**BRECKLAND DISTRICT COUNCIL**

**Report of:** **Maxine O'Mahony, Chief Executive**

**To:** **Governance and Audit Committee, 2 December 2021**
**Full Council, 20 January 2022**

**Author:** **Alison Chubbock, Assistant Director Finance**

**Subject:** **Treasury Management Policy & Strategy 2022-23**

**Purpose:** **This report outlines the Council's Prudential Indicators for 2022-23 to 2024-25 and sets out the expected treasury operations for this period and requests approval for the Treasury Management Policy, Strategy and Prudential Indicators for 2022-23 to 2024-25**

**Recommendation(s):**

**Recommend to FULL COUNCIL:**

1) That the Treasury Management Strategy 2022-23 to 2024-25 at **Appendix A** is approved
2) That the Minimum Revenue Provision (MRP) statement contained within **Appendix A** which sets out the Council's policy on MRP is approved
3) That the Prudential & Local Indicators and limits contained within **Appendix A** (Tables 1-11) are approved
4) That the Investment Strategy 2022-23 (**Appendix B**) and the detailed criteria included in **Appendix B1** is approved
5) That the Treasury Management Policy at **Appendix B2** is approved

## 1.0 BACKGROUND

1.1 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.

1.2 **Reporting Requirements**

The Council is required to receive and approve, as a minimum, three main Treasury 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.

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

1.3 **Treasury Management Strategy for 2022-23**

The strategy for 2022-23 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, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

1.4 **Training**

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Treasury training for Members last took place in October 2021. The training needs of treasury management officers are reviewed on an ongoing basis.

1.5 **Treasury management consultants**

The Council's external treasury management advisors are Link Asset Services. The contract was extended until 31 March 2022. At the time of writing this report, the procurement of a new advisory contract is underway and should this result in any changes to the approved Policy and Strategy, this will be reported back to the next available Governance and Audit Committee. 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.

1.6 **Summary of key issues and changes**

Text in red in appendices B, B1 and B2 denotes a change from previous policy and strategy otherwise all information remains unchanged from the current approved policy and strategy.

<u>Changes to CIPFA Treasury Management and Prudential Codes</u>

CIPFA has been consulting on revising the 2017 Treasury Management and Prudential Codes. The outcome of the above consultation is not due to be published until late December but it should be noted that the DLUHC is also proposing to tighten up regulations around local authorities financing capital expenditure on investments in commercial projects for yield and has already closed access to all PWLB borrowing if such schemes are included in an authority's capital programme. The new CIPFA codes are likely to adopt a similar set of restrictions to discourage further capital expenditure on commercial investments for yield.

Paragraph 45 of the Prudential Framework currently states "that authorities must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed". Therefore, Local Authorities must not borrow to fund primarily yield generating investments. The prohibition does not cover borrowing where the primary aim is rooted in the function of the authority and the making of a return is incidental to the function providing value for money is demonstrated and and the security of funds is secured.

The main objective of the consultation is to respond to the major expansion of Local Authority investment activity rasing concerns over proportionality, risk appetite, sustainability over the longer term and expertise to operate such activity. As such the consultation also seeks to require more detailed reporting on non-financial investments from a service and a commercial aspect.

The impact of this could be additional/amended wording within the the following Treasury Management Practices and Treasury Indicators:

- TMP1 Risk Management
- TMP2 Performance Management
- TMP6 Reporting Requirements/Management Information Arrangements
- TMP8 Cash and Cashflow Management
- TMP10 Training and Qualifications

When the new Prudential code and Treasury Management Code are finalised the relevant TMP's will be updated if applicable and the Governance and Audit Committee will be updated at the earliest opportunity.

Group, Maturity and Sector limits
This report recommends a minor change to the Treasury Policy TMP4 [6] Group, Maturity and Sector limits. On occasion it is possible to secure a deal by committing in advance of the actual start date. This potentially takes the investment over the LINK recommended time limit. The LINK colour coding is a guide and the sentence at the end of TMP4[6] has been extended as follows:

*"All limits to be operated on a pragmatic basis relating to the particular circumstances eg extending LINK time limits by up to 2 weeks to secure an investment opportunity in advance of the start date"*

Reporting lines and segregation of duties
The TMP's in Appendix B2 have been updated to reflect the new reporting lines and segregation of duties following the restructure in Finance approved at Council in October 2021.

LIBID
LIBID which is the Councils performance measure for returns on investments is due to be phased out by the end of December 2021. This is an industry wide change led by the regulators. LINK advise that the most likely scenario will be that LIBID is replaced with a backward looking compounded SONIA (Sterling Overnight Index Average) rate. Link will be providing compounded SONIA rates to clients in the same way that it currently does with LIBOR / LIBID rates.

IFRS 16 Leasing
In December 2020, the CIPFA Local Authority Accounting Code Board announced the deferral of the implementation of IFRS 16 Leases in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) until the 2022-23 financial year. This change will have minimal impact to Breckland as we do not have any significant leases affected by this change.

Borrowing
The Council has a borrowing need from 2022 for its capital programme. This can be managed currently 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 has agreed in principle to enable an up to figure and this will only be actioned if necessary to avoid unnecessary bank fees.

Returns
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).

## 2.0 OPTIONS

2.1 Recommend to Full Council:

1) That the Treasury Management Strategy 2022-23 to 2024-25 at **Appendix A** is approved
2) That the Minimum Revenue Provision (MRP) statement contained within **Appendix A** which sets out the Council's policy on MRP is approved
3) That the Prudential & Local Indicators and limits contained within **Appendix A** (Tables 1-11) is approved
4) That the Investment Strategy 2022-23 (**Appendix B**) and the detailed criteria included in **Appendix B1** is approved
5) That the Treasury Management Policy at **Appendix B2** is approved

2.2 Make amendments to the recommendations before recommending to Full Council to approve.

2.3 Do nothing.

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.

4.2 To set the policy, strategy and parameters for operating the Treasury Management function in the next financial year.

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 2022-23.

6.0 **WARDS/COMMUNITIES AFFECTED**

6.1 N/A

7.0 **ACRONYMS**

7.1 CFR - Capital Financing Requirement
7.2 CDS - Credit Default Swap
7.3 CIPFA - Chartered Institute of Public Finance & Accountancy
7.4 CNAV - Constant Net Asset Value
7.5 DLUHC – Department for Levelling Up, Housing and Communities
7.6 DMADF - Debt Management Account Deposit Facility
7.7 HRA – Housing Revenue Account
7.8 LIBID - London Inter-bank Bid rate
7.9 LIBOR – London Inter-bank Offered Rate
7.10 MPC – Monetary Policy Committee
7.11 MRP - Minimum Revenue Provision
7.12 PFI - Private Finance Initiative
7.13 PWLB - Public Works Loans Board

7.14 SONIA – Sterling Overnight Index Average
7.15 TMP - Treasury Management Practice
7.16 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:**

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|---|---|
| Appendix A | Treasury Management Strategy 2022-23 to 2024-25 |
| Appendix B | Investment Strategy 2022-23 |
| Appendix B1 | Treasury Management Practice (TMP 1) |
| Appendix B2 | Treasury Management Policy 2022-23 |
| Appendix C | Economic Background (Link Asset Services) |
| Appendix D | Approved Countries for Investment |