Leicestershire County Council

CORPORATE GOVERNANCE COMMITTEE – 27 JANUARY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

TREASURY MANAGEMENT STRATEGY STATEMENT 2023-24

Purpose of the Report

1. The purpose of this report is to provide the Corporate Governance Committee with an opportunity to review the treasury management strategy statement which includes the minimum revenue provision (MRP) policy statement and the annual investment strategy for 2023-24.

Background

2. The Treasury Management Strategy statement forms part of the Medium Term Financial Strategy which will be considered by the Council at its meeting on 22 February 2023.

3. Any comments that are made by the Corporate Governance Committee will be included in the report to the Council on this matter.

4. In 2021 the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised treasury management code of practice and a revised prudential code. The changes to the Codes reflect concern within Central Government about a trend towards authorities borrowing to make investments in assets which are not required for service reasons, in an attempt to generate additional resources to assist the revenue budget. The main changes in the 2021 Code updates are that an Council must not borrow (internally or externally) to invest primarily (more than 50% of the reason) for financial return.

5. Investments may therefore only be made where they are directly and primarily related to the functions of the Council and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose. This includes investments for the delivery of public services, e.g. affordable housing, job creation, environmental sustainability, local infrastructure and the regeneration of areas – that addresses areas of economic or social market failure and should only be made within the Council's area of economic influence. Investments should not be made primarily for return.

6. The updated prudential code does not require authorities to sell existing primary for return investment assets that were acquired (or committed to) prior to November 2020. However, where the Council has an expected need to borrow (internally or

externally), as does the County Council for the wider capital programme, the Code requires an annual review of options to exit investments held primary for return. The reviews should evaluate the benefit of holding such assets with taking out new borrowing and any risk reduction benefits. This will be undertaken each year as part of the annual Corporate Asset Investment Fund (CAIF) strategy refresh. The prudential code allows continued investment in such assets to maximise their value, including repair, renewal and updating of the properties. CAIF has always had wider objectives than simply financial return, but the CAIF strategy and appraisal approach will be updated to ensure all new CAIF investments will be compliant with the updated prudential code and also updated HM Treasury guidance.

7. As part of the prudent management of the Council's finances, investments will need to continue to be well managed and deliver a financial return commensurate with the level of risk. This is applicable even where the primary purpose is delivery of wider County Council policy objectives. .

8. Guidance produced by HM Treasury in 2022 supports the prudential Code in restricting access to Public Works Loans Board (PWLB) borrowing where any schemes within the Councils capital programme are primarily for return. The Council has had in place for some time its CAIF Strategy which it first produced in 2014, prior to this guidance. This has been updated annually since then, the most recent version is scheduled to be reported to the Scrutiny Commission in January 2023, and the Cabinet in February 2023, and when read in conjunction with the Treasury Management Strategy this fulfils the Council's obligations set out within this guidance.

9. The Council's CAIF Strategy sets out the approach the Council will follow when considering the acquisition of investments for the purposes of inclusion within the CAIF. It specifically documents the Council's requirements for ensuring effective due diligence, risk appetite, independent and expert advice and scrutiny arrangements, and performance monitoring by the Corporate Asset Investment Board, the Cabinet and the Scrutiny Commission as part of the regular monitoring of the MTFS.

10. The County Council has not borrowed to fund the investments within the CAIF programme. The proposed 2023-27 capital programme includes further investments in CAIF assets of £55m, and has an overall borrowing requirement of £124m that arose through requirements for service investments, principally Highways. Any new investments in CAIF assets will be assessed to ensure that they are not primarily for return, in line with the requirements of the updated prudential Code, and to ensure ongoing access to PWLB for future borrowing requirements.

11. Decisions on the availability and proportionality of funding for the capital programme, are made through the Capital Strategy (which includes funding for CAIF). They are reviewed annually as part of the MTFS, and the Treasury Management Strategy Statement. These documents take into account the statutory guidance issued by the Secretary of State under the Local Government Act 2003.

Treasury Management Strategy Statement and Annual Investment Strategy

12. 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 counterparties or instruments commensurate with the Council's risk appetite, prioritising security, liquidity and investment return in that order of importance.

13. The second main function of treasury management is the funding of the Council's capital programme. The capital programme sets out the borrowing need of the Council and the longer-term cash flow planning, to ensure that it can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any existing long term debt may be restructured to reduce risk or costs.

14. The contribution the treasury management function makes to the Council is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. As cash balances result mainly from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

15. Average treasury management balances have risen in recent years are now at around £400m. In order to maintain a flexible, risk averse approach to treasury management, and ensure there are sufficient counterparties for investments, the following limit changes have been included in the updated treasury management strategy:

Institution	**Maximum Sum Outstanding / Period of Loan**
UK banks and UK building societies:	£35m/6 months up to (previously £30m)
	£55m/12months (not special[#] Institutions). (previously £50m)
	£75m/12months (special[#] Institutions) Special = significant element of UK government ownership. (previously £70m)
Money Market Funds:	£40m limit within any AAA-rated fund. (previously £30m)
	£160m maximum exposure to all Money Market Funds (previously £120m)
Pooled private debt funds	£30m plus £20m overlap for maturing. (previously £20m plus £20m for maturing)
Pooled bank capital release funds	£20m. (previously £15m).

 # special institutions are those significant UK Government ownership

16. Following the lasting implications of the Covid-19 pandemic, in particular, the way the pandemic demonstrated that unforeseeable events can very quickly cause significant uncertainty and shock financial markets, it is recognised that in exceptional circumstances the Director of Corporate Resources, in order to protect capital balances and liquidity, may have to take immediate action that breaches the limits within the policy on a temporary basis. The Committee noted at its meeting in January 2021 that action would only be taken as a last resort and that any such action taken would be reported, along with the rationale behind it, to the Corporate Governance Committee at the first opportunity. It was also agreed at the meeting that ideally the decision should be made in consultation with the Chairman of the Corporate Governance Committee and if immediate action was required and it was not possible to consult with the Chairman, the Chairman would be informed as soon as practicable afterwards.

Resource Implications

17. The interest earned on revenue balances and the interest paid on external debt (which are directly correlated to the Treasury Management Strategy Statement) will impact onto the resources available to the Council.

Equality Implications

18. There are no discernible equality implications arising from the recommendations in this report.

Human Right Implications

19. There are no discernible human rights implications arising from the recommendations in this report.

Recommendation

20. The Committee is asked to comment on this report.

Background Papers

Report to Corporate Governance Committee on 28 January 2022 – Treasury Management Strategy Statement and Annual Investment Strategy 2022/23:

https://politics.leics.gov.uk/ieListDocuments.aspx?CId=434&MId=6843&Ver=4

Circulation under the Local Issues Alert Procedure

21. None

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Appendix

Appendix - Treasury Management Strategy Statement 2023-24

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