Report to:	**COUNCIL**
Relevant Officer:	Steve Thompson, Director of Resources
Relevant Cabinet Member	Councillor Lynn Williams, Leader of the Council
Date of Meeting	08 March 2022

TREASURY MANAGEMENT STRATEGY 2022/2023

1.0 Purpose of the report:

1.1 To consider the recommendations of the Executive from its meeting on 07 February 2022 on the Treasury Management Strategy 2022/23 Decision Notice.

2.0 Recommendation(s):

2.1 To approve the Treasury Management Strategy 2022/2023 including both the Borrowing and Investment Strategies which are set out in Appendix 5c and Appendix 5d to the Executive report.

2.2 To adopt the Treasury Management Policy Statement, the three key principles and four clauses taken from CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (2021 Edition) set out in Appendix 5b to the Executive report.

2.3 To approve the revised Prudential Indicators and limits for 2022/23 and the new Prudential Indicators and limits for 2022/23 – 2024/25 which are set out in Appendix 5e to the Executive report.

2.4 To approve the Minimum Revenue Provision Policy Statement for 2022/23, which will ensure a prudent Minimum Revenue Provision charge in the annual statement of accounts. The policy is set out in Appendix 5f to the Executive report.

3.0 Reasons for recommendation(s):

3.1 The CIPFA Code of Practice on Treasury Management Activities requires the annual approval of strategy and reporting of performance information. This report sets out the Council's Treasury Management Strategy for 2022/23.

3.2 Is the recommendation contrary to a plan or strategy adopted or approved by the Council? No

3.3 Is the recommendation in accordance with the Council's approved budget? Yes

4.0 Other alternative options to be considered:

4.1 None.

5.0 Council priority:

5.1 The relevant Council priority is: "The economy: Maximising growth and opportunity across Blackpool".

6.0 Background information

6.1 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.

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.

The Scale of Operations at Appendix 5a 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.

6.2 Definition

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".

6.3 Background

Blackpool's Capital Programme for 2022/23–2024/25 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 reborrowing of temporary cash shortfalls is expected to be over £1,140m in the current year.

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.

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.

6.4 Objectives

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.

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 Appendix 5e to this report.

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

6.5 Economic Outlook

Covid has had a significant negative impact on the Global and UK economy and the outlook for the UK economy continues to be affected as the government takes steps to mitigate the consequences of the pandemic. 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.

As a result of this uncertainty, the Bank of England expects interest rates to remain low. However as at the time of writing, due to inflationary pressures, the Bank of England increased the base rate to 0.25% and indicated possible further increases in the near future. For the purpose of this report the information provided by Office of Budget Responsibility have been used and this forecasts the base rate will increase to 0.50% in 2022 and further increase to 0.75% in 2023/24. Money market investment rates for temporary surplus cash balances have also decreased with the base rate with the current rate for a three-month fixed-term deposit with a high street bank is typically 0.01% and some negative interest rates have been offered by the Debt Management Office for short-term deposits.

Long-term borrowing rates, influenced by gilt yields, are generally stable but Public Works Loan Board (PWLB) rates increased abruptly in October 2019 when the government took the decision to increase the interest rate by 100 basis points. Following consultation in 2020, the government reduced the rates by 100 basis points in November 2020 along with issuing new conditions of accessing the PWLB, including that PWLB loans cannot be taken to purchase investment assets primarily for yield. Market expectations are that rates will gradually increase towards the end of 2023 in line with the base rate.

6.6 Treasury Management Strategy - Key Principles

A summary of the key principles upon which the strategy is based is set out below and is expanded in more detail in Appendix 5b to the Executive report.

- 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 (Appendix 5d, paragraph 2.4).

- Short-dated Gilts (UK government securities with a life of less than one year) will continue to form part of the Council's 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 a registered shareholder in the UK Municipal Bond Agency, which entitles the Council to borrow from them if the Treasury Management Panel considers them to be competitive.

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

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

- 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 2022/23 and future years will be the same as in previous years and will be based on the Housing Revenue Account share of the Capital Financing Requirement (HRACFR). The charge will be made up of the interest payable on long-term loans in the Housing Revenue Account pool and an additional charge or credit where the HRA pool of loans is either below or above the Housing Revenue Account share of the Capital Financing Requirement.

- 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 Appendix 5f to the Executive report. This policy is reviewed annually.

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.

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.

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

A revised Treasury Management Code (the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes) and Prudential Codes were issued in December 2021. These apply with immediate effect, however reporting requirements are deferred until the 2023/24 financial year.

6.7 Does the information submitted include any exempt information? No

7.0 List of Appendices:

7.1 Appendix 5a – Scale of Operations
Appendix 5b – Treasury Management Policy Statement 2022/23-2024/25
Appendix 5c – Borrowing Strategy
Appendix 5d – Investment Strategy 2022/23-2024/25
Appendix 5e – Prudential Indicators 2022/23-2024/25
Appendix 5f – Minimum Revenue Provision (MRP) Strategy 2022/23-2024/25
Appendix 5g- Decision Notice EX7/2022 Treasury Management Strategy 2022/23 from the Executive Meeting on 7 February 2022

8.0 Financial considerations:

8.1 As outlined in this report and Appendices 5a to 5f.

9.0 Legal considerations:

9.1 None.

10.0 Risk management considerations:

10.1

- Liquidity Risk (accessibility and/or running out of cash)
- Market Risk (movements in interest rates – yield)
- Credit Risk (investment counterparties might default – security)
- Legal Risk (transactions and actions legal/within regulatory limits)
- Operational Risk (adequacy of internal processes)

11.0 Equalities considerations:

11.1 None.

12.0 Sustainability, climate change and environmental considerations:

12.1 None.

13.0 Internal/external consultation undertaken:

13.1 With the Council's Treasury Management Panel.

14.0 Background papers:

14.1 None.