

Overview and Scrutiny Committee – 15 June 2023

Draft Minute 7 - Treasury Management Strategy 2023/24

The Executive Member for Finance, Governance, and Organisation, Councillor Lewanski, presented the Treasury Management strategy 2023/24.

The purpose of the strategy was to guide all treasury management activity for the coming year and comprises three sections.

Firstly, the Treasury Management Strategy Statement, which sets out details of the Council's traditional Treasury Management activities, covering topics such as sources of borrowing and investment counterparties and limits.

Secondly, the Investment Strategy which covered the Council's investments, including traditional Treasury Management investments, but also with increased coverage of the Council's other investments that have been made for service and other commercial reasons.

Thirdly, the Capital Strategy, which outlined the Council's capital expenditure plans and core borrowing and investing activities; this includes prudential indicators, that were required to be reported under CIPFA's Code of practice.

The report has been prepared against a backdrop of considerable change for local authority treasury activities, primarily in response to concerns about a small number of authorities that have borrowed significant amounts over recent years to invest in commercial assets; both the Government and CIPFA have made changes to the regulatory frameworks and guidance that govern how councils borrow and invest.

While these changes would not have significant impact on this Council's Treasury Management Plan, it did mean that some of the options that might have been considered going forward were no longer permitted.

An advance question on the investment managers used to hold funds received in advance of expenditure had been submitted prior to the meeting. The advance question and its response can be viewed here:

[Document Advance Questions and Answers OS 15 June 2023 | Reigate and Banstead Borough Council \(moderngov.co.uk\)](#)

The Executive Member for Finance, Governance, and Organisation, Councillor Lewanski invited Members to ask questions on the Treasury Management Strategy 2023/24 provided in the agenda pack. In response, the following clarifications were provided:

Treasury Management Investments

It was confirmed that the forecast fluctuation in balances between £10 million and £55 million during the 2023/24 financial year was largely due to the expectation of a £34 million capital receipt from the sale of the housing properties at The Rise, in addition to typical cash flow fluctuations within the year.

Service Investments: Loans

It was confirmed that the loss allowance reported at table 1 on page 94 was the IFRS9 impairment for credit loss and that losses are charged to the Commercial Risks Reserve. The loans were made by the Council to its own subsidiary, relating to specific

assets held by the counterparty, backed by tangible fixed assets. Impairment allowances were not required for shareholdings.

Members asked for confirmation whether the Horley Business Park LLP loan was included in the tables. The Chief Finance Officer would provide a written response following the meeting.

Commercial Investments: Property

A Member pointed out that the property investments in Table 3 on page 96 showed that the current values were all less than the purchase cost of each asset. It was explained that the information was a snapshot at a point in time, prepared each year for the Statement of Accounts. Significant assets were valued by an independent valuer. It was confirmed that losses and gains on property were not realised in local government until an asset was sold; therefore, there was no immediate financial impact on the taxpayer.

The property investment portfolio was regularly reviewed to ensure that retaining assets was appropriate, comparing income streams from the asset against operating costs.

Local Context

In summary, Members were advised that the forecast underlying treasury management position of the Council remained one of minimal borrowing, due to holding substantial balances.

Table 1 on page 78 confirms that balances were forecast to reduce from £16 million to a £7 million borrowing requirement; it was explained that this was not a detrimental trend and was consistent with the treasury management strategy. The treasury function was a means to utilise the cash available to good effect; rather than borrowing, and that available balances were used to fund capital expenditure wherever possible.

Treasury Investment Strategy

Following on from an advance question, members enquired about investments in Money Market Funds during 2023/24 with institutions that were not yet signatories to the Net Zero Asset Managers Alliance. The Chief Finance Officer explained that the primary responsibilities in terms of investment of public funds are security, liquidity, and yield. Credit ratings must also be considered. The Council's list of potential counterparties to place funds was therefore relatively restricted and advice was taken from the Council's treasury advisers regarding appropriate institutions to consider.

Investment Limits

It was confirmed that there is a restriction on investments within any one country of £5 million.

Minimum Revenue Provision Policy (MRP)

It was confirmed that the Policy is reviewed on a regular basis.

It was confirmed that as credit loss provisions were made separately, MRP was not provided on capital loans and share capital, which was consistent with the current regulatory framework. Government has consulted on changing this practice, but the outcome was yet to be confirmed. This would be taken into account when reviewing the MRP Policy if any changes occur in future.

The Chair pointed out that the 30-year asset life assumed for plant and equipment in establishing the MRP was quite high. Officers advised that asset life was based on the nature of the assets owned, and their longevity. Technical advice had also been sought from independent advisers from the treasury perspective and from the accounting perspective.

It was explained that the straight-line method for asset life based on equal amounts per year of life and the annuity method was similar to a mortgage where the earlier amounts were largely made up of interest with a small amount of capital.

RESOLVED that the Overview and Scrutiny Committee:

noted and provided feedback on the following which are to be finalised and submitted for approval by the Executive on 22 June 2023 and Council on 20 July 2023:

- i) Treasury Management Strategy 2023/24;
- ii) Investment Strategy 2023/24;
- iii) Capital Strategy 2023/24.