**Appendix 8**

## 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. The Treasury Management Strategy and its associated policies are shown at **Appendix 8.1 to 8.9**.

### 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, including 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 7.)

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 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 “Economy – supporting businesses and residents to deliver a prosperous local economy”. 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 2023/24 subject to a monetary limit of £2 million.

**Significant Changes**

11. CIPFA published the updated Treasury Management and Prudential Codes on 20th December 2021. Local Authorities are expected to fully implement the required reporting changes within their Treasury Management Strategy reports from 2023/24.

12. **Objectives of the 2021 CIPFA Codes of Practice (Treasury Management and Prudential) and Guidance Notes**

The main objective of the 2021 Codes was to respond to the major expansion of local authority investment activity over the past few years into the purchase of non-financial investments, particularly property. The Codes require an authority to ensure that: -

- it defines its risk appetite and its governance processes for managing risk.
- it sets out, at a high level, its investment policy in relation to environmental, social and governance aspects.
- it adopts a new **liability benchmark treasury indicator** to support the financing risk management of the capital financing requirement; this is to be shown in chart form for a minimum of ten years, with material differences between the liability benchmark and actual loans to be explained.
- it does not borrow to finance capital expenditure to invest primarily for commercial return.
- increases in the CFR and borrowing are undertaken solely for purposes directly and primarily related to the functions of the authority. Where any financial returns are related to the financial viability of the project in question, they should be incidental to its primary purpose.
- an annual review is conducted to evaluate whether commercial investments should be sold to release funds to finance new capital expenditure or refinance maturing debt.
- its capital plans and investment plans are affordable and proportionate.
- all borrowing/other long-term liabilities are within prudent and sustainable levels.
- risks associated with commercial investments are proportionate to overall financial capacity to sustain losses.
- treasury management decisions are in accordance with good professional practice.
- reporting to members is done quarterly, including updates of prudential indicators.
- it should assess the risks and rewards of significant investments over the long term, to ensure the long-term financial sustainability of the authority.
- it has access to the appropriate level of expertise to be able to operate safely in all areas of investment and capital expenditure, and to involve members adequately in making properly informed decisions on such investments.

The Prudential Code 2021 also confirms a requirement for local authorities to produce an annual Capital Strategy, reported in section 7.

### Flexible Use of Capital Receipts

13. Included in **Appendix 8.9** is an updated Flexible Use of Capital Receipts Strategy for approval. 2022/23 was the last year of the original approved freedom. However, government have renewed with some amendments. This freedom will allow the Council to finance its Transformation programme, and this is shown in the Draft 2023/24 Capital Programme.