m to be actioned if necessary. The bank have agreed in principle to enable an up to figure and this will only be actioned if necessary to avoid unnecessary bank fees.

On 25 November changes to PWLB lending were confirmed:

When applying for a new loan, an authority will be required to confirm that the plans they have most recently submitted remain current and provide the assurance that they do not intend to buy investment assets primarily for yield.

Moreover, an authority must not pursue a deliberate strategy of using private borrowing or internal borrowing to support investment in an asset that the PWLB would not support and then refinancing or externalizing this with PWLB loans. Under the Prudential Code, local authorities cannot borrow from the PWLB or any other lender for speculative purposes and must not use internal borrowing to temporarily support investments purely for yield.

They also include an outline of what would constitute investment assets brought primarily for yield as having one or more of the following characteristics:

- a) *Buying land or existing buildings to let out at market rate.*
- b) *Buying land or buildings which were previously operated on a commercial basis which is then continued by the local authority without any additional investment or modification.*
- c) *Buying land or existing buildings other than housing which generate income and are intended to be held indefinitely, rather than the achievement of some meaningful trigger such as the completion of land assembly*

Investment earnings will be heavily dependent on economic and political developments but interest rates are expected to remain low for the forthcoming budget period. (see Appendix A for more information). Some deposit accounts are already offering negative rates for shorter periods

The provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. We currently use 3 month LIBID as our benchmark for investment earnings. We will work with its advisors in determining suitable replacement investment benchmark ahead of this ceasing and will report back to members accordingly.

2.0 OPTIONS

2.1 Recommend to Full Council to approve the recommendations

2.2 Recommend to Full Council to approve the recommendations with amendments

3.0 **REASONS FOR RECOMMENDATION(S)**

3.1 To comply with the Local Government Act 2003 and to safeguard the Council's financial assets whilst maximising returns

4.0 **EXPECTED BENEFITS**

4.1 To ensure Members are updated regularly on the Treasury Management service so that they can adequately scrutinise treasury management activity.

5.0 **IMPLICATIONS**

In preparing this report, the report author has considered the likely implications of the decision - particularly in terms of Carbon Footprint / Environmental Issues; Constitutional & Legal; Contracts; Corporate Priorities; Crime & Disorder; Equality & Diversity/Human Rights; Financial; Health & Wellbeing; Reputation; Risk Management; Safeguarding; Staffing; Stakeholders/Consultation/Timescales; Transformation Programme; Other. Where the report author considers that there may be implications under one or more of these headings, these are identified below:

5.1 **Financial**

5.1.1 The report is of a financial nature and financial details are included in the report and appendices

5.2 **Risk Management**

5.2.1 I can confirm that risk has been given careful consideration and it is addressed in TMP1 within the Treasury Policy Statement 2021-22.

6.0 **WARDS/COMMUNITIES AFFECTED**

6.1 N/A

7.0 **ACRONYMS**

7.1 CFR - Capital Financing Requirement
CDS - Credit Default Swap
CIPFA - Chartered Institute of Public Finance & Accountancy
CNAV - Constant Net Asset Value
MHCLG – Ministry for Housing Communities & Local Government
DMADF - Debt Management Account Deposit Facility
HRA – Housing Revenue Account
LIBID - London Inter-bank Bid rate
MPC – Monetary Policy Committee
MRP - Minimum Revenue Provision
PFI - Private Finance Initiative
PWLB - Public Works Loans Board
TMP - Treasury Management Practice
VRP – Voluntary Revenue Provision

Background papers:- None

Lead Contact Officer

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Key Decision: Yes

Exempt Decision: No

This report refers to a Discretionary Service

Appendices attached to this report:

Appendix A	Treasury Management Strategy 2021-22 to 2023-24
Appendix B	Investment Strategy 2021-22
Appendix B1	Treasury Management Practice (TMP 1)
Appendix B2	Treasury Management Policy 2021-22
Appendix C	Economic Background (Link Asset Services)
Appendix D	Approved Countries for Investment