SLOUGH BOROUGH COUNCIL

REPORT TO:	Cabinet
DATE:	9th March 2022
SUBJECT:	Treasury Management Strategy 2022/23
PORTFOLIO:	Cllr Anderson – Financial Oversight, Council Assets and Performance
CHIEF OFFICER:	Steven Mair, Director of Finance
CONTACT OFFICER:	Peter Worth, Financial Advisor
WARD(S):	All
KEY DECISION:	YES
EXEMPT:	NO
DECISION SUBJECT TO CALL IN:	NO
APPENDICES:	Treasury Management Strategy

1 Summary and Recommendations

1.1 This report sets out the Council's treasury management strategy for 2022/23 covering:

- borrowing and the debt reduction strategy;
- prudential indicators;
- the Minimum Revenue Provision (MRP) policy; and
- the investment strategy which includes loans to third parties.

1.2 Cabinet is asked to recommend to Council the following:

a. Approve the Treasury Management Strategy (TMS) for 2022/23 including:

  i. the Annual Investment Strategy for 2022/23 (Appendix 2)
  ii. Minimum Revenue Provision Policy Statement for 2022/23 (Appendix 1)
  iii. the Prudential Indicators for the period 2022/23 to 2024/25 (Section 4)

b. Agree that the MRP policy as set out in the TMS for 2022/23 shall also apply for the financial year 2021/22.

Reason: To promote effective financial management relating to the Authority's borrowing and investment powers contained in the Local Government Act 2003, associated regulations and guidance.

Commissioner Review

"On 1st December 2021, the Secretary of State issued Directions to Slough Borough Council under Section15(5) and (6) of the Local Government Act 1999. Annex B of the Directions provides that Commissioners shall exercise…

The requirement from Section 151 of the Local Government Act 1972 to make arrangements for the proper administration of the Authorities financial affairs, and all functions associated with the strategic financial management of the Authority. This Direction included as d) the power to amend budgets where Commissioners consider that those budgets constitute a risk to the Authority's ability to fulfil its best value duty.

The set of budget reports presented to this cycle of meetings exposes the recklessness in the way the Authority has managed its affairs over the past few years and the scale of both central government support required and the challenge in re-establishing financial stability.

Commissioners consider that the proposals contained in this set of budget reports meet the requirements of the Directions. It should be made clear however, that no variation from either the general or specific proposals identified can be agreed or acted upon without the prior approval of Commissioners who reserve their right to amend budgets if required. This will require commitment and determination from all Councillors and every budget holding officer who will need to recognise their personal accountability in these matters.

At this stage it is not proposed to extend any additional funding, whether by cashflow or longer term finance to any of the Council's subsidiary companies and the Council's shareholder representatives should be required to make this clear.

It will be essential for a full appraisal of the Council's let estate, both GF and HRA but excluding HRA housing, to be undertaken and reported. In the first instance it should be explicit that all renewals and new leases or licenses will be based on the principles of normal commercial terms and a fully repairing and insuring basis.

This budget specifies a level of capital receipts required to balance the budget overall. This figure needs to be regarded as a minimum goal in cash terms to be achieved by year end and a disposal strategy will need to be brought forward to identify a significant increase in receipts banked in the early years of the MTFS.

Commissioners do not underestimate the scale of the challenge, both financial and operational, facing the Council. We will continue to provide advice and challenge to assist the Authority on its journey back to mainstream local government."

2 Report

Introduction

2.1 The Council has powers to borrow and invest money under Part 1 of the Local Government Act 2003. In applying these powers, the Council is required to have regard to statutory guidance issued by the Secretary of State and Codes of Practice issued by the CIPFA. The Council is obliged to follow these documents, unless there is good reason not to.
The Statutory Guidance requires the Council to:

- agree a treasury strategy for borrowing
- prepare an annual investment strategy
- an interim report and annual treasury management review.

Background

2.2 The Council's borrowing was £760m at 31 March 2021. This is the third highest per head of population amongst all unitary local authorities. Borrowing has quadrupled since 2015/16, but the amount set aside to repay debt (i.e. MRP) for 2021/22 was only budgeted to be £0.040m even though had the Council actually applied its MRP policy the MRP for the year should have been at least £18m.

2.3 Interest payable on the borrowing is £7m, thus the combined cost of debt charges (MRP and interest) is £25m. This is 24% of the net revenue budget. This is neither affordable nor financially sustainable.

2.4 These figures are before setting aside MRP for any capitalisation directions.

2.5 Officers and the Commissioners have applied to the Secretary of State for permission to capitalise £307m of revenue expenditure to 31 March 2023, which has the impact of spreading additional revenue costs over a 20 year period and allows the Council to use capital receipts to finance the capitalisation direction.

2.6 The treasury management operation should help the Council to ensure that its cash flow is adequately planned, with cash being available when it is needed. A second function of treasury management is to fund capital plans. These capital plans provide a guide to the borrowing need of the Council to allow a longer term approach to cash flow planning. As set out above, the Council has previously used both short and long term loans, however this has not always been informed by the long term costs of such borrowing.

2.7 An effective Treasury Management Strategy and service is critical to the Council, as the balance of debt and investment operations should ensure liquidity and the ability to make spending commitments as they fall due.

2.8 CIPFA defines treasury management 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."

2.9 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.

1. **Treasury Management Strategy Statement Report** – (this report) The first, and most important report is forward looking and 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)

2. **Mid-Year Review Report** – This is primarily a progress report presented to Cabinet in December/January and updates Members on the progress of the Capital Programme, reporting on Prudential Indicators to give assurance that the treasury management function is operating within the Treasury Limits and Prudential Indicators set out in the TMSS.

3. **Treasury Management Outturn Report** – This is a backward looking review, typically presented to Cabinet in June/July and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the TMSS and Mid-Year Reports.

2.10 **Capital Strategy** – In addition to the three main treasury management reports, the CIPFA 2018 Prudential and Treasury Management Codes introduced a requirement for all local authorities to prepare a capital strategy report which provides the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

2.11 The aim of the Capital Strategy is to ensure that all elected members on the full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite. The Capital Strategy is included in the TMS at Section 1.

3. Implications of the Recommendation

3.1 Financial implications

3.1.1 This report details the Council's strategies for treasury management and investment activity. The proposed changes to the Council's strategies are designed to bring the Council back onto a financially sustainable footing, principally by reducing debt, but also by disposing of assets.

3.2 Legal implications

3.2.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are contained within this report. The Act, accompanying statutory guidance and Codes of Practice referred to through capital financing regulations requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Local Government Act 2003 to monitor its borrowing and investment activities.

3.2.2 The Treasury Management Strategy is a key part of the Financial Framework and approval is reserved to full Council in accordance with Part 3.4 of the Constitution.

3.3 Risk management implications

3.3.1 The key risks are:

- asset sales either do not generate the expected receipts or are delayed. The mitigation is using external consultants to ensure best consideration is achieved through a managed asset disposal plan;
- interest rates rise thus increasing borrowing costs. The temporary borrowing portfolio is at risk of interest rate rises. This can be mitigated by locking into PWLB borrowing.

3.4 Environmental implications

3.4.1 There are no specific implications.

3.5 Equality implications

3.5.1 There are no specific implications.

3.6 Procurement implications

3.6.1 There are no specific implications.

3.7 Workforce implications

3.7.1 There are no specific implications.

3.8 Property implications

3.8.1 In order to reduce the overall level of borrowing and finance the capitalisation direction, the Council will have to generate up to £600m of capital receipts. The Council is currently appointing external consultants with the necessary skills to manage the asset disposal plan.

4. Background Papers

Draft Treasury Management Strategy 2022/23 - attached

Statutory Guidance on Minimum Revenue Provision, DCLG 2018
Statutory Guidance on Local Government Investments, DCLG 2018