BRECKLAND DISTRICT COUNCIL

Report of: **Cllr Philip Cowen, Executive Member for Finance, Revenues and Benefits**

To: **Governance and Audit Committee 2 February 2023**

Author: **Matthew Fernandez-Graham, Accountancy Manager**

Subject: **Treasury Management Policy and Strategy 2023-24**

Purpose: **This report outlines the Council's Prudential Indicators for 2023-24 to 2025-26 and sets out the expected treasury operations for this period and requests approval for the Treasury Management Policy, Strategy and Prudential Indicators for 2023-24 to 2025-26.**

Recommendations:

Recommend to FULL COUNCIL:

1) That the Treasury Management Strategy 2023-24 to 2025-26 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 2023-24 (**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 Treasury management is defined by CIPFA as: "The management of the local authority's borrowing, investments and cash flows, including 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".

1.2 This report builds on the revised Treasury Management Strategy for 2022-23 (which was approved by Full Council in September 2022) and continues to reflect the latest guidance from CIPFA which publishes the Treasury Management Code of Practice and Prudential Code for capital finance.

Key elements of the Treasury Management Code of Practice are:

- The Code makes it clear that reporting should set out Service and Commercial investment risks, especially where this is supported by borrowing, which is the key concern for CIPFA. Establishing a proportionate level of any borrowing is a decision for the Authority, advised by the Section 151 Officer.
- Emphasis is placed on the requirement that "Local authorities must not borrow to invest for the primary purpose of financial return."
- Authorities should develop a Liability Benchmark that sets a figure for total indebtedness over time that will help to guide its borrowing plans. The benchmark is not prescriptive, so long as an Authority can justify that it is prudent to maintain a position above or below benchmark.
- Authorities should assess the risks and rewards of significant investments over the long term, as opposed to the usual three to five years that most local authority financial planning has

been conducted over, to ensure the long-term financial sustainability of the authority. (CIPFA has not defined what longer term means but it is likely to infer 20-30 years in line with the financing time horizon and the expected life of the assets, while medium term financial planning, at a higher level of detail, is probably aimed at around a 10-year time frame and to focus on affordability in particular.)

Key elements of the Prudential Code are:

- CIPFA's primary concern continues to be regarding leverage and borrowing to invest particularly for Commercial and Service Investment -with a clear statement regarding it not being prudent to make any investment or spending decision that will increase the Capital Financing Requirement, and so lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose.
- The principle that an authority must not borrow to invest primarily for financial return applies to all Councils.
- The guidance on Environmental, Social and Governance issues in Capital Strategy makes clear that the strategy should address environmental sustainability in a manner which is consistent with the Authority's own corporate policies on the issue.
- Authorities that have an expected need to borrow should review options for exiting their financial investments for commercial purposes and summarise the review in their annual treasury management or investment strategies. There is no requirement for authorities with existing commercial investments (including property) to sell these investments.
- Definition of Investment – there are separate categories for Treasury Investment, Service Investment and Commercial Investment.
- Reporting against the prudential indicators is to be done at least quarterly as part of normal financial monitoring.

1.3 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.

The contribution which the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

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.

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

1.3 **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 - (separate report to this Committee following year end) 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.

A new reporting requirement is as follows:

Prudential indicators – These are now to be reported on quarterly and this is being done as part of the quarterly financial monitoring report to Cabinet.

1.4 **Treasury Management Strategy for 2023-24**

The strategy for 2023-24 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.

1.5 **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. Further training for Members will be provided during 2023/24. The training needs of treasury management officers are reviewed on an ongoing basis.

1.6 **Treasury management consultants**

The Council's external treasury management advisors are Link Asset Services. The Council is contracted with them until 31 March 2025. 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 recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

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.

1.7 **Summary of key issues and changes**

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

Country, Group, Maturity and Sector limits

The maximum amount that can be invested in those counterparties where Link have recommended that investments can be made for up to 1 year or more, is currently £7.5 million. These are the most secure counterparties and these higher investment limits allow more flexibility in managing the Council's cashflows. It is now recommended that where these secure counterparties are non-UK banks, then the Country limit, presently set at £5 million for all investments, is raised to £7.5 million, to ensure consistency of the investment limit.

SONIA

With the phasing out of LIBID, the Council is now using the SONIA (Sterling Overnight Index Average) rate as the Council's performance benchmark for returns on investments.

IFRS 16 Leasing

In April 2022, 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 2024-25 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, and interest rates are expected to continue to increase during 2023/24 from their historic low levels, peaking towards the end of the year.

2.0 **OPTIONS**

2.1 Recommend to Full Council:

1) That the updated Treasury Management Strategy 2023-24 to 2025-26 at **Appendix A** is approved
2) That the updated Prudential & Local Indicators and limits contained within **Appendix A** (Tables 1-11) are approved
3) That the updated Investment Strategy 2023-24 (**Appendix B**) and the detailed criteria included in **Appendix B1** is approved
4) That the updated 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 CIPFA guidance 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 remainder of this 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; Data Protection; Equality & Diversity/Human Rights; Financial; Health & Wellbeing; Reputation; Risk Management; Safeguarding; Staffing; Stakeholders/Consultation/Timescales; 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 2023-24.

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:-

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Key Decision: No

Exempt Decision: No

This report refers to Mandatory and Discretionary Services

Appendices attached to this report:

Appendix A	Treasury Management Strategy 2023-24 to 2025-26
Appendix B	Investment Strategy 2023-24
Appendix B1	Treasury Management Practice (TMP 1)
Appendix B2	Treasury Management Policy 2023-24
Appendix C	Economic Background (Link Asset Services)
Appendix D	Approved Countries for Investment