

## Report to Cabinet



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|-------------------------|---------------------------------------|
| Date of Meeting         | 25th February 2021                    |
| Portfolio               | Cabinet Member for Corporate Delivery |
| Report Author           | Paul McHugh                           |
| Public/Private Document | Public                                |

## Treasury Management Strategy for 2021/22

### Executive Summary

- 1.1 This report seeks approval for the 2021/22 Treasury Management Strategy (TMS) set out in Appendix 1 which outlines how the Council will meet the requirements of the relevant legislation, codes of practice and guidance that form the Prudential Framework.
- 1.2 The Strategy is the Council's policy for ensuring that:
  - borrowing in the long term is undertaken for capital purposes
  - borrowing plans are affordable and achieve best value
  - total debt remains within our authorised limit and prudential indicators
  - risks are identified and controlled
  - cashflows are managed to ensure that the Council can meet its financial obligations
- 1.3 The Council intends to maintain an under-borrowed position for the period covered by the Strategy, using its own internal balances to fund capital expenditure whenever possible but aware of the possibility of interest rate rises. Interest rates are currently low and expected to rise slowly over the next three years. The Council's overall borrowing requirement increases over the period of this strategy.
- 1.4 The Council's treasury investment priorities will continue to place emphasis on security over return. Minimum credit criteria will be set to ensure the creditworthiness of counterparties which will be closely monitored throughout the year to minimise risk. Limits are also set on the amounts we can place with individual institutions and the durations of investments. Investments are also made with reference to overall liquidity to ensure that cash is available when it is needed.
- 1.5 Our Minimum Revenue Provision Policy seeks to ensure that capital assets funded via borrowing are charged to revenue over their useful life to the Council and we have appropriate provision to repay debt when we need to.
- 1.6 The Council will pursue a broadly similar pragmatic Strategy to previous years which has ensured that key objectives are met whilst making a contribution via savings to our overall budget position.

### Recommendations

- 2.1 The annual Treasury Management Strategy for 2021/22 be recommended to Council for approval with particular reference to:
- 2.2 The objectives of treasury management contained in section 2 and Appendix A.
- 2.3 The forecasted capital financing / borrowing requirement in section 3.1.1 (table 2) and 3.1.2 (table 3).

- 2.4 The Operational Boundary and Authorised Limit for debt contained in section 3.1.3 (table 4)
- 2.5 Delegated authority is given to the Chief Finance Officer to approve a breach in these boundaries where it would be advantageous to the Council, and limits are placed on the borrowing powers delegated to Officers (3.1.3)
- 2.6 The Council's criteria for assessing the creditworthiness of counterparties for investments contained in section 3.2.1 with an emphasis on security of capital over return, noting the increased institutional investment limits in Table 8 (3.2.4). The criteria in this report are to be adopted with immediate effect rather than waiting until the new financial year.
- 2.7 The additional Prudential and Treasury Indicators identified in section 3.4.
- 2.8 The Minimum Revenue Provision Policy contained in section 3.5.
- 2.9 Delegated approval be given to the Chief Finance Officer to temporarily suspend or amend the Council's own creditworthiness criteria adjusting limits with individual counterparties, if appropriate, in response to significant and sudden changes (such as the Covid19 pandemic) or changes to financial institutions' ratings as a result of global industry changes to the ratings system (paragraph 3.2.1),
- 2.10 Include un-rated Building Societies (3.2.3) and Pooled Investment Funds (including Property) as an Investment option (3.2.6)

### **Reasons for Recommendations**

- 3.1 The report is produced to gain Cabinet Members' approval of the Treasury Management Strategy for submission to Full Council and to ensure that Cabinet Members are informed of and ensure adherence to the requirements of the Prudential Framework.

### **Key Points for Consideration**

- 4.1 Borrowing Strategy
  - 4.1.1 The Council's Capital Financing Requirement (CFR) is the cumulative total of unfunded (by revenue or capital resources) capital expenditure and equates to the Council's overall borrowing requirement over the period covered by the report.
  - 4.1.2 The current borrowing is below the possible financing requirement as the Council has maintained a policy of using internal balances to fund new capital expenditure for a number of years and delaying long term borrowing costs. This is a temporary measure as internal reserves and balances will ultimately be used for the purpose for which they were intended or to support the overall budget. The Council is therefore likely to externalise some of this internal borrowing in the period covered by this report by taking on new external borrowing. The Council's proposed 2021/22 revenue budget and onwards includes a saving of £300,000 to reflect that full externalisation of the borrowing requirement will not be undertaken in the period of this report.
  - 4.1.3 The timing of this new borrowing will be matched to overall cashflows and movements in resources whilst balancing the cost of cash being held in the bank and the cost of borrowing increasing. The Council also has the option to make use of short term and temporary borrowing to supplement cashflow fluctuations. If longer term rates look set to rise, the Treasury Management Team will assess the most appropriate long term funding options at the time in line with the approved policy. Any new borrowing will be carried out in accordance with limits, processes and approvals as set out in the Treasury Management Strategy.

4.1.4 Prudential Indicators, which place limits on the Council's overall debt levels and maturity profile, have also been set.

4.1.5 A summary table showing potential borrowing and capital financing requirements, projected debt and long term liabilities, our operational boundary and authorised limit is detailed in Table 1.

| <b>Summary Table 1</b>           | <b>Current<br/>2020/21<br/>£000</b> | <b>Estimate<br/>2021/22<br/>£000</b> | <b>Estimate<br/>2022/23<br/>£000</b> | <b>Estimate<br/>2023/24<br/>£000</b> |
|----------------------------------|-------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Capital Financing Requirement    | 465,912                             | 514,158                              | 534,137                              | 560,147                              |
| Underlying Borrowing Requirement | 373,775                             | 425,957                              | 450,167                              | 480,358                              |
| Projected Borrowing              | (223,985)                           | (289,489)                            | (323,969)                            | (358,870)                            |
| Under / Internal Borrowing       | 149,790                             | 136,468                              | 126,198                              | 121,488                              |
| Operational Boundary             | 489,208                             | 539,866                              | 560,844                              | 588,154                              |
| Authorised Limit                 | 677,315                             | 715,301                              | 690,046                              | 690,658                              |

## 4.2 Investment Strategy

4.2.1 The Council's Treasury Investment Strategy (relating to the placement of short term cash surpluses) will continue to place security over return.

4.2.2 The Council's creditworthiness policy combined with our treasury management consultant's modelling approach sets minimum criteria which aim to generate a list of high quality potential counterparties and instruments. In broad terms, counterparties must achieve a long-term rating of at least A- (Fitch). Separate limits relating to the amounts and durations of individual counterparties are also specified to ensure diversification and avoid the concentration of risk.

4.2.3 The Council will also make use of AAA rated Money Market Funds and review other options as they become available.

4.2.4 The Council will include longer term investment in Pooled Funds (including Property) in its Investment Options and undertake appropriate assessment of our options in this regard. Unrated Building Societies will also be included within our list after appropriate evaluation.

4.2.5 Interest rates on traditional treasury investments are projected to remain very low with the possibility of negative future rates. A significant reduction in budgeted income has been included in the estimates process, shown in the table below. The Council is currently reviewing alternative longer term investment options with its Treasury advisors to assess their appropriateness in line with our projected balances and risk appetite.

| <b>Table 2: Investment Income</b> | <b>2020/21<br/>£000</b> | <b>2021/22<br/>£000</b> | <b>2022/23<br/>£000</b> | <b>2023/24<br/>£000</b> |
|-----------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Original Budget                   | 338                     | 380                     | 475                     | 475                     |
| Revised Budget / Projection       | 237                     | 20                      | 20                      | 20                      |
| Reduction                         | (101)                   | (360)                   | (455)                   | (455)                   |

#### 4.3 Minimum Revenue Provision Policy

4.3.1 The Council is required to charge a portion of its Capital Financing Requirement to revenue each year to ensure that resources are available to repay debt as required. Assets are charged to revenue over their useful economic lives. Last year, the Council increased the lives of several asset groups (shorter term assets, the Town Hall and Number One Riverside) – certain assets will simply have to be utilised for longer periods to maintain the ability to deliver key frontline services. There have been no significant changes this year. Other options will be considered for specific projects (to align with cashflows or the inherent retained value of an asset) provided they are consistent with our duty to make prudent provision.

#### 4.4 Alternatives Considered

4.4.1 There are no feasible alternatives – all proposals are in accordance with the revised CIPFA Code of Practice on Treasury Management, which has been formally adopted by the Council and with Government guidance regarding the Treasury Management Strategy.

### **Costs and Budget Summary**

5.1 Financial implications are considered in the main body of the report. Appropriate budgets exist for all Treasury activity outlined.

### **Risk and Policy Implications**

6.1 In preparing the report financial risks have been considered in relation to the best methods of managing the Council's exposure to interest rate risk and volatility via money markets and changes in the accounting environment.

6.2 It is believed that the strategy proposed will allow the Council to continue to effectively manage its interest rate exposure and guard against interest rate risk and volatility without any significant increases in overall financial risk.

6.3 There are risks associated with investment and borrowing decisions which the Treasury Management Strategy seeks to manage. The risk given primary consideration is security of capital. Others include interest rate exposure risk, budget risk and cash flow risk. The strategy addresses how these are dealt with.

6.4 Choosing a particular policy requires Treasury Managers to take a view of future uncertain events, in particular the likely rises and falls in UK interest rates over time. Specialist advice is taken on economic forecasts and the opinions and strategies are based on an assessment of these and information known at the time. The forecasts on which the strategy is based are explained in the Investment and Borrowing Strategy sections which follow.

### **Consultation**

7.1 The proposed strategy for 2020/21 has been prepared in consultation with Link Asset Services (LAS – formerly Capita) – the Council's current treasury management consultants. Stakeholders are consulted through the development of the Strategy with the Corporate Overview and Scrutiny Committee receiving the report on the 21st February.

**Background Papers: For further information about this report or access to background papers please contact Michelle Ashworth (Head of Commercial, Economy & Resources) or Paul McHugh (Tax & Treasury Accountant) Finance Services, Floor 2, Number 1 Riverside, Smith Street, Rochdale OL16 9DJ. Tel – 01706 924197 / 925422.**

| Document   | Place of Inspection  |
|--|--|
| CIPFA Treasury Management Code of Practice and Prudential Code, DHCLG Guidance on MRP & Investments                  | Treasury Team F2 No1 Riverside<br>Cabinet Agenda 12/2/20<br>Cabinet Agenda 1/12/20 |
| Treasury Management Strategy 2020/21<br>Mid-Year Treasury Update 2020/21 Included in Revenue Finance Update Period 6 | Treasury Team F2 No1 Riverside   |