GOVERNANCE AND AUDIT COMMITTEE

Date of Meeting	Wednesday 25th January 2023
Report Subject	Treasury Management Strategy 2023/24 Treasury Management Policy Statement, Practices and Schedules 2023 to 2026 Treasury Management Quarter 3 Update 2022/23
Report Author	Corporate Finance Manager

EXECUTIVE SUMMARY

The report presents the draft Treasury Management Strategy 2023/24 for review and seeks the Committee's recommendation to Cabinet in conjunction with:

- Draft Treasury Management Policy Statement 2023 to 2026
- Draft Treasury Management Practices and Schedules 2023 to 2026

The report also provides an update on treasury management activity during the third quarter, 1st October to 31st December 2022.

This report is supplemented by treasury management training that was provided for Members of the Council on 7th December 2022.

RECOMMENDATIONS	
1	Members review the draft documents listed and identify any matters to be drawn to the attention of Cabinet on 23rd February 2023. • Draft Treasury Management Strategy 2023/24 • Draft Treasury Management Policy Statement 2023 to 2026 • Draft Treasury Management Practices and Schedules 2023 to 2026
2	Members review the treasury management 2022/23 quarterly update.

REPORT DETAILS

1.00	**EXPLAINING THE CHANGES TO THE POLICY STATEMENT, STRATEGY AND PRACTICES**
	BACKGROUND
1.01	The Local Government Act 2003 requires all local authorities to have due regard to both the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice (The CIPFA Code of Practice) and Welsh Government guidance on Local Authority Investments.
1.02	In April 2019 the Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice, 2017 Edition* (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year. The Institute published a revised version of the CIPFA code in December 2021. The Council is requested to formally adopt the Treasury Management in the Public Services: Code of Practice 2021 edition. The CIPFA Code of Practice (2021 edition) requires:- • The Council to create and maintain a Treasury Management Policy Statement which states the Council's policies, objectives and approach to risk management of its treasury management activities. • The Council to create and maintain suitable Treasury Management Practices (TMPs) and accompanying schedules, stating how those policies and objectives will be achieved and prescribing how those activities will be managed and controlled. • The Council to create and maintain suitable investment management practices (IMPs) for investments that are not for treasury management purposes, within the TMP's. • The Council to receive reports on its treasury and investment management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs. • Responsibility for treasury management to be clearly defined. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Corporate Finance Manager, who will act in accordance with the organisation's policy statement and TMPs and, CIPFA's *Standard of Professional Practice on Treasury Management*. • A body to be responsible for the scrutiny of Treasury Management Policy, Strategy and Practices. The Council has nominated the

	Governance and Audit Committee to be responsible for ensuring effective scrutiny of the treasury management function. The Governance and Audit Committee has previously agreed to include treasury management as a standing item on each quarterly agenda to receive an update.
1.03	The Welsh Government issues guidance on local authority investments that requires the Council to prepare an investment strategy before the start of each financial year. The guidance was updated in November 2019 and came into force from 1st April 2020.
1.04	In preparation for approving the 2023/24 Treasury Management Strategy, training for all Members was held on 7th December 2022. The workshop, presented by Arlingclose, the Council's treasury management advisors, covered: 1) the regulatory framework and the role of the elected Member in scrutinising the treasury management function; 2) an overview of the Council's treasury position and future; 3) a section on capital expenditure and financing, borrowing and debt restructuring; 4) a section on risk management and economic outlook, and 5) investment management.
	<u>CONSIDERATIONS</u>
	2023/24 Treasury Management Policy Statement, Strategy and Practices
1.05	The main changes to the Code clarifies what constitutes prudential borrowing activities to help avoid authorities misinterpreting the Code's provisions. The Code includes clarification to better define commercial activity and investment, and a requirement to incorporate an assessment of risk against levels of resources. The Council were largely compliant with the revised Code.
1.06	The previous Treasury Management Policy Statement was approved by Council in February 2022 and covered the 3-year period from 2022 to 2025. Updates to IMP's in the new Code are included in the revised Treasury Management Policy 2023 to 2026 which is attached at Appendix 2. This document defines the Council's treasury management activities, sets out the Council's criteria to measure the effectiveness of treasury management activities and includes the Council's high-level policies for borrowing and investments. Once approved, the document will only be reported to Members during its lifetime in the event of any significant changes.
1.07	The Treasury Management Practices (TMPs) and accompanying schedules to cover the 3-year period from 2022 to 2025 were approved by Council in February 2022. Updates to IMP's in the new Code are included in the revised TMPs for 2023 to 2026 which are attached as Appendices 3 and 4. The TMPs and schedules state how treasury management policies and objectives will be achieved and give specific details of the systems and routines employed and the records to be maintained, including: • TMP 1 Treasury risk management • TMP 2 Performance measurement • TMP 3 Decision-making and analysis

	• TMP 4 Approved instruments, methods and techniques • TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements • TMP 6 Reporting requirements and management information arrangements • TMP 7 Budgeting, accounting and audit arrangements • TMP 8 Cash and cash flow management • TMP 9 Money laundering • TMP 10 Staff training and qualifications • TMP 11 Use of external service providers • TMP 12 Corporate governance It was agreed that these operational documents will only be reported to Members during their lifetime in the event of any significant changes. Some changes have been made to bring the practices and schedules in line with the draft 2023/24 Strategy.
	Treasury Management Strategy 2023/24
1.08	The 2023/24 Treasury Management Strategy is attached at Appendix 1 for review and discussion. The Strategy is updated and reported annually to Members in accordance with the CIPFA Code of Practice and Welsh Government guidance. The Treasury Management Strategy details the approach the Council will take for investing and borrowing over the next year, including the budgetary implications of the planned investment and borrowing strategy, and a number of treasury management indicators that the CIPFA Code requires.
1.09	The main body of the 2023/24 Strategy has not changed significantly from that of the 2022/23 Strategy. Matters that merit the attention of Members are summarised below: • Section 2 – Economic context, provided by Arlingclose, highlights that the major external influences on the Strategy will be the ongoing war in Ukraine, together with higher inflation, higher interest rates, and a deteriorating economic outlook. The Bank of England (BoE) increased Bank Rate by 0.5% to 3.5% in December 2022. This followed a 0.75% rise in November which was the largest single rate hike since 1989 and the ninth successive rise since December 2021. Arlingclose forecasts that Bank Rate will continue to rise in 2023 as the Bank of England attempts to subdue inflation which is significantly above its 2% target. Gilt yields are expected to remain broadly at current levels over the medium-term, with 5, 10 and 20 year gilt yields expected to average around 3.5%, 3.5%, and 3.85% respectively over the 3-year period to December 2025 (the Council's borrowing costs are linked to gilt yields). • Section 4 – Local context. This section summarises the Council's anticipated treasury position in 2023/24. Activity in 2023/24 is expected to focus more on borrowing and less on investing as the Council's requirement to borrow is forecast to grow due to a planned increase in capital expenditure.

	• Section 5 - Borrowing strategy. This section is largely a continuation of the 2022/23 strategy. The Council continues to forecast a significant long term borrowing requirement. The required amounts need to be confirmed before a commitment to long term borrowing is made and the use of short term borrowing will be used to assist during this period. • Section 6 – Treasury Investment Strategy. Again, this section is largely a continuation of the Council's 2022/23 strategy, the aim being to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return or yield.
	Treasury Management 2022/23 - Quarter 3 Update
1.10	Investments update A schedule setting out the Council's investments at 31st December 2022 is attached at Appendix 5. The investment balance at this time was £28.4m across 9 counterparties with an average interest rate of 3.22%.
1.11	Borrowing update Appendix 6 shows the Council's long-term borrowing portfolio as at 31st December 2022, a total of £291.7m with a weighted average interest rate of 4.54%. No long term borrowing was arranged during the quarter. Appendix 7 shows the Council's short-term borrowing portfolio as at 31st December 2022. There were no loans outstanding during this period. The borrowing strategy in 2022/23 has been to monitor capital expenditure to confirm the Council's long term borrowing need, ensuring that the Council does not commit to long term borrowing too early and borrow unnecessarily which will be costly. Short term borrowing will continue to be used to assist with managing the Council's borrowing requirement and is balanced against not compromising the long term stability of the debt portfolio. The Council has a long-term borrowing requirement and therefore long term borrowing may possibly be undertaken before the end of this financial year. This position will be reviewed and monitored closely during the last few months of 2022/23, with support and advice from Arlingclose.

2.00	**RESOURCE IMPLICATIONS**
2.01	Financial implications are set out within this report and supporting appendices; there are no other resource implications directly as a result of this report.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	Arlingclose Ltd, being the Council's treasury management advisors.

4.00	RISK MANAGEMENT
4.01	Risk Management directly addressed within the appendices including identification of risks and measures to mitigate likelihood and impact of risks identified.

5.00	APPENDICES
5.01	1. Draft Treasury Management Strategy 2023/24 2. Draft Treasury Management Policy Statement 2023-26 3. Draft Treasury Management Practices and Schedules 2023 to 2026 – part 1 4. Draft Treasury Management Practices and Schedules 2023 to 2026 – part 2 5. Investment Portfolio as at 31st December 2022 6. Long-term Borrowing Portfolio as at 31st December 2022 7. Short-term Borrowing Portfolio as at 31st December 2022

6.00	LIST OF ACCESSIBLE BACKGROUND DOCUMENTS
6.01	**Contact Officer:** Chris Taylor – Strategic Finance Manager **Telephone:** 01352 703309 **E-mail:** Christopher.taylor@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	**Authorised Limit:** A statutory limit that sets the maximum level of external debt for the Council. **Balances and Reserves**: Accumulated sums that are held, either for specific future costs or commitments (known as earmarked) or generally held to meet unforeseen or emergency expenditure. **Bank Rate:** The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". **Basis Point:** A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. **Bond:** A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life.

Capital Expenditure: Expenditure on the acquisition, creation or enhancement of capital assets.

Capital Financing Requirement (CFR): The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed.

Certificates of Deposits (CDs): A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks. The term of a CD generally ranges from one month to five years.

Consumer Price Index (CPI): The UK's main measure of inflation (along with Retail Price Index or 'RPI') The Monetary Policy Committee of the Bank of England set the Bank Rate in order to try and keep CPI at or close to the target set by the Government. The calculation of CPI includes many items of normal household expenditure but excludes some items such as mortgage interest payments and Council Tax.

Corporate Bonds: Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

Cost of Carry: The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.

Counterparty List: List of approved financial institutions with which the Council can place investments.

Credit Rating: Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.

Debt Management Office (DMO): The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the Debt Management Account Deposit Facility (DMADF). All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign credit rating.

Federal Reserve: The US central bank, the equivalent of the Bank of England. (Often referred to as "the Fed").

Financial Instruments: Financial instruments are tradable assets of any kind. They can be cash, evidence of an ownership interest in an entity, or a contractual right to receive or deliver cash or another financial instrument.

Gilts: Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged'. They are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

	IFRS: International Financial Reporting Standards. **LIBID:** The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). **LIBOR:** The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive. **LOBO:** Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the ‘option’ to either accept the new imposed fixed rate or repay the loan facility. **Maturity:** The date when an investment or borrowing is repaid. **Maturity Structure / Profile:** A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. **MiFID II (Markets in Financial Instruments Directive)**: EU legislation that regulates firms who provide services to clients linked to 'financial instruments'. As a result of MiFID II, from 3rd January 2018 local authorities will be treated as retail clients but can “opt up” to professional client status, providing that they meet certain qualitative and quantitative criteria. **Minimum Revenue Provision (MRP)**: An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets. **Monetary Policy Committee (MPC):** A committee of the Bank of England, which meets to decide the Bank Rate. Its primary target is to keep CPI inflation within 1% of a central target of 2%. Its secondary target is to support the Government in maintaining high and stable levels of growth and employment. **Money Market Funds (MMF)**: Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity. **Non-Specified Investment**: Investments which fall outside the WG Guidance for Specified investments (below). **Operational Boundary:** This linked directly to the Council’s estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting

	the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit. **Premiums and Discounts**: In the context of local authority borrowing, (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and (b) the discount is the gain arising when a loan is redeemed prior to its maturity date. **Prudential Code:** Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. **Prudential Indicators:** Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators. **Public Works Loans Board (PWLB):** The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments. **Quantitative Easing (QE):** QE is a form of monetary policy where a Central Bank creates new money electronically to buy financial assets, like government bonds. This cash injection lowers the cost of borrowing and boosts asset prices to support spending. **Retail Price Index (RPI):** A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. **Revenue Expenditure:** Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges. **Specified Investments:** Term used in the Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating. **Supported Borrowing:** Borrowing for which the costs are supported by the government or third party. **Supranational Bonds:** Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.

	Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending. **Term Deposits:** Deposits of cash with terms attached relating to maturity and rate of return (Interest). **Treasury Bills (T-Bills):** Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. They are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have an AAA-rating. **Treasury Management Code**: CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011. **Treasury Management Practices (TMP):** Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities. **Unsupported Borrowing**: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing. **Yield:** The measure of the return on an investment instrument.