SLOUGH BOROUGH COUNCIL

REPORT TO:	Overview & Scrutiny Committee
DATE:	23 February 2023
SUBJECT:	Treasury Management Strategy 2023/24
CHIEF OFFICER:	Steven Mair, Executive Director Finance and Commercial (s151)
CONTACT OFFICER:	Peter Worth, Finance Lead Technical Advisor Miriam Adams, Finance Manager - Treasury
WARD(S):	All
EXEMPT:	NO
APPENDICES:	Treasury Management Strategy 2023/24 to 2027/28

1 Summary and Recommendations

1.1 This report sets out the Council's treasury management strategy for 2023/24 to 2027/28 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.

The Overview & Scrutiny Committee is requested to scrutinise this report and make any comments to Cabinet.

1.2 The Cabinet is being asked to recommend to Council the following:

a. Approve the Treasury Management Strategy (TMS) for 2023/24 to 2027/28 including:

i. Minimum Revenue Provision Policy Statement for 2023/24 (Appendix 1)
ii. Annual Investment Strategy for 2023/24 (Appendix 2)
iii. Approved Counterparty List (Appendix 3)
iv. Approved Countries for Investments (Appendix 4)
v. the Prudential Indicators for the period 2023/24 to 2025/26 (Section 4 of the TMS)

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

This report is an important part of the Council's financial strategy and its financial recovery. The Commissioners are content with this report.

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 As reported in the TMS in March 2022, the Council's borrowing had reached £760m at 31 March 2021, which was the third highest per head of population amongst all unitary authorities. In particular around 50% of this was short-term temporary borrowing from other local authorities exposing the Council to financial risk from increasing interest rates. In addition, the 2022/23 TMS highlighted that the combined cost of debt charges (MRP and interest) was likely to be about 32% of the Council's net revenue budget, which was neither affordable nor financially sustainable.

2.3 The 2022/23 TMS highlighted that the Council had had to apply to the Secretary of State for permission to capitalise £307m of revenue expenditure to 31 March 2023.

2.4 In the past 12 months:

- ➢ the Finance Team have completely redrafted the 2018/19 statement of accounts sufficient for the external audit to be undertaken.
- ➢ the Council has embarked on an Asset Disposal Strategy which has generated £173m of capital receipts to date and is forecast to yield £216m to 31 March 2023 and a further £200m in 2023/24;

2.5 The combination of the two has meant that the Council:

- ➢ has a much improved view of the liabilities facing the Council which has resulted in a £40m reduction in the Capitalisation Direction request for the period to 31 March 2023 to £267m; and
- ➢ Officers have been able to finance a significant part of the Capital Financing Requirement for the current and previous years and significantly reduce MRP for 2023/24 and future years.

2.6 CIPFA published two new codes of practice in December 2021, which directly impact treasury management, namely, the revised Treasury Management Code of

Practice (TM Code) and the Prudential Code for Capital Finance in local authorities. Both Codes have statutory force. The key changes from previous editions are around permitted reasons to borrow, knowledge and skills and the management of non-treasury investments. Both Codes took immediate effect, although local authorities could defer implementing the revised reporting requirements to 2023/24. The Council adopted the revised reporting requirements with effect from 2022/23.

2.7 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. During 2022/23 a detailed cashflow forecasting model was implemented which provides improved management of the Council's cash balances which is helping to maximise the use of the additional cash flowing through from asset sales pending repayment of temporary borrowing.

2.8 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.

2.9 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."

2.10 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. The 2022/23 Treasury Management Mid-Year Report was reported to Cabinet on 21 November 2022.

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.

2.11 **Capital Strategy** – In addition to the three main treasury management reports, the CIPFA 2021 Prudential and Treasury Management Codes require 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

2.12 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.

Changes to the capital finance regulations

2.13 The Government consulted on changes to the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 over the period November 2021 to February 2022. The two proposed changes were to:

- emphasise that MRP has to be set aside on all unfunded capital expenditure, because some authorities were not charging MRP on assets which were acquired to provide a capital receipt in the future, which included investment property and capital loans; and
- confirm to local authorities that it was unlawful to use capital receipts in lieu of making a MRP charge.

2.14 Neither of the above proposals would impact on the Council, because the revised MRP policy adopted last year ensures that MRP is charged on all unfunded capital expenditure and the recalculation of MRP undertaken last year corrected earlier practices to use capital receipts in lieu of making a MRP charge.

2.15 Introduction of the changes to the 2003 Regulations was expected to be from April 2023 onwards, but it seems likely that it may be deferred to April 2024.

3. Implications of the Recommendation

3.1 <u>Financial implications</u>

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 <u>Legal implications</u>

3.2.1 The Local Government Act 2003 sets out the framework for local authority capital finance. This confers a broad power to borrow, subject to affordable borrowing limits. This framework is supplemented by the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, as amended, and by codes of practice and guidance. These collectively require the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy, setting out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.2.2 Approval of the budget and policy framework is reserved to full Council. In accordance with Part 4.3 of the Council's Constitution, by the end of February Cabinet shall consider the resources available to finance capital projects for the next five years together with the Prudential Indicators and approve the capital expenditure programme for the next five years. By 11 March, Cabinet shall recommend to full Council the capital programme, borrowing limits and the Prudential Indicators for the following five years.

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 and by accelerating the asset disposal plan so far as possible;

- 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 and by repaying temporary borrowing as such loans mature.

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 has an asset disposal programme to generate capital receipts.

4. Background Papers