



# Borough of Telford and Wrekin

## Audit Committee

Tuesday 24 January 2023

### 2022/23 Treasury Management Update Report and 2023/24 Treasury Management Strategy

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| <b>Cabinet Member:</b>          | Cllr Rae Evans - Cabinet Member: Finance, Governance and Customer Services   |
| <b>Lead Director:</b>           | Ken Clarke - Director: Finance & Human Resources   |
| <b>Service Area:</b>            | Finance & Human Resources  |
| <b>Report Author:</b>           | Edward Rushton - Group Accountant  |
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| <b>Wards Affected:</b>          | All wards  |
| <b>Key Decision:</b>            | Not Key Decision   |
| <b>Forward Plan:</b>            | 9 November 2023  |
| <b>Report considered by:</b>    | SMT 17 January 2023<br>Audit Committee 24 January 2023<br>Business Briefing 26 January 2023<br>Cabinet 16 February 2023<br>Full Council 2 March 2023 |

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#### 1.0 Recommendations for decision/noting:

Audit Committee members are asked to recommend that Full Council:

- 1.1 Note the treasury management activities to 31<sup>st</sup> December 2022 (Appendix A);
- 1.2 By by of vote, approve the Treasury Strategy 2023/24 (Appendix B), including the Annual Investment Strategy, together with the Minimum Revenue Provision Statement (Appendix B para 3.0, which will apply from 2022/23 onwards and Treasury Management Prudential Indicators (Appendix Bii); and

1.3 Note the Treasury Management Policy Statement (Appendix B para 4.0).

## **2.0 Purpose of Report**

2.1 During the financial year the minimum reporting requirements, as required by regulations issued under the Local Government Act 2003, are that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year,
- a mid-year, (minimum), treasury update report and
- an annual review following the end of the year describing the activity compared to the strategy.

This report updates members on Treasury Management activities during 2022/23 (mid year treasury update report) and details the Treasury Management Strategy recommended to be adopted for 2023/24 (annual treasury strategy). The report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

## **3.0 Background**

3.1 The strategy in 2022/23 and recent years has been to limit investments in third parties, which reduces the Council's exposure to counterparty risk, and where possible and appropriate to take advantage of lowest interest rates for borrowing. Maintaining high levels of very cheap temporary financing has generated surplus treasury management returns of more than £30m since 2015/16 which has reduced the impact of Government cuts to the Council's grants and therefore helped to protect front line services.

The Council's Medium Term Financial Strategy for 2022/23 and the Cabinet's proposals issued for consultation in January 2023 for 2023/24 to 2026/27 include an allowance for interest rates based on advice from the Council's independent treasury management advisors which ensures that the Council's budget in relation to Treasury Management is as robust as possible. The Council will continue to receive regular advice from independent expert advisors specialising in all aspects of local government treasury management and we will act in accordance with the advice received.

The report also sets out expected external financing requirements. We have an excellent track record of complying with all the prudential indicators and limits agreed by Council and are operating well within the overall approved credit ceiling. The proportion of the Council's net revenue budget used to service loan repayment is 8.8% in the current financial year. This compares to 10.6% for the average unitary authority. The Council has increased its external financing requirements in recent years to include investment in NuPlace which provides high quality homes for rent from a reliable landlord, mainly at market rent levels and has enabled brownfield sites to be brought back in to use. The council has also expanded the Property

Investment Portfolio (the PIP) to attract and retain jobs for local people and to provide other regeneration benefits for our residents. An ancillary consequence of these investments is that it is anticipated they will bring long term capital growth which will strengthen the Council's balance sheet as well as generating revenue returns well in excess of the associated loan repayment charges. They will also bring other direct and indirect financial and other benefits to the residents of the Borough including additional income from council tax, business rates and new homes bonus which will be used to help support front line services such as Adult Social Care, as well as protecting and creating jobs for local people. The Council's solar farm generates an index linked surplus after covering all associated costs including debt charges each year which is also used to help support front line services. The net surplus in the current year is expected to be around £0.7m.

This report, and the Prudential Indicators report which will be considered by Cabinet on 16 February and Full Council on 2 March, sets out our overall approach to treasury management and the controls that are put in place to ensure that council taxpayers' interests are protected and risks are managed as effectively as possible.

#### 4.0 Summary of main proposals

##### 4.1 Treasury Management Update 2022/23

##### Treasury Management Portfolio at 31.12.2022

|                             | 31.3.2022<br>£m | 31.12.2022<br>£m | Movement<br>£m |
|-----------------------------|-----------------|------------------|----------------|
| Borrowing (excl. PFI)       | 282.7           | 301.3            | 18.6           |
| Investments (excl. NuPlace) | (36.5)          | (24.8)           | 11.7           |
| <b>Net indebtedness</b>     | <b>246.2</b>    | <b>276.5</b>     | <b>30.3</b>    |

The strategy for 2022/23 remains consistent with that outlined in the 2022/23 Treasury Strategy, which was agreed for approval at Full Council on 3 March 2022 and by this committee on 25 January 2022. The Strategy is also a continuation of that used in recent years which has provided considerable benefits to the Council, i.e. to:-

- take new borrowing within shorter maturities before gradually lengthening maturities, and
- take advantage of longer term loans when opportunities arise.

Latest financial monitoring projections indicate a benefit of £3.9m from treasury management during 2022/23 which is supporting the provision of front line services and the Council's overall financial position.

#### Borrowing

To date in 2022/23 part of our Equal Instalment of Principal and Annuity PWLB loans have matured and 3 new PWLB loans totalling £20m have been taken (see Appendix A para. 3.1) as part of a gradual move to taking some longer term

borrowing to mitigate potential exposure to interest rate rises. Alongside this, short term borrowing has been used to fund short term cash flow requirements and continue to take advantage of lower interest rates.

On 19 May 2022 the Council launched a Municipal Investment Loan on the Abundance Platform: the Telford & Wrekin Climate Action Investment. This provided an opportunity for individuals to lend money to the Council which is being used to fund a range of projects across Telford & Wrekin to help tackle the climate emergency. Loans are for a 5 year period at a fixed interest rate of 2.10% per annum. The cost of borrowing to the Council, including fees, was comparable with PWLB rates at the time of entering the arrangement in that on the day the offer was launched the cost of the debt to the Council was lower than PWLB would have been. Legally, the investments are loans from individual people to the Council. The loan raised £0.339m.

As referred to above, a large part of the Council's total existing borrowing and planned further borrowings relates to funding projects which will deliver important and significant housing and regeneration benefits as well as generating some income. These are budgeted to generate returns in excess of the annual loan repayment charges and other operating costs.

### **Investments**

The overall investment strategy for 2022/23 is to gain maximum benefit but with security of the principal sum invested being the primary consideration. Overall the weighted average return on all internal investments for the year to date was 1.55%; with the paramount aim being to maintain security of principal investments have generally been placed with the Government's Debt Management Office. This return compares to a benchmark return for the period of 1.55% based on the average overnight rate with the Debt Management Office (DMO).

A schedule of short-term investments as at 31 December 2022 is shown at Appendix Ai.

The Markets in Financial Instruments Directive II (MIFID II) came into place on 3 January 2018 and the Council has opted to be categorised as a professional client which allows access to financial services and advice it may otherwise be unable to obtain (such as advice from our treasury advisors). As part of the regulations, the authority must hold a minimum investment balance which is currently set at £10m.

### **Economic Data**

The Bank of England has continually increased the base rate throughout 2022/23 as it continues to seek to control increasing inflation which hit a 40 year high of 11.05% (CPI) in October before falling slightly to 10.67% in November as higher prices for goods due to stock shortages as economies start to open up following the pandemic, along with higher energy prices and Russia's invasion of Ukraine which has led more increases in the prices of energy and food. The fallout from the economic uncertainty caused by the 'Truss Governments' mini budget in September led to further interventions from the Bank of England. In December the Base Rate was increased by 0.5% to 3.5%, its highest level in 14 years and an increase of

2.75% since April 2022. It is anticipated that the base rate will continue to rise throughout 2022/23 finishing the year at 4.25%, peaking in mid 2023 at 4.5% before falling from January 2024 onwards.

### **Treasury Management Advisor**

The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors. Link currently provide treasury advisory services to over 400 public sector clients in the UK and are experienced and well-resourced to support our treasury function.

The full report is included an Appendix A

## **4.2 Treasury Management Strategy 2023/24**

The Council's Treasury Management Strategy is set within the parameters of the relevant statute, guidance and accounting standards which include the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in Public Services (2021) and the Prudential Code (2021). The Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The Council is currently expected to need to borrow an additional £125.8m in 2023/24 based on the current capital programme plans and will adopt a flexible approach to borrowing. In consultation with its treasury management advisors consideration will be given to affordability, maturity profile of existing external financing, interest rate and refinancing risk as well as borrowing source, which is usually expected to be other Local Authorities or the Public Works Loan Board, but may also include Municipal Investment Loans, the LGA Municipal Bonds Agency, European Investment Bank or commercial sources, and any new opportunities which may arise.

The strategy for any investments will generally be to minimise investments in order to reduce counter-party risk and to reduce net interest costs as longer-term borrowing rates will tend to be greater than we are able to earn on new investments, but we will look to lengthen investment periods, where cash flow permits, to achieve higher interest rates within acceptable risk parameters. We would generally anticipate holding investments equal to the requirements set out under MIFID II, currently £10m. Maximum investment levels with counterparties will be set to ensure prudent diversification is achieved whilst recognising that the strict investment criteria that the Council applies severely reduces the number of suitable available counterparties and therefore sums with individual counterparties may be up to £15m at any one time.

The full report is included at Appendix B and also includes:

- the Council's Minimum Revenue Provision Statement 2023/24
- the Councils Treasury Management Policy Statement 2023/24, and

- the Treasury Management Prudential Indicators for 2023/24.

## **5.0 Alternative Options**

5.1 The Council must ensure that it manages its finance in accordance with Legislation and the CIPFA code of practice. The recommendations in this report support that aim and are based on consideration of a range of factors.

## **6.0 Key Risks**

6.1 The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.

## **7.0 Council Priorities**

7.1 Effective management of the Council's Treasury portfolio helps support the Council's overall financial position through minimising borrowing costs and optimising investment income whilst following the principles of Security, Liquidity and Yield; and therefore supports the delivery of all Council priorities.

## **8.0 Financial Implications**

8.1 These are detailed in the body of the report and the appendices.

## **9.0 Legal and HR Implications**

9.1 The Council's Treasury Strategy has to comply with the relevant statute, codes and guidance which are set out both in the main body of this report and its appendices. This reports demonstrates that the Council has had regard to the CIPFA guidance as required by the Local Government Act 2003.

9.2 The Director: Finance & Human Resources (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Director: Finance & Human Resources is meeting one of the responsibilities of the post contained within the Council's Constitution at Part 2, Article 12, paragraph 12.04(f) which states "The Chief Financial Officer will contribute to the promotion and maintenance of high standards of governance, audit, probity and propriety, risk management and the approval of the statement of accounts through provision of support to the Audit Committee." This requirement within the Constitution reflects the requirements of the Local Government Finance act 1988 to appoint an officer who is responsible for the good financial administration of an authority.

9.3 The Local Government Finance Act 1992 requires authorities to set a balanced budget; the proposals in this report, together with other budget-related reports, demonstrates that the Council meets this requirement.

## **10.0 Ward Implications**

10.1 There are no impacts on specific wards in this report.

## **11.0 Health, Social and Economic Implications**

11.1 The Economic Climate has direct relevance to Treasury Management and is covered in detail in the report and accompanying appendices.

## **12.0 Equality and Diversity Implications**

12.1 The Council will not knowingly directly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the Council. At the same time the Council will take full responsibility for proper management of risk and safeguarding its investments by ensuring that they are diversified and made with organisations that are suitably credit assessed.

## **13.0 Climate Change and Environmental Implications**

13.1 As mentioned in Section 4.1 above, the Council launched a Municipal Investment Loan on the Abundance Platform: the Telford & Wrekin Climate Action Investment which supports the Councils climate change agenda.

## **14.0 Background Papers**

- 1 CIPFA Treasury Management in the Public Services – Code of Practice and cross-sectional guidance notes (2021 edition)
- 2 CIPFA The Prudential Code for Capital Finance in Local Authorities (2021 edition)
- 3 Local Government Act 2003
- 4 Treasury Management Strategy Template provided by Link Treasury Services

## **15.0 Appendices**

- A 2022/23 Treasury Management update Report
- B 2023/24 Treasury Management Strategy

## **16.0 Report Sign Off**

| <b>Signed off by</b> | <b>Date sent</b> | <b>Date signed off</b> | <b>Initials</b> |
|----------------------|------------------|------------------------|-----------------|
| Finance              | 04/01/2023       | 06/01/2023             | PH              |
| Legal                | 10/01/2023       | 10/01/2023             | RP              |
| Director             | 10/01/2023       | 14/01/2023             | KC              |