Appendix 7

TREASURY MANAGEMENT

Introduction

1 Treasury Management is an intrinsic part of the budget; especially relevant to the financing of capital expenditure and budgets relating to interest and investment income. Cabinet considered and approved the Treasury Management Strategy and its associated policies at its meeting on the 7th February; these are shown at **Appendix 7.1 to 7.9**. Council needs to consider and approve the recommendations as detailed in the section above.

Legislative Background

2. The Local Government Act 2003, as amended, and supporting regulations requires the Council to “have regard to” the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent, and sustainable.

3. The Council is also required by the Local Government Act 2003 to undertake an annual review of its policy for calculating the minimum revenue provision (MRP) for repayment of external debt.

4. The Act requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council’s policies for managing its investments and for giving priority to the security and liquidity of those investments.

Treasury Management, its responsibilities

5. CIPFA defines treasury management as:

   “The management of the local authority’s investments and cash flows, 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. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to **ensure that this cash flow is adequately planned**, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council’s low risk appetite, providing adequate liquidity initially before considering investment return.

7. The second main function of the treasury management service **is the funding of the Council's capital plans**. These capital plans provide a guide to the borrowing need of the Council essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using underlying cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives. (The capital strategy is reported separately from the Treasury Management Strategy in section 6.)

8. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Non-Treasury or Non-Financial Activities

9. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury or non-financial activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

Market Harborough Building Society

10. Members in the past have shown their desire to support local business and therefore to include Market Harborough Building Society on the list of Counterparties for the Council in support of the Corporate Priority "a safe, enterprising and vibrant place". As a small Building Society, it does not meet the minimum requirements of the proposed Annual Investment Strategy and as such would normally be excluded. This report asks Members to consider whether they wish to keep Market Harborough Building Society on the counterparty list (showing which counterparties the Council can make investments with) for the financial year 2022/23 subject to a monetary limit of £2 million.

Significant Changes

11. **Multi-asset vehicles** have been added to the types of investment listed in the Criteria for Investment detailed in **Appendix 7.2**. This is because the Director of Finance and Assets has commissioned a review of the Council's investments by its treasury advisors, Link Group, with a view to diversifying by investing in multi-asset vehicles to gain improved returns. Multi-asset vehicles are a combination of asset classes (such as cash, equity or bonds) and provide a greater degree of diversification than investing in a single asset class. Review of the long- term

cash flow has revealed up to £6 million is available to invest in a risk managed way.

12. **MRP policy**, a change to this was approved by Council in December 2021. The method used to calculate MRP has been revised, and the change has been embedded in the 2022/23 policy detailed in **Appendix 7.1**.

Flexible Use of Capital Receipts

13. The Council approved its Flexible Use of Capital Receipts Strategy in June 2021. This is the last year of the current approved freedom. However, indications from government directly to the Council are that the freedom will be renewed but local government is awaiting the formal guidance. This freedom will allow the Council to finance its Transformation programme, and this is shown in the Draft 2022/23 Capital Programme. In case the freedom is not renewed, then the Council is also maintaining a Transformation Earmarked Reserve. The Strategy itself is shown at **Appendix 7.9**.