Resources and Fire and Rescue Overview and Scrutiny Committee

22 February 2023

Treasury Management Strategy

Recommendations

That the Committee notes and comments on the 2023/24 Treasury Management Strategy approved by Council on 7 February 2023.

1 Executive Summary

1.1 This report presents the Council's Treasury Management Strategy for scrutiny and comment.

1.2 The Council sets a Treasury Management Strategy each year whose purpose is to govern the management of the council's cash and debt, to ensure that cash is available for use when needed and that is it is managed efficiently and effectively. The Treasury Management Strategy sits alongside and inter-relates with an Investment Strategy and a Capital Strategy. In order to put the Treasury Management Strategy into context, the features of these three strategies are summarised below, and the interrelationships are detailed in Appendix 1 for reference.

Capital Strategy	Treasury Management strategy	Investment strategy
Sets out all Council expenditure that is capital in nature, i.e. expenditure on assets that provide benefits over more than one financial year.	Sets out how the Council manages its cash balances, and how capital financing (borrowing) requirements will be managed.	Sets out how the Council will manage non-treasury investments.

1.3 Treasury Management activity focuses on managing the significant cash balances of the Council in secure and liquid settings as needed, and due to having high cash balances, no borrowing has been required to finance the capital programme of the Council for a number of years.

1.4 2021/22 and 2022/23 saw the launch and full year activity of 2 new strategic investments made by the Council which impact on treasury activities:

- Warwickshire Recovery Investment Fund (WRIF); and
- Warwickshire Property and Development Group (WPDG).

1.5 The financial year 2022/23 has seen 2 very different periods of economic activity; the first half of the year saw the tail end of the Covid-19 pandemic as the country returned to normal, while the second has seen political instability and huge fluctuations in economic markets.

1.6 These economic circumstances in the second half of the year so far have caused a dramatic rise in inflation, and also a rise in interest rates from the lows of the Covid-19 Pandemic. The impact of these on treasury management returns will prove significant in the second half of the year.

2. Treasury Management (Appendix 2) - Headlines

2.1 Treasury management is to do with the safe handling of cash (the priorities are ensuring security and liquidity, followed by the objective of earning an efficient return). Treasury cash balances are planned to reduce driven by "internal borrowing" whereby the Council makes use of temporarily available cash balances in order to reduce the amount of external borrowing required to support new investment. This approach is taken because internal borrowing is cheaper than external borrowing. Appendix 2 Table 7 shows how the position will change and become "under borrowed" (i.e. the Council will be borrowing both externally and internally rather than just externally).

2.2 Borrowing, also referred to as the Capital Financing Requirement or CFR (Appendix 2 Table 4) is forecast to increase driven by the planned capital strategy including investments in WPDG and the WRIF.

Changes to the Prudential Code and Treasury Management Code.

In December 2021 CIPFA published a revised Prudential Code and Treasury Management Code to be adopted by 2023/24. The relevant changes to these codes regarding this strategy are:

- Revised Prudential Indicators to show affordability and prudence;
- Liability Benchmark introduced as an indicator;
- Inclusion of ESG considerations in credit and counterparty polices;
- Knowledge and Skills schedule to the included in reporting and strategy;
- Revised definitions of the term "investments";
- Non-Treasury Activity to have a separate policy document; and
- Local Authorities must not borrow to invest for the sole purpose of financial return.

Other changes to Treasury Management Practices include:

- Extended time periods for investment counterparties; and
- Extended amount limits for investment sectors.

Interest Rates

2.3 Interest rates are currently volatile. The outlook for 2023/24 is for rates to rise and peak during the year before falling back down. The bank rate rose to 3.5% in December 2022 in a further effort to slow the rapid rise in inflation. The rates at which local authorities can borrow from the Public Works Loan Board (PWLB) have risen from historic lows at the end of 2021/22 to far higher cost of borrowing, in line with the trend in interest rates.

2.4 Interest returns received on treasury investments will fluctuate during the year as the economy begins to stabilise after a period of volatility. However, compared to previous years the treasury management returns are expected to be higher than the last 2 years due to the significant increase in interest rates following the Pandemic.

The increase in non-treasury investments will provide a financial benefit by providing greater returns than treasury investments and greater returns than PWLB borrowing, but at greater risk.

Borrowing

2.5 PWLB borrowing is expected to be more expensive than in previous years (Appendix 2 Section 3). A key requirement will be to ensure that the Council maintains access to these rates (although alternatives will also be considered when borrowing is required to ensure best value is achieved). There are two specific factors that will be managed to achieve this:

- By providing HM Treasury with a forward forecast of capital plans local authorities can maintain access to the lowest rates (referred to as the “certainty rates”); and
- By making non-treasury investments that meet PWLB lending criteria (Appendix 3, Annex 1).

2.6 The current borrowing maturity profile includes a concentration of debt due to be repaid around 2050-2060 (Appendix 2 Annex 2). When new borrowing is taken out the opportunity will be taken to consider spreading out the maturity profile more evenly to reduce exposure to timing risk.

2.7 Limits for borrowing have been set based upon expected levels of investment, including an “Authorised Borrowing Limit” which cannot be exceeded (Appendix 2, Table 12).

Pension Contributions

2.8 The Council will consider a payment of its 3-year pension fund contributions (for the valuation period 2023/24-2025/26) in one lump sum at the start of the valuation period. An early payment in April 2023 would be given a discount rate compared to cash payments made at normal monthly intervals.

2.9 The benefits for making this early payment include a gross saving of £6m total cash contributions over the 3 year period. However any total saving would be less than this as it would be netted off by the reduced Treasury Management returns that would be made should the prepayment be made.

2.10 Various costs and risks need to be considered if making an early pension contribution payment, these are set out in Section 5 of Appendix 1.

2.11 The payment will only be made based on the several conditions being met. These are listed in Section 5.14 of Appendix 1.

3 Financial Implications

3.1 The financial implications are detailed within the report and appendices.

4 Environmental Implications

4.1 The strategy includes an "Environmental Social and Governance" (ESG) policy. The primary objectives of treasury management will however remain security, liquidity, and yield, with non-treasury investments also including the delivery of organisational service objectives.

5 Timescales Associated with Next Steps

5.1 The Treasury Management Strategy will come into effect on 1st April 2023.

Appendices

- Appendix 1 - Explanation of Capital Expenditure, Treasury Investments, and Non-Treasury Investments
- Appendix 2 - Treasury Management Strategy

Background Papers

None

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The report was circulated to the following members prior to publication:
Local Member(s): None
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