

|                                |   |
|--------------------------------|---|
| <b>Notice of:</b>              | <b>EXECUTIVE</b>                                |
| <b>Decision Number:</b>        | EX12/2023                                       |
| <b>Relevant Officer:</b>       | Steve Thompson, Director of Resources           |
| <b>Relevant Cabinet Member</b> | Councillor Lynn Williams, Leader of the Council |
| <b>Date of Meeting</b>         | 6 February 2023                                 |

## TREASURY MANAGEMENT STRATEGY 2023/24

### 1.0 Purpose of the report:

- 1.1 To consider and recommend to Council the Treasury Management Strategy 2023/24 and its Appendices 8a to 8f, to the Executive.

### 2.0 Recommendation(s):

- 2.1 To recommend to the Council:

1. To approve the Treasury Management Strategy 2023/24 including both the Borrowing and Investment Strategies which are set out in Appendix 8c and Appendix 8d to the Executive report.
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 8b to the Executive report.
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 8e to the Executive report.
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 8f 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 2023/24.

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 8a, to the Executive report, 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 2023/24–2025/26 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 £1,700m in the current year.

Large capital regeneration schemes such as the continuing rollout of the Central Business District and the extension of the Tramway to Blackpool North Station 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 8e to this report
- Consider annual and six-monthly reports on Treasury Management which contain prudential indicators.

## 6.5 **Economic Outlook**

There have been several significant events that have impacted the Global and UK economy over the past year including the continuing consequences of the pandemic, the effects of Britain's exit from the European Union and the war in Ukraine which in turn has caused global supply chain issues and an energy crises. As a result, UK inflation is at a 40-year high of 10.7% as at November 2022. 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.

The Bank of England consequently has increased the base rate seven times from 0.25% in January 2022 to 3.5% on the 15 December 2022 and has indicated that there will be further rate increases into 2023. For the purpose of this report the information provided by the Office of Budget Responsibility have been used and this forecasts the base rate will increase to a peak of 4.8% in 2023. Money market investment rates for temporary surplus cash balances have also increased with the base rate with the current rate for a three-month fixed-term deposit with a high street bank being typically 3.48%.

Long-term borrowing rates, influenced by gilt yields, experienced unprecedented market volatility in 2022 as a result of the September mini-budget, which caused the Bank of England to announce an emergency bond-buying programme. Following the change in government budget proposals, gilts have largely stabilised and expect to increase 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 8b, 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 8d, to the Executive report, 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 2023/24 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 Housing Revenue Account 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 8f. This policy is reviewed annually.

Whilst temporary borrowing rates are comparatively 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 were 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 8a – Scale of Operations
- Appendix 8b – Treasury Management Policy Statement 2023/24-2025/26
- Appendix 8c – Borrowing Strategy
- Appendix 8d – Investment Strategy 2023/24-2025/26
- Appendix 8e – Prudential Indicators 2023/24-2025/26
- Appendix 8f – Minimum Revenue Provision (MRP) Strategy 2023/24-2025/26

**8.0 Financial considerations:**

8.1 As outlined in this report and Appendices 8a to 8f, to the Executive report.

**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.

**15.0 Key decision information:**

15.1 Is this a key decision? Yes

15.2 If so, Forward Plan reference number: 27/2022

15.3 If a key decision, is the decision required in less than five days? N/A

15.4 If **yes**, please describe the reason for urgency:

**16.0 Call-in information:**

16.1 Are there any grounds for urgency, which would cause this decision to be exempt from the call-in process? No

16.2 If **yes**, please give reason:

**TO BE COMPLETED BY THE HEAD OF DEMOCRATIC GOVERNANCE**

**17.0 Scrutiny Committee Chairman (where appropriate):**

Date informed: 27 January 2023      Date approved:

**18.0 Declarations of interest (if applicable):**

18.1 None

**19.0 Summary of Discussion:**

19.1 Mr Steve Thompson, Director of Resources, presented the Treasury Management Strategy to the Executive referring back to the objectives of the strategy listed at 6.4 of the Executive report and the key principles at 6.6.

**20.0 Executive decision:**

20.1 The Executive resolved as follows:

To recommend to the Council:

1. To approve the Treasury Management Strategy 2023/24 including both the Borrowing and Investment Strategies which are set out in Appendix 8c and Appendix 8d to the Executive report.
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 8b to the Executive report.
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 8e to the Executive report.

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 8f to the Executive report.

**21.0 Date of Decision:**

21.1 6 February 2023

**22.0 Reason(s) for decision:**

22.1 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 2023/24.

**23.0 Date Decision published:**

23.1 7 February 2023

**24.0 Alternative Options Considered and Rejected:**

24.1 The Executive noted that there were no alternative options for consideration.

**25.0 Executive Members in attendance:**

25.1 Councillor L Williams, in the Chair  
Councillors Brookes, Campbell, Farrell, Hobson, Hugo, Smith and Taylor

**26.0 Call-in:**

26.1

**27.0 Notes:**

27.1 The following non-Executive members were in attendance: Councillors Hunter and Jackson