BLACKPOOL COUNCIL

REPORT

of the

DIRECTOR OF RESOURCES

to the

EXECUTIVE

on

10 FEBRUARY 2020

TREASURY MANAGEMENT STRATEGY 2020/21

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1. Purpose

1.1 The Council is required by statute to publish an annual Treasury Management Strategy incorporating its Borrowing and Investment Strategies. It is also required to prepare a Capital Strategy incorporating both strategic investments for economic regeneration as well as more detailed capital plans for effective service delivery. The Council's Capital Strategy is the subject of a separate report and will be presented to the Executive and then to Full Council with the Treasury Management Strategy.

1.2 In essence the Treasury Management Strategy is an annual plan of how Blackpool Council will manage its investments and cashflows. It identifies the Council's borrowing needs and shows how it will invest temporary surplus cash balances, and how it will control its banking, money market and capital market transactions.

1.3 The Scale of Operations at Annex A shows the levels of capital expenditure, borrowing and temporary investments and also the impact that spending on new capital schemes, strategic investments and economic regeneration activities have on affordability levels.

2. Definition

2.1 The Chartered Institute of Public Financial and Accountancy (CIPFA) defines Treasury Management as *"The management of the organisation's borrowing, investments and cashflows, 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".*

3. Background

3.1 Blackpool's Capital Programme for 2020/21–2022/23 continues to focus on schemes which will help to improve the economic wellbeing and prosperity of Blackpool and the surrounding area. Capital grants received from central government remain at a low level but the Council is using low cost borrowing to invest in regeneration. Total cash moving annually through the Council's bank account including the re-investment of temporary cash surpluses and re-borrowing of temporary cash shortfalls is expected to be over £1,300m in the current year.

3.2 Large capital regeneration schemes such as the continuing rollout of the Central Business District, the extension of the Tramway to Blackpool North Station and the new Conference Centre are in a mature stage of development. Other large schemes are also expected to progress with the Council focusing on those projects which will help grow the economy and prosperity within the town.

3.3 The Treasury Management Panel, which comprises the Director of Resources, Chief Accountant and representatives from Corporate Finance and Blackpool Coastal Housing, has the responsibility for managing the risks associated with treasury management activities on an operational basis. The Panel recognises the need to balance investment risk against achieving an acceptable return on temporary surplus cash balances. The balance sought is to maximise the security and liquidity of the Council's investments, with higher yields being obtained only where they are consistent with those desired levels of security and liquidity.

4. Objectives

4.1 The objectives of the Treasury Management Strategy are as follows:

- To set the framework for the Council's treasury management operations
- To manage the Council's investments and cashflows
- To control banking, money market and capital market transactions
- To plan and secure appropriate borrowing in order to finance the requirements of the Capital Strategy at the lowest overall cost to the Council
- To achieve the best rates of return from the investment of temporary surplus cash balances commensurate with risk, subject to the overriding principle of maintaining an acceptable level of security
- To monitor and control effectively the risks associated with these transactions
- To comply with appropriate codes and regulations including the International Financial Reporting Standards as they apply to Treasury Management.

4.2 In delivering the above objectives the Council is required to:

- Determine its own borrowing limits taking into account its financial situation, long-term plans and in particular what it thinks is affordable now and sustainable in the future

- Monitor its borrowing limits using performance measures called Prudential indicators, these are set out in detail in Annex E to this report

- Consider annual and six-monthly reports on Treasury Management which contain prudential indicators.

5. Economic Outlook

5.1 The outlook for the UK economy continues to be uncertain as the UK Government continues negotiations with the European Union on the terms of its future trade relationship with other European Union countries. The resulting uncertainty means continuing risk and so it is important that the Council's treasury and investment affairs continue to be managed in a cautious and prudent manner.

5.2 As a result of this uncertainty, forecasting the interest rate continues to be difficult, but the Bank of England expects the rates to remain low for the foreseeable future. As at the time of writing, there are indications that the base rate may reduce due to the poor performance of the economy following the election, however for the purpose of this report the forecasts provided by Office of Budget Responsibility have been used and indicate the base rate to remain at 0.75% during 2020 and then begin to increase gradually until 1.00% by 4^{th} quarter of 2021. Money market investment rates for temporary surplus cash balances also remain constant with the current rate for a three-month fixed-term deposit with a high street bank is typically 0.65% and analysts anticipate that this may increase in line with the gradual base rate increases towards the end of 2021.

5.3 Long-term borrowing rates, influenced by gilt yields, are generally stable but decreased steadily to their lowest point in August 2019. However, the rate of Long-term Public Work Loans Board (PWLB) loans increased suddenly in October 2019 when the PWLB increased the rate by 100 basis points, resulting in PWLB to be 180 basis points over the gilt rate. Market expectations are that the rates will gradually increase in towards the end of 2021.

6. Treasury Management Strategy - Key Principles

6.1 A summary of the key principles upon which the strategy is based is set out below and is expanded in more detail in Annex B:

- Temporary investments will be restricted to UK Banks and Building Societies unless non-UK institutions satisfy the stringent requirements set out in the Investment Counterparty and Liquidity Framework (Annex D, paragraph 2.4).

- Short-dated Gilts (UK government securities with a life of less than one year) will continue to form part of the approved list of investments.

- Fixed-term cash deposits are currently restricted to terms of not more than three months (subject to review by the Treasury Management Panel).

- Temporary cash surpluses will continue to be applied to reduce the Council's need to borrow.

- New long term borrowing to support capital expenditure will only be taken in favourable conditions. The Council is registered shareholder in the UK Municipal Bond Agency, which entitles us to borrow from that organisation if the Treasury Management Panel considers their rates to be competitive.

- The Treasury Management Panel will remain alert to market intelligence through the financial press, contacts in the financial markets and contacts in other local authorities.

- Treasury management advisers will only be engaged on an ad-hoc basis, retaining responsibility in-house for all treasury management activities.

- Long-term debt will be repaid in advance of redemption date where there is demonstrable financial advantage to the Council.

- The Policy for allocating borrowing costs to the Housing Revenue Account (HRA) for 2020/21 and future years will be the same as in previous years and will be based on the HRA share of the Capital Financing Requirement (HRACFR). The charge will be made up of the interest payable on long-term loans in the HRA pool and an additional charge or credit where the HRA pool of loans is either below or above the HRACFR.

- Prudentially funded capital schemes will be charged a Minimum Revenue Provision (MRP) and interest at the pooled borrowing rate for the General Fund except in exceptional circumstances when the Director of Resources deems it appropriate to use an alternative rate. In cases where the interest rate is lower than the pooled rate there must be clear evidence that the use of the lower rate is affordable. The policy on charging Minimum Revenue Provision is set out in Annex F. This policy is reviewed annually.

6.2 Whilst temporary borrowing rates are low the Treasury Management Panel will continue to use temporary loans as its preferred source of finance. A switch to long-term borrowing may be made in order to protect the margin and when the interest rate environment is favourable.

6.3 When the Council makes business loans, it takes into account its own cost of borrowing, the likelihood of future interest rate movements, the risks of the venture and any state aid implications in ensuring that it at least covers its own costs.

6.4 Capital spending has been financed by using internal balances and by using short-term loans which continue to be available at very low interest rates

6.5 A revised Treasury Management Code (the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes) was issued in December 2017. This report follows its requirements and full details are set out in the Annex B.

6.6 Our approach to the implementation of the revised Prudential and Treasury Management Codes is in line with the statement issued by CIPFA's Treasury and Capital Management Panel on the 21st December 2017.

7. Recommendations

The Executive is asked to recommend to Council that it:

i) Approves the Treasury Management Strategy 2020/21 including both the Borrowing and Investment Strategies which are set out in Annex C and Annex D to this report;

ii) Adopts the Treasury Management Policy Statement, three key principles and four clauses taken from the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition) and set out in Annex B to this report,

iii) Approves the revised Prudential Indicators and Limits for 2019/20 and the new Prudential Indicators and Limits for 2020/21 - 2022/23 which are set out in Annex E to this report; and

iv) Approves the Minimum Revenue Provision Policy Statement for 2020/21, which will ensure a prudent Minimum Revenue Provision charge in the annual statement of accounts. The policy is set out within Annex F to this report.

S THOMPSON

DIRECTOR OF RESOURCES