

Decision Maker: Resources, Commissioning and Contracts Management
Portfolio Holder

Date: For pre-decision scrutiny by Executive, Resources and Contracts PDS
Committee on 27 November 2023
Council on 11 December 2023

Decision Type: Non-Urgent Executive Non-Key

Title: TREASURY MANAGEMENT - QUARTER 2 PERFORMANCE
2023/24 AND MID-YEAR REVIEW

Contact Officer: Sean Cosgrove, Principal Accountant (Capital and Treasury)
Tel: 020 8313 4312 E-mail: sean.cosgrove@bromley.gov.uk

Chief Officer: Peter Turner, Director of Finance
Tel: 020 8313 4668 E-mail: peter.turner@bromley.gov.uk

Ward: All

1. Reason for report

- 1.1. This report summarises treasury management activity during the second quarter of 2023/24. The report also includes a mid-year review of the treasury management strategy statement and annual investment strategy (Appendix 4). The report ensures that the Council is implementing best practice in accordance with the CIPFA Code of Practice for Treasury Management. Investments as at 30 September 2023 totalled £379.6m (£390.6m at 30 September 2022) and there was no outstanding external borrowing.
-

2. RECOMMENDATION(S)

- 2.1. The Resources, Commissioning and Contracts Management Portfolio Holder is requested to:

- (a) note the treasury management performance for the second quarter of 2023/24;
- (b) recommend that Council approve the 2023/24 prudential indicators as set out in Appendix 4

- 2.2. Council is requested to note the report

Impact on Vulnerable Adults and Children

1. Summary of Impact: None
-

Corporate Policy

1. Policy Status: Existing policy. To maintain appropriate levels of risk, particularly security and liquidity, whilst seeking to achieve the highest rate of return on investments.
 2. BBB Priority: Excellent Council .
-

Financial

1. Cost of proposal: N/A
 2. Ongoing costs: N/A
 3. Budget head/performance centre: Interest on balances
 4. Total current budget for this head: £9,841k
 5. Source of funding: Net investment income
-

Personnel

1. Number of staff (current and additional): 0.25 fte
 2. If from existing staff resources, number of staff hours: 9 hours per week
-

Legal

1. Legal Requirement: Non-statutory - Government guidance.
 2. Call-in: Call-in is applicable
-

Procurement

1. Summary of Procurement Implications: N/A
-

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): N/A
-

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

- 3.1 Under the requirements of the CIPFA Code of Practice on Treasury Management, the Council is required, as a minimum, to approve an annual treasury strategy in advance of the year, a mid-year review report and an annual report following the year comparing actual activity to the strategy. This effectively means that in-year monitoring is incorporated into the three reports required by the Code of Practice: Q1 monitoring is no longer reported unless there are any matters that officers feel should come before the Committee sooner.
- 3.2 This report includes details of investment performance in the second quarter of 2023/24. The 2023/24 annual treasury strategy, including the Minimum Revenue Provision (MRP) policy statement and prudential indicators, was originally submitted to the Executive, Resources and Contracts PDS Committee on 2 February 2023 and Council on 27 February 2023.
- 3.3 Changes in the regulatory environment have placed a much greater onus on Members to undertake the review and scrutiny of treasury management policy and activities. This report is important in that respect as it provides details of the actual position for treasury activities and highlights compliance with the Council's policies previously approved by Members.
- 3.4 The Council has monies available for treasury management investment as a result of:
- positive cash flow
 - receipts (mainly from government) received in advance of payments being made
 - capital receipts not yet utilised to fund capital expenditure
 - provisions made in the accounts for liabilities e.g. provision for outstanding legal cases which have not yet materialised
 - general and earmarked reserves retained by the Council
- 3.5 Some of the monies identified above are short term and investment of these needs to be highly "liquid", particularly if it relates to a positive cash flow position which can change in the future. Future monies available for treasury management investment will depend on the budget position of the Council and whether the Council will need to substantially run down capital receipts and reserves. Against a backdrop of sustained cuts in government funding, which will require the Council to make revenue savings to balance the budget in future years, there is a likelihood that such actions may be required in the medium term, which will reduce the monies available for investment.
- 3.6 The Council has also identified an alternative investment strategy relating to property investment. To date, this has resulted in actual and planned acquisitions which generated £5.6m in 2017/18, £5.5m in 2018/19, £5.4m in 2019/20, £5.3m in 2020/21, £5.4m in 2021/22, £4.5m in 2022/23 and is budgeted to achieve £6.3m in 2023/24. This is based on a longer-term investment timeframe of at least three to five years and ensures that the monies available can attract higher yields over the longer term.
- 3.7 A combination of lower risk investment relating to treasury management and a separate investment strategy in the form of property acquisitions (generating higher yields and risks) provides a balanced investment strategy. Any investment decisions will also need to consider the current ongoing volatility in interest rates. The available resources for the medium term, given the ongoing reductions in government funding, will need to be regularly reviewed.

Treasury performance in the quarter ended 30 September 2023

- 3.8 **Borrowing:** the Council's healthy cashflow position continues and, other than some short-term borrowing at the end of 2015/16, no borrowing has been required for a number of years.

3.9 **Investments:** the following table sets out details of investment activity during the second quarter and year to date:

	Qtr ended 30/09/23		2023/24 year to date	
	Deposits	Avg rate	Deposits	Avg rate
	£m	%	£m	%
Balance of "core" investments b/f	200.00	3.85	230.00	2.97
New investments made in period	115.00	5.85	165.00	6.15
Investments redeemed in period	-95.00	2.63	-175.00	2.40
"Core" investments at period end	220.00	5.58	220.00	5.58
Money Market Funds	36.10	5.02	36.10	4.71
CCLA Property Fund*	40.00	2.24	40.00	3.14
Multi-Asset Income Funds*	40.00	0.87	40.00	-2.13
Schroders Global Diversified Growth Fund*	20.00	2.39	20.00	1.55
Project Beckenham loan	3.49	6.00	3.49	6.00
Sovereign bonds	20.00	4.23	20.00	4.23
"Alternative" investments at period end	159.59	2.87	159.59	1.11
Total investments at period end	379.59	4.44	379.59	3.70

*The rates shown in here are the total return (ie. the dividend income plus the change in capital value.) A more detailed breakdown of the rates for these investments is shown in the relevant paragraphs.

3.10 Details of the outstanding investments at 30 September 2023 are shown in maturity date order in Appendix 2 and by individual counterparty in Appendix 3. The return on the new "core" investments placed during the second quarter of 2023/24 was 5.85%.

3.11 Reports to previous meetings have highlighted the fact that options with regards to the reinvestment of maturing deposits have become seriously limited in recent years following bank credit rating downgrades. Changes to lending limits and eligibility criteria, as well as the introduction of pooled funds and housing associations, have alleviated this to some extent. More recently, however, successive increases in the Bank of England base rate have fed through into significantly improved lending rates with eligible counterparties.

3.12 The chart in Appendix 1 shows total investments at quarter-end dates back to 1 April 2004 and shows how available funds have increased steadily over the years. This has been a significant contributor to the over-achievement of investment income against budget in recent years.

Interest rate forecast (provided by Link Asset Services)

3.13 The Bank of England base rate was 5.25% at the September meeting of the Monetary Policy Committee. Link has stated that it believes the rate will remain the same before a decrease next year. Its detailed forecast (as at 25 September 2023) is shown in the table below.

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

Money Market Funds

- 3.14 The Council currently has five AAA-rated Money Market Fund accounts (“MMFs”) with Federated Prime Rate, Aberdeen Standard (formerly known as Ignis), Insight, Fidelity and Legal & General, all of which have a maximum investment limit of £15m. In common with market rates for fixed-term investments, interest rates on MMFs have risen significantly in the last year and remain high. LGIM and Federated Prime Rate Funds currently offer the best rate at around 5.36%.
- 3.15 The total balance held in MMFs has varied during the year to date moving from £0 as at 31 March 2023, a month with minimal council tax and NNDR receipts and following the repayment of significant government grants, to £36.1m as at 30 September 2023. The MMFs currently offer the lowest interest of all eligible investment vehicles with the exception of the Government Debt Management Account Deposit Facility; however, they are the most liquid, and funds can be redeemed up until midday for same day settlement.
- 3.16 Daily balances in the MMFs vary considerably throughout the year, though tend to be lower in February and March when the Council’s income from Council Tax and Business Rates is significantly lower than the rest of the year and so there is less liquid cash available for investment purposes. Occasionally, these balances are inflated to ensure that the Council has sufficient liquidity to cover any “non-standard” expenditure such as investment property purchases.

Housing associations

- 3.17 Deposits with housing associations have attracted favourable rates and in 2021 the Council’s treasury management strategy statement was amended to increase the overall limit for investments with housing associations to £80m. The Council currently has no deposits placed with housing associations – this is due to a combination of less attractive rates and less demand for funds on the part of the housing associations than in previous periods.

Loan to Project Beckenham

- 3.18 On 26 June 2017, Council approved the inclusion in the strategy of a secured loan to Project Beckenham, relating to the provision of temporary accommodation for the homeless, that had previously been agreed to be advanced from the Investment Fund. A loan of £2.3m was made in June 2017, at a rate of 6% (increasing to 7.5% if the loan to value ratio exceeded a set value). £1.0m of this loan was re-paid during 2019/20, leaving a £1.3m balance at the end of March 2020. Advances totalling £2.45m were made in 2020/21 and 2021/22 leaving a balance of £3.75m. A further five loan advances totalling £1.2m were made in 2022/23 and repayments of £0.96m were received in November and December, leaving the balance at 31 March 2023 at £4.0m. In May, August and September 2023, repayments totalling £0.68m were made, leaving the balance as at 30 September 2023 at £4.68m, as shown in the following table:

FY	Bal b fwd £'000	Advanced £'000	Repaid £'000	Bal cfwd £'000
Prior to 2019/20	0	2,313	0	2,313
2019/20	2,313	0	(1,000)	1,313
2020/21	1,313	800	0	2,113
2021/22	2,113	1,650	0	3,763
2022/23	3,763	1,200	(960)	4,003
Q2 2023/24	4,003	0	(681)	3,322

Sovereign bonds

- 3.19 During November 2021, it was agreed that the Council's treasury management strategy be amended to allow investment in sterling-denominated sovereign bonds, subject to a maximum of duration of 3 years and an exposure limit of £25m. On 30 November 2021, an investment of £10m was made for two years at a rate of 1.84% and a further investment of £10m was made for two years on 1 August 2023 at a rate of 6.61%.

Pooled investment schemes

- 3.20 In September 2013, the Portfolio Holder and, subsequently, Council approved the inclusion of collective (pooled) investment schemes as eligible investment vehicles in the Council's Investment Strategy with an overall limit of £25m and a maximum duration of five years. The limit was subsequently increased to £40m by Council in October 2015, £80m in June 2017 and £100m in December 2017. Such investments would require the approval of the Director of Finance in consultation with the Resources, Commissioning and Contracts Management Portfolio Holder.
- 3.21 Until March 2018, accounting rules required that the change in capital value of these investments be held in the Available for Sale Financial Assets Reserve, and only recognised in revenue on the sale of the investment. In-year projections for interest on balances therefore only reflected the dividends from these investments.
- 3.22 However, from 2018/19 onwards, local authorities have been required to account for financial instruments in accordance with IFRS9. One of the results of this is that changes in the capital value of pooled fund investments are recognised in revenue in-year. Subsequently, MHCLG issued regulations providing a statutory override to reverse the impact of IFRS9 on the Council's General Fund, which came into force in December 2018 and would apply until 31 March 2023, after which it was intended for movements in value to be recognised in year. Following consultation, DLUHC announced in January that the override would be extended for a further two years to 31 March 2025, after which the standard will be applied fully.
- 3.23 Due to the regulations being time limited and the potentially volatile nature of these investments, interest/dividend earnings above a determined threshold have been set aside in an earmarked Income Equalisation reserve. This will protect the Council against unexpected variations in the capital value of these investments and any timing issues arising from the expiry of the statutory override. Details are shown in the following table:

FY	Threshold %	Bal bfwd £'000	Set aside £'000	Bal cfwd £'000
2018/19	2.5	0	1,509	1,509
2019/20	2.5	1,509	1,196	2,705
2020/21	2.0	2,705	1,520	4,225
2021/22	2.0	4,225	1,676	5,901
2022/23	2.0	5,901	2,044	7,945
Q2 2023/24	2.5	7,945	0	7,945

CCLA Property Fund

- 3.24 Following consultation between the Director of Finance and the Portfolio Holder, an account was opened in January 2014 with the CCLA Local Authorities' Property Fund and an initial deposit of £5m was made, followed by further deposits of £5m in July 2014, £5m in March 2015, £10m in October 2015, £5m in October 2016 and £10m in October 2017. The investment in this fund is viewed as a medium- to long-term investment and dividends are paid quarterly. A breakdown of dividends earned and capital growth is provided in the table below:

Annualised net return	Dividend %	Capital gain/(loss) %	Total return %
01/02/14 - 31/03/14	4.29	-29.64	-25.35
01/04/14 - 31/03/15	5.03	3.44	8.47
01/04/15 - 31/03/16	5.02	1.63	6.65
01/04/16 - 31/03/17	4.55	-2.50	2.05
01/04/17 - 31/03/18	4.59	2.41	7.00
01/04/18 - 31/03/19	4.46	1.57	6.03
01/04/19 - 31/03/20	4.45	-3.68	0.77
01/04/20 - 31/03/21	4.30	-0.71	3.59
01/04/21 - 31/03/22	3.82	17.29	21.12
01/04/22 - 31/03/23	4.19	-19.09	-14.90
01/04/23 - 30/09/23	4.83	-1.68	3.14
Cumulative return	4.42	-0.53	3.89

3.25 The annualised fund return for the year to 30 September 2023 was capital decline of -1.68% and dividends paid of 4.83%, resulting in a total return of 3.14%. Since inception, dividends paid have averaged 4.42% per annum and the capital value has decreased by -0.53% per annum resulting in a net annual return of 3.89%.

Multi-Asset Income Fund

3.26 Following approval by Council in June 2017, the limit for pooled investment schemes was increased to £80m and an investment of £30m was made on 12 July 2017 in the Fidelity Multi-Asset Income Fund, following the agreement of the Resources, Commissioning and Contracts Management Portfolio Holder. A further investment of £10m was made on 30 December 2019.

Annualised net return	Dividend %	Capital gain/(loss) %	Total return %
12/07/17 - 31/03/18	4.42	-6.27	-1.85
01/04/18 - 31/03/19	4.26	1.45	5.71
01/04/19 - 31/03/20	4.37	-11.81	-7.44
01/04/20 - 31/03/21	4.38	9.52	13.9
01/04/21 - 31/03/22	4.16	-4.98	-0.82
01/04/22 - 31/03/23	4.17	-12.08	-7.92
01/04/23 - 30/09/23	5.38	-7.51	-2.13
Cumulative return	4.36	-4.16	0.20

3.27 The annualised fund return for the year to 30 September 2023 was a capital decline of -7.51% and dividends paid of 5.38%, resulting in a total return of -2.13%. Since inception, dividends paid have averaged 4.36% per annum and the capital value has declined by -4.16% per annum, resulting in a net annual return of 0.20%.

Global Diversified Income Fund

3.28 During 2020/21 a new investment was made in the Global Diversified Income Fund, managed by Schrodgers. The aim of this fund is to provide long-term capital growth and income of 3%-5% per annum. An initial £10m was invested in March 2021, followed by a further £10m in April 2021. A breakdown of the dividends earned and capital growth is provided in the table below.

Annualised net return	Dividend %	Capital gain/(loss) %	Total return %
01/03/21 - 31/03/21	2.45	2.43	4.88
01/04/21 - 31/03/22	2.96	-3.15	-0.19
01/04/22 - 31/03/23	3.50	-8.38	-4.88
01/04/23 - 30/09/23	4.10	-2.54	1.55
Cumulative return	3.39	-4.99	-1.60

3.29 The annualised fund return for the year to 30 September 2023 was capital decline of -2.54% and dividends paid of 4.10% resulting in a total return of 1.55%. Since inception, dividends

paid have averaged 3.39% per annum and the capital value has decreased by -4.99% per annum resulting in a net annual return of -1.60%.

Property acquisition scheme (Meadowship Homes)

- 3.30 As agreed by the Executive during 2021, the Council has embarked on a property acquisition scheme under a funding arrangement with Orchard & Shipman. This will involve the formation of an LLP which will be a joint venture between the Council and Orchard & Shipman. As part of this scheme, the Council will make a £20m loan (in tranches) for 50 years. Annual repayments will start from year 3 of 1.6% (£320k) per annum and increasing annually by CPI (collared at 0-4%). As the Effective Interest Rate on the loan is dependent on CPI, it is possible that this will be lower than the rate the Council might achieve through treasury management investments, so there may be a loss of treasury management income. Phase 2 of the scheme was approved in July 2022, involving a further loan of £15m on similar repayment terms to the initial scheme.

Mid-year review: treasury management strategy statement and annual investment strategy 2023/24

- 3.31 The CIPFA Code of Practice on Treasury Management requires the Council to receive a mid-year review report on performance against the approved strategy. The annual investment strategy was originally approved by Council in February 2020. A mid-year review, including comments on the economic background during the first half of 2023/24 and on the outlook, is included at Appendix 4.
- 3.32 The 2023/24 annual treasury strategy, including the Minimum Revenue Provision (MRP) policy statement and prudential indicators, was originally submitted to the Executive, Resources and Contracts PDS Committee on 2 February 2023 and to Council on 27 February 2023. Many of the indicators are academic as far as the Council is concerned, as they seek to control debt and borrowing (not currently applicable to Bromley), but they are a statutory requirement.
- 3.33 While the Council effectively determines its own eligible counterparties and limits, it also uses Link Asset Services (Link) as an advisor in investment matters. Link uses a modelling approach that combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a measure of the relative creditworthiness of counterparties: these indicate Link's recommendations on the maximum duration for investments. The Council will use its own eligibility criteria for all investment decisions but will also be mindful of Link's advice and information and will not use any counterparty not considered by Link to be a reasonable risk. In line with the requirements of the CIPFA Treasury Management Code of Practice, the Council will always ensure the security of the principal sum and the Council's liquidity position before the interest rate.
- 3.34 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies if Fitch does not provide). Currently, the strategy permits the following type of investments:
- a) Specified investments: these investments are sterling investments of not more than one-year maturity or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. These are relatively low risk investments where the possibility of loss of principal or investment income is small and subject to a minimum credit rating. These would include investments with:
 1. UK Government, e.g., a UK treasury bill or gilt with a maximum of one year to maturity
 2. a local authority, parish council or community council
 3. corporate or supranational bonds

4. pooled investment vehicles
5. banks and building societies
6. certificates of deposit, commercial paper or floating rate notes.

b) Non-specified investments: these are any other type of investment and can be for any period over one year, subject to category and duration limits, namely:

1. bank deposits
2. building society deposits
3. deposits with other local authorities
4. gilt-edged securities
5. non-rated subsidiary of a credit-rated institution
6. corporate or sovereign bonds
7. collective (pooled) investment schemes
8. certificates of deposit, commercial paper and floating rate notes
9. housing associations

3.35 Although, as indicated above, the strategy allows the Council to make a range of investments, in practical terms the Council has recently utilised only a narrow range of investment types, namely money market deposits, fixed interest loans to banks, housing associations and local authorities, sovereign bonds and pooled investment vehicles. Moreover, the Council's investment decisions have been informed by consideration of maximising available returns whilst operating within the parameters set out within the strategy, namely credit-ratings and investment category limits.

3.36 Recent treasury management updates have highlighted the fact that options with regards to the reinvestment of maturing fixed-interest deposits have become seriously limited in recent years following bank credit rating downgrades and the low-interest rate environment that persisted for some time in the UK and is only now starting to return to former levels. Changes to lending limits and eligibility criteria, as well as the inclusion of pooled funds and housing associations within the strategy, have alleviated this to some extent, but there are still limited options available other than placing money with instant access accounts at relatively low interest rates.

3.37 Despite the challenges outlined above, the Council has achieved a significant income stream from interest on balances, as shown below:

Financial year	Interest on balances £'000
2017/18	4,049
2018/19	4,951
2019/20	5,133
2020/21	5,140
2021/22	4,202
2022/23	7,252
2023/24	12,841 (projected)

Revised Treasury Management and Prudential Codes

3.38 During December 2021 CIPFA published a revised Prudential Code (Prudential Code for Capital Finance in Local Authorities) and Treasury Management Code (Treasury Management

in the Public Services Code of Practice and Cross-Sectoral Guidance Notes). It also stated that formal adoption is not required until the 2023/24 financial year. This Council is required 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.

3.39 The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment
- address ESG issues within the capital strategy
- require implementation of a policy to review commercial property, with a view to divest where appropriate
- create new investment practices to manage risks associated with non-treasury investment (similar to the current treasury management practices)
- ensure that any long-term treasury investment is supported by a business model
- a requirement to effectively manage liquidity and longer-term cash flow requirements
- amendment to TMP1 to address ESG policy within the treasury management risk framework
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council
- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage)

3.40 In addition, all investments and investment income must be attributed to one of the following three purposes:

- (i) **treasury management:** arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments
- (ii) **service delivery:** investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose"
- (iii) **commercial return:** investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that "plausible losses" could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return

3.41 The Council's treasury management practices are currently under review in collaboration with external consultants to ensure they are fit for purpose and fully compliant with the revised codes. Members will be updated on how all these changes will impact our current approach

and any changes required will be formally adopted within the upcoming 2024/25 treasury management strategy.

Regulatory framework, risk and performance

3.42 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 ("the Act") which provides the powers to borrow and invest as well as providing controls and limits on this activity
- the Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing that may be undertaken (although no restrictions have been made to date)
- Statutory Instrument 3146 2003 ("the SI"), as amended, develops the controls and powers within the Act
- the SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities
- the SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services
- under the Act, the MHCLG has issued investment guidance to structure and regulate the Council's investment activities
- under section 238(2) of the Local Government and Public Involvement in Health Act 2007, the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007

3.43 The Council has complied with all of the above relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular, its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable and its treasury practices demonstrate a low-risk approach.

4 POLICY IMPLICATIONS

4.1 In line with government guidance, the Council's policy is to seek to achieve the highest rate of return on investments whilst maintaining appropriate levels of risk, particularly security and liquidity.

5 FINANCIAL IMPLICATIONS

5.1 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.

5.2 The budget for interest on balances for 2023/24 was set at £9,841k. This reflected the increase in anticipated interest earnings as a result of the significant increases in the Bank of England base rate, partly offset by an expected reduction in balances available for investment as a result of the utilisation of capital receipts and grants/contributions as well as earmarked revenue reserves.

- 5.3 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. Although the Council does not currently borrow to finance its General Fund capital spending plans, officers still plan and forecast the longer-term cash flow position in order to ensure that the Council can meet its capital spending obligations and that it maintains balances (working capital) at a prudent and sustainable level.
- 5.4 The Council's treasury management strategy and day-to-day operations of the treasury function are informed by our professional adviser, Link Group. Link Group advises the Council on counterparties, investment and borrowing options, and risk management.
- 5.5 The Treasury Management Strategy was revised to enable alternative investments of £100m which will generate additional income of around £2m compared with lending to banks.

6 LEGAL IMPLICATIONS

- 6.1 Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.
- 6.2 This report fulfils the requirements of the Chartered Institute of Public Finance & Accountancy's Treasury Management and Prudential Codes of Practice 2017 and the 2018 Statutory Guidance on Local Government Investments.

Non-applicable sections:	Impact on Vulnerable Adults and Children, Personnel, Legal and Procurement Implications
Background documents: (access via contact officer)	CIPFA Code of Practice on Treasury Management CIPFA Prudential Code for Capital Finance in Local Authorities CLG guidance on investments External advice from Link Asset Services