SLOUGH BOROUGH COUNCIL

Report To:	Council
Date:	7th March 2024
Subject:	Treasury Management Strategy 2024/25
Chief Officer:	Adele Taylor, Executive Director of Finance & Commercial (S151 Officer)
Contact Officer:	Moji Olusanya, Head of Treasury, Finance and Commercial
Ward(s):	All
Exempt:	NO
Appendices:	Appendix 1 - Treasury Management Strategy 2024-25

1. Summary and Recommendations

1.1 This report sets out the Council's treasury management strategy for 2024/25 covering:

- the investment strategy which includes loans to third parties
- the borrowing and the debt reduction strategy
- the Minimum Revenue Provision (MRP) policy
- the prudential indicators
- the Capital Strategy 2024/25

1.2 This report sets out the context within which the Council's treasury management activity operates and outlines a proposed strategy for the coming year. The report considers the Council's borrowing and investment strategy alongside required Prudential Indicators. It also identifies risk reduction strategies that have been established to ensure the fundamental aims of security, liquidity, and yield of the Council's investments.

1.3 The Council is required to actively manage its substantial cashflows on a daily basis. The need to place monies in investments or to borrow monies to finance capital programmes and to cover daily operational needs, is an integral part of daily cash and investment portfolio management.

1.4 Recommendations:

Council is requested to

a. Approve the Treasury Management Strategy (TMS) for 2024/25 at Appendix 1 including:

   i. the Annual Investment Strategy for 2024/25 (within Appendix 1 page 23)
   ii. the Annual Borrowing Strategy for 2024/25 (within Appendix 1 page 13)
   iii. Minimum Revenue Provision Policy Statement for 2024/25 (within Appendix 1 page 33)
   iv. the Prudential Indicators for the period 2024/25 to 2026/27 (Appendix 1 page 18)
   v. the Capital Strategy for the 2024/25 (Appendix 1 page 16)

b) Approve that regular training be provided for all Members on Treasury Management and its context within the overall finance framework of the Council, as recommended by the Audit and Corporate Governance Committee following consideration of the strategy at its meeting on 29 February 2024.

Reason

To promote effective financial management relating to the Council's borrowing and investment powers contained in the Local Government Act 2003, associated regulations and guidance.

Commissioner Review

1.4 This Strategy document provides both the Treasury Management and Capital Strategy as they are inherently linked through the activities the Council undertake. Running alongside the Medium-Term Financial Strategy, they will provide the framework to facilitate the interface between service planning, the management of assets, investments, capital resources and debt. A key element of the Council's recovery strategy is that debt should be both proportional and affordable, so that the debt financing costs associated with it are contained within existing revenue resources.

1.5 The Treasury Management Strategy 2024/25 retains a debt reduction strategy, with the aim of reducing the Council's borrowing down to a target level which is sustainable and affordable for an authority the size of Slough and operational affordability targets for the General Gund and Housing Revenue Accounts.

1.6 The strategy is fundamental in ensuring the effective and affordable management of the Council's assets, delivering the Council's future priorities in an affordable framework, and providing a high-level overview of how associated risk are managed and the implications for future financial sustainability.

The Commissioners are content with this report.

2 Report

Introduction

2.1 Treasury Management in the context of the report is defined as: "The management of the local authority's borrowing, 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." (CIPFA Treasury Management Code of Practice 2021).

2.2 The Council has powers under Part 1 of the Local Government Act 2003 to borrow (i.e. prudential borrowing) and invest money in accordance with statute. In carrying out these functions, the Council is required to have regard to statutory guidance, which is currently found in the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice 2021. As this is statutory guidance, the Council should follow the guidance unless there is good reason not to. The Guidance requires the Council to agree a treasury strategy for borrowing and to prepare an annual investment strategy, an interim report, and an annual treasury management review.

2.3 The attached appendix is presented to the Council to approve the Treasury Management Strategy, Capital Strategy, MRP Strategy and Annual Investment Strategy for 2024/25 and Treasury Management Policy Statement and Clauses to be formally adopted. The report includes details of the 2023/24, borrowing and investment forecasts based on cash flow and the capital expenditure.

2.4 The strategy is in compliance with the statutory regulations and guidance, fulfils the reports required by the Local Government Act 2023 and sets out the expected treasury operations for this planning period.

3 Background

3.1 The Council's Treasury Management Strategy is approved annually at Full Council. It was last approved by Full Council on 9 March 2023.

3.2 External advice has been sought from Arlingclose, the Council's treasury management advisors in reviewing this strategy. Their advice is set out in Appendix 1 and includes a summary of the external economic context. Arlingclose has also been commissioned to provide training to committee members to assist the committee to fulfil its function to provide independent assurance and review of the Council's governance, risk management and control frameworks and overseeing financial reporting and annual governance processes. They provided training during the 2023/24 financial year and will provide further training as required.

Capital spending plans

The Prudential Code requires that any borrowing and investment decisions are taken in light of capital spending plans and consideration of how that proposed capital expenditure will be financed.

The Council's capital expenditure plans have been reported in the four-year capital programme 2024/25 to 2027/28 reported elsewhere on the Committee's agenda, both in terms of those agreed previously, and those forming part of the current budget cycle.

The Capital Strategy is found within Appendix 1 page 16.

As a result of the financial challenges facing the Council, the Council has submitted a capitalisation direction to DLUHC to allow it to treat as capital expenditure certain types of revenue expenditure. The Secretary of State only permits the Council to capitalise expenditure when it is incurred and minimum revenue provision must be charged. The Council must comply with the conditions set out by DLUHC. It should be noted this the capitalisation direction is not a grant. The Council needs to fund the revenue expenditure from its own capital, including from receipts arising out of disposal of assets where these are General Fund assets.

3.3 In 2024/25, the Council is planning capital expenditure of £71.062m as summarised below:

Table 1: Prudential Indicator: Estimates of Capital Expenditure

Estimates of Capital Expenditure	**2023/24 forecast £m**	**2024/25 budget * £m**	**2025/26 budget £m**	**2026/27 budget £m**	**2027/28 budget £m**
General Fund services	11.152	23.291	9.352	6.276	4.191
Council housing (HRA)	11.399	24.693	19.998	19.830	19.996
Capital investments	0	0	0	0	0
TOTAL	**22.551**	**47.984**	**29.350**	**26.106**	**24.187**
Rev Exp funded by Capital under (REFCUS) a Capitalisation Direction	31.575	23.078	13.909	9.151	3.260
TOTAL incl. Capitalisation Direction	**54.126**	**71.062**	**43.259**	**35.257**	**27.447**

The main General Fund capital projects include;

- Destination Farnham Road £7.482m, a scheme to revitalise the Farnham Road area by prioritising walking and cycling and improving bus priority through signal upgrades and the enforcement of parking restrictions.
- Highways grant funded schemes, £2.489m, various projects to improve roads in the borough.

Estate Strategy £2.000m - SBC intends to reduce its corporate footprint to a minimum level to reduce running costs and maximise disposal opportunities. Consultants have been commissioned in 2023/24 to begin work on the Estate Strategy and this will continue into 2024/25 to identify office requirements and best use of existing space. This strategy will result in property adaptations and asset disposals which will fund the project as well as help the Capitalisation Directive

- Following a change in the Prudential Code, the Council no longer incurs capital expenditure on investments.

Table 2: **Five Year HRA Capital Programme Budget**

EXPENDITURE	2023/24	2024/25	2025/26	2026/27	2027/28
	Forecast	Budget	Budget	Budget	Budget
	£000	£000	£000	£000	£000
Existing Stock	8.970	8.075	10.158	11.823	12.623
De-Carbonisation Works	8.173	8.173	8.173	8.173	8.173
Total - Repairs & Maintenance (RMI)	**17.143**	**16.248**	**18.330**	**19.996**	**20.796**
Total - Affordable Homes	7.550	3.750	1.500	0.000	0.000
TOTAL HRA CAPITAL PROGRAMME	**24.693**	**19.998**	**19.830**	**19.996**	**20.796**

3.4 The planned financing of the above expenditure is as follows:

Table 3: Capital financing

Capital financing	**2023/24 forecast £m**	**2024/25 budget * £m**	**2025/26 budget £m**	**2026/27 budget £m**	**2027/28 budget £m**
External sources -GF	20.660	18.524	6.141	4.826	4.191
External sources - HRA	0	0	0	0.500	0.500
Total External sources	**20.660**	**18.524**	**6.141**	**5.326**	**4.691**
Major Repairs Reserve (MRR) – HRA	0	17.143	16.248	17.831	14.686
Capital receipts – GF	2.661	4.767	3.211	1.450	0
Capital receipts - HRA		7.550	3.750	1.500	3.794

Revenue resources - GF	1.412	0	0	0	0
Revenue resources - HRA		0	0	0	1.017
Total	**24.733**	**47.984**	**29.350**	**26.107**	**24.188**
Borrowing for Capitalisation Direction	31.575	0	0	0	0
Capital receipts applied to Capitalisation Direction	0	23.078	13.909	9.151	3.26
TOTAL incl Capitalisation Directive	**56.308**	**71.062**	**43.259**	**35.257**	**27.447**

**There has been no new borrowings nor planned borrowings to fund Capital Expenditure.*

Borrowing strategy

3.5 Historically the Council's borrowing had been very high for its organisational size, reaching £760m at 31 March 2021, being the third highest per head of population amongst all unitary Councils. In particular around 50% of this was short-term temporary borrowing from other local Councils exposing the Council to financial risk from increasing interest rates. As highlighted in previous reports, this level of borrowing and risk was neither affordable nor financially sustainable.

3.6 The 2022/23 Treasury Management strategy introduced a debt reduction strategy with the aim of reducing the Council's borrowing down to a target level of £335m which is considered a sustainable level of borrowing for an authority the size of Slough and based on a total borrowing to net revenue stream ratio would represent 2.1 times. This target is retained in this strategy and the level of borrowing is forecast to reduce by £88m to £502.4m by 31 March 2024 having repaid all short term borrowing and reducing total borrowing to £464.5m by 31 March 2025.

3.7 Significant amounts of historic capital expenditure have been funded by borrowing which is required to be repaid over time by minimum revenue provision. In addition to this, any capitalisation directions which have not been paid off by capital receipts require minimum revenue provision to be paid. Capital receipts are predominantly applied to reduce borrowing related to the capitalisation direction. The funds being used to reduce historic levels of borrowing are shown in the table below:

Table 4: Replacement of prior years' debt finance

Reduction of the Capital Financing Requirement through application of MRP and capital receipts	2023/24 forecast £m	2024/25 budget £m	2025/26 budget £m	2026/27 budget £m	2027/28 budget £m
Minimum revenue provision (MRP) – General	13.978	13.441	12.419	11.115	11.205
Minimum revenue provision (MRP) – Capitalisation Direction	2.643	2.672	0	0	0

Capital receipts applied to previous years' Capitalisation Directions	24.692	84.224	0	0	0
TOTAL	**41.313**	**123.415**	**12.419**	**11.115**	**11.205**

3.6 Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Table 5: Prudential Indicator: Estimates of Capital Financing Requirement

Estimates of Capital Financing Requirement	**31.3.2024 forecast £m**	**31.3.2025 budget £m**	**31.3.2026 budget £m**	**31.3.2027 budget £m**	**31.3.2028 budget £m**
General Fund services	511	503	448	436	425
Capitalisation Direction	87	0	0	0	0
Council housing (HRA)*	174	174	174	174	174
Capital investments	0	0	0	0	0
TOTAL CFR	**772**	**677**	**622**	**610**	**599**

*These figures include the opening CFR from before self-financing began

Whilst this shows a significant reduction in the CFR over the period shown, reducing the risk to Slough. This is, however, not as low as the position expected in last year's treasury management strategy. Last year's treasury management strategy anticipated applying £216m of capital receipts to reduce the general fund capital financing requirement in 2022/23, £164m of capital receipts to reduce it in 2023/24, and a further £200m by March 2024 to an overall £600m target. This is greatly in excess of the budget and would have meant that the Council would have generated sufficient capital receipts to fully fund the Capitalisation Direction and thereafter those capital receipts can be applied to finance the Capital Financing Requirement 2-3 years earlier and thus significantly reduce MRP over the period 2022/23-2025/26.

The asset disposals are now forecast to be £370m by March 2026, with further assets being identified for disposal, working towards a target of £400m by 2027/28. Capital receipts are now expected to be received later than assumed in last year's treasury management strategy. The slippage in the asset disposal programme has resulted in the increased internal borrowing, CFR and MRP.

3.7 In the past 12 months:

- the Council has continued the implementation of the Asset Disposal Strategy which has generated £224.86m of capital receipts to date with a further £2.95m under offer, and so forecast to yield £227.81m to 31 March 2024. A further £86.23m is forecast for 2024/25 & 25/26.

3.8 Further work is underway to determine the full value of capital receipts available. The combination of the two has meant that the Council has a much-improved view of the liabilities facing the Council.

Treasury Management

4.1 On 31st March 2023, the Council held £590.47m of borrowing and £141m of treasury investments while on 31st December 2023, the Council held £428.9m of borrowing and £21.5m of treasury investments. This shows a decrease of £161.57m in borrowing level and £119.5m in investment level. This is set out in further detail in **Appendix B**. Forecast changes in these sums are shown in the balance sheet analysis in table 6b below.

Table 6a – Borrowing and investment levels

Borrowing and investment levels	**31.3.23 Actual £m**	**Change £m**	**31.12.23 Actual £m**
Borrowing	590.47	(161.57)	428.9
Investments	141.0	(119.5)	21.5

The table below shows how the total CFR is financed by both external and internal borrowing.

Table 6b: Balance sheet summary and forecast

Balance sheet summary and forecast	**31.3.24 Estimate £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**	**31.3.28 Forecast £m**
General Fund CFR	510.75	502.83	447.79	435.99	424.78
Capitalisation Direction	86.9	0	0	0	0
Housing Revenue Account CFR	174.01	174.01	174.01	174.01	174.01
TOTAL CFR	**771.66**	**676.84**	**621.8**	**610**	**598.79**
Less: Other debt liabilities	31.25	29.11	26.87	25.08	23.30
Loans CFR	**740.41**	**647.73**	**594.93**	**584.92**	**575.49**
Less: External borrowing **	502.4	464.5	415.6	406.7	404.0
Internal borrowing	**238.01**	**183.23**	**179.33**	**178.22**	**171.49**
Less: Balance sheet resources	0	0	0	0	0
Net Treasury investments	**238.01**	**183.23**	**179.33**	**178.22**	**171.49**

* leases and PFI liabilities that form part of the Council's total debt
** shows only loans to which the Council is committed and excludes optional refinancing

4.2 CIPFA published two new codes of practice in December 2021, which directly impact treasury management, namely, the revised Treasury Management Code of Practice (TM Code) and the Prudential Code for Capital Finance in local Councils. Both Codes have statutory force. The key changes from previous editions are around permitted reasons to borrow, knowledge and skills and the management of non-treasury investments. Both Codes took immediate effect, although local Councils could have deferred implementing the revised reporting requirements to 2023/24. The Council has continued to adopt the revised reporting requirements in 2023/24 with effect from 2022/23 till date.

4.3 The treasury management operation should help the Council to ensure that its cash flow is adequately planned, with cash being available when it is needed. A second function of treasury management is to fund capital plans. These capital plans provide a guide to the borrowing need of the Council to allow a longer-term approach to cash flow planning. During 2024/25 a detailed cashflow forecasting model will continue to be employed. This provides improved management of the Council's cash balances which is helping to maximise the use of the additional cash flowing through from asset sales pending repayment of temporary borrowing.

4.4 An effective Treasury Management Strategy and service is critical to the Council, as the balance of debt and investment operations should ensure liquidity and the ability to make spending commitments as they fall due.

4.5 CIPFA defines treasury management as:

> "The management of the local Council's borrowing, 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."

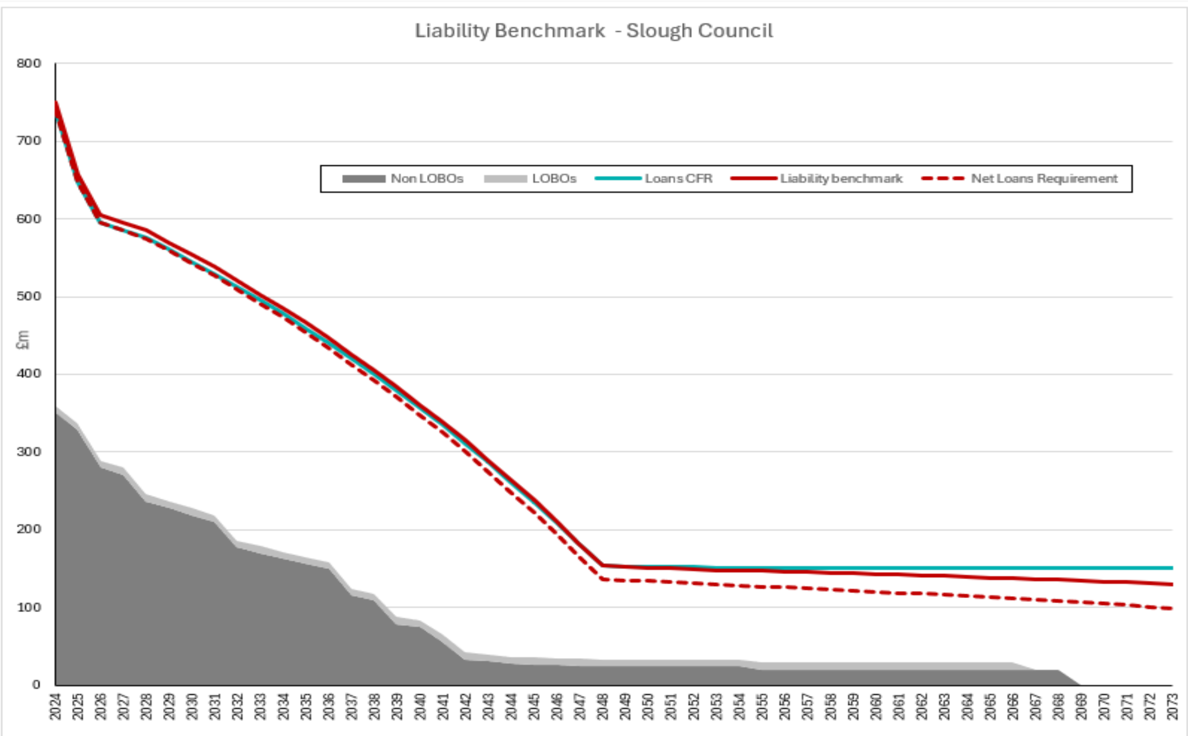
Liability benchmark:

4.6 To compare the Council's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This assumes the same forecasts as table 6 above, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

4.7 The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. The liability benchmark itself represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level required to manage day-to-day cash flow.

Table 7: Prudential Indicator: Liability benchmark

Prudential Indicator: Liability benchmark	**31.3.24 Estimate £m**	**31.3.25 Forecast £m**	**31.3.26 Forecast £m**	**31.3.27 Forecast £m**	**31.3.28 Forecast £m**
Loans CFR	**740.41**	**647.73**	**594.93**	**584.92**	**575.49**
Less: Balance sheet resources	0	0	0	0	0
Net loans requirement	**740.41**	**647.73**	**594.93**	**584.92**	**575.49**
Plus: Liquidity allowance	10	10	10	10	10
Liability benchmark	**750.41**	**657.73**	**604.93**	**594.92**	**585.49**



4.8 CIPFA recommends that the optimum position for external borrowing should be at the level of the Liability Benchmark (i.e., all balance sheet resources should be used to maximise internal borrowing). If the outputs show future periods where external loans are less than the Liability Benchmark, then this indicates a borrowing requirement thus identifying where the Council is exposed to interest rate, liquidity and refinancing risks. Conversely where external loans exceed the Liability Benchmark then this will highlight an overborrowed position which will result in excess cash in the Council requiring investment thus exposing the authority to credit and reinvestment risks and a potential cost of carry.

The treasury strategy further explains how the treasury risks identified by the Liability Benchmark are to be managed over the coming years.

Operational Boundary for External Debt

4.9 The operational boundary is based on the Council's estimate of most likely, (i.e. prudent, but not worst case) scenario for external debt.

Table 8 - Operational Boundary for External Debt

Operational Boundary	2023/24 Limit £m	2024/25 Limit £m	2025/26 Limit £m	2026/27 Limit £m	2027/28 Limit £m
Operational boundary - borrowing	609	510.95	567.16	447.37	444.40
Operational boundary - PFI and leases		31.90	29.56	27.59	25.63
Operational boundary - total external debt		542.85	596.72	474.96	470.03

Authorised Limit for External Debt

4.10 The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003 it is the maximum amount of debt that the Council can legally owe. The Authorised Limit provides headroom over and above the operational boundary for unusual cash movements.

Table 9 – Authorised Limit for External Debt

Authorised Limit	2023/24 Authorised Limit £m	2024/25 Authorised Limit £m	2025/26 Authorised Limit £m	2026/27 Authorised Limit £m	2027/28 Authorised Limit £m
Authorised limit - borrowing	638	766.425	850.74	671.06	666.60
Authorised limit - PFI and leases		47.85	44.34	41.38	38.45
Authorised limit - total external debt		814.28	895.08	712.44	705.05

4.10 Since the operational boundary is a management tool for in-year monitoring it is not significant if the boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

5 Treasury Management Prudential Indicators 2024/25

The Council measures and manages its exposures to treasury management risks using the following indicators. The review of the 2023/24 Prudential indicators is set out in the Treasury Management Mid-Year Report 2023/24

5.1 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit	A

5.2 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

Liquidity risk indicator	Target
Total cash available within three months	£10m

5.3 **Interest rate exposures**: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	100%
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	60%

The impact of a change in interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

5.4 **Maturity structure of borrowing:** This indicator is set to control the Council's exposure torefinancing risk from fixed rate external borrowing. The upper and lower limits on the maturity structure of borrowing will be:

Refinancing rate risk indicator	Upper limit	Lower limit
Under 12 months	50%	0%
12 months and within 24 months	70%	0%
24 months and within 5 years	70%	0%
5 years and within 10 years	70%	0%
10 years and above	70%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

5.5 **Long-term treasury management investments:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. Long-term investments with no fixed maturity date include strategic pooled funds and real estate investment trusts but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

The prudential limits on the long-term treasury management investments will be:

Price risk Indicator	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**No fixed date**
Limit on principal invested beyond year-end	**£90m**	**£90m**	**£90m**	**£90m**	**£90m**

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP / loans fund repayments are charged to revenue. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. In line with the debt reduction plan there should be a long-term strategy to reduce the financing costs to net revenue to a figure not exceeding 10% in the future.

Table 10: Prudential Indicator: Proportion of financing costs to net revenue stream

	2023/24 actual	**2024/25 forecast**	**2025/26 budget**	**2026/27 budget**	**2027/28 budget**
Financing costs	25.425	22.666	17.927	14.644	14.494
Proportion of net revenue stream	21%	17%	13%	10%	9%

A minimum level of HRA general reserve is deemed to be £4m, Major Repairs Reserve £5m and minimum interest cover is 1.25 times, represents the affordability framework within the HRA Business Plan.

Sustainability: Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50years into the future. The Executive Director of Finance & Commercial (s151 0fficer) is satisfied that the proposed capital programme is prudent, affordable and sustainable.

5.6 The Council is required to receive and approve the below, three main reports each year, which incorporate a variety of policies, estimates and actuals.

6.1 **Treasury Management Strategy Statement Report** – (this report) The first, and most important report is forward looking and covers:

- the capital plans
- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time)
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed)

6.2 **Mid-Year Review & Quarterly Reports**– This is primarily a progress report presented to this committee updating Members on the progress of the Capital Programme, reporting on Prudential Indicators to give assurance that the treasury management function is operating within the Treasury Limits and Prudential Indicators set out in the TMSS. There is a separate report on the agenda on this. In future years it is envisaged that this report will be able to be presented to members earlier in the financial year.

6.3 **Treasury Management Outturn Report** – This is a backward-looking review, typically presented to members in June/July and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the TMSS and Mid-Year Reports. This committee received the 2022/23 outturn report at its January meeting.

6.4 **Capital Strategy** – In addition to the three main treasury management reports, the CIPFA 2021 Prudential and Treasury Management Codes require all local Councils to prepare a capital strategy report which provides the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the Capital Strategy is to ensure that all elected members on the full Council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

7. Implications of the Recommendation

7.1 Financial implications

7.1.1 This report details the Council's strategies for treasury management and investment activity. The demonstrated commitment to the implementation of the new direction re the Council's strategies are designed to bring the Council back onto a financially sustainable footing, principally by reducing debt, but also by disposing of assets.

7.2 Legal implications

7.2.1 The Local Government Act 2003 provides the Council with the power to borrow and invest money for any purpose relevant to its functions and for the prudent management of its financial affairs. The Council is under a duty to determine and to keep under review how much money it can afford to borrow. The Local Councils (Capital Finance and Accounting) (England) Regulations 2003, provide that, in complying with this duty, the Council must have regard to CIPFA's Prudential Code for Capital Finance in Local Councils and CIPFA's Treasury Management Code of Practice.

7.2.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

7.2.3 Full Council is required to approve a Treasury Management Strategy (TMS) and investment decisions must be made in accordance with that. Any decision to depart from this Strategy must be agreed by Full Council. The Council's TMS Appendix 1 confirms how the Council complies with the CIPFA Treasury Management Code. This confirms that the Audit and Corporate Governance Committee has responsibility for scrutinising treasury management activities.

7.3 Risk management implications

7.3.1 Best practice and learning from other local government failures has identified that a failure to properly review and monitor investment activity can expose the Council to significant financial risk. It is critical that delegated Council is set at an appropriate level, performance is assessed against the principles set out in the TMS, performance is regularly monitored at senior officer level and by elected members, consideration is given to including aspects of the investment strategy in the internal audit programme and that the Council does not rely on investment activity to avoid making service decisions to meet reduced budgets.

7.3.2 The key risks for future investment activity are:
Asset sales either do not generate the expected receipts or are delayed. The mitigation is using external consultants to ensure best consideration is achieved through a managed asset disposal plan; and

Interest rates rise thus increasing borrowing costs. The temporary borrowing portfolio is at risk of interest rate rises. This can be mitigated by locking into PWLB borrowing and shifting the focus away from temporary borrowing.

7.4 Environmental implications

7.4.1 There are no specific implications.

7.5 Equality implications

7.5.1 There are no specific implications.

7.6 Procurement implications

7.6.1 There are no specific implications.

7.7 Workforce implications

7.7.1 There are no specific implications.

7.8 Property implications

7.8.1 In order to reduce the overall level of borrowing and finance the capitalisation direction, the Council will have to generate millions of pounds in capital receipts. The Council is currently working with external consultants with the necessary skills to push through the asset disposal plan.