



Treasury Management Committee

13:30 to 14:20

17 January 2023

Present: Councillors Kendrick (in the chair), Driver (substitute for Councillor Waters), Price and Wright

Apologies: Councillors Waters (other council business) and Stutely

In attendance: Neville Murton, Interim Head of Finance, Audit and Risk
Robert Mayes, Corporate Finance Business Partner
Caroline Knott, Senior Technical Accountant

1. Declarations of interest

There were none.

2. Minutes

RESOLVED to approve the minutes of the meeting held on 14 November 2022.

3. 2023-24 Draft Treasury Management Strategy

The Interim Head of Finance, Audit and Risk and the Corporate Business Partner presented the report and answered member's questions. Cabinet would be considering the draft Treasury Management Strategy as part of the budget report at its meeting on 4 February 2023 and any comments from this committee on the strategy would be reported to that meeting.

Discussion ensued on whether the committee could provide assurance, when in a member's view it did not have the tools or ability to challenge officers' calculations that set the Prudential and Treasury Management Indicators such as the operational boundary for treasury management in the strategy. The officers clarified the process that was undertaken. The Capital Programme changed each year. The methodology used by the Corporate Finance Business Partner and Senior Technical Accountant complied with best practice and CIPFA guidance, with support from the consultants (Link Group). Their work was then reviewed by the Interim Head of Finance, Audit and Risk, who was available to talk to members about individual elements. A member commented that members took on trust the experience of the officers and that members' role was to scrutinise the end product rather than the officers' "working out". It was also noted that the strategy was a corporate strategy, subject to approval by Full Council.

During the presentation, the Interim Head of Finance, Audit and Risk referred members to Table 5.9 and assured members that the counterparties for investment purposes had credit ratings of A minus to AAA, and it would be highly unusual for there to be an issue with any of them. The duration of loans and amounts varied for each counterparty (financial instrument) and would be set out in the Treasury Management Counterparty List to spread the risk. It was proposed to increase specified investments with AAA rated Money Market Funds (MMF) from £25m to £35m for a maximum duration of 12 months and to increase the MMFs from three to four. This would spread the risk to the council further.

Discussion ensued in which a member asked why the council had surplus cash and did not put it into reserves. The Interim Head of Finance, Audit and Risk said that the council had additional cash by virtue of holding reserves and from grants from central government. If the council needed cash liquidity, it would invest surplus cash for shorter durations. Members noted that the council was in a stable position but that a lot of councils were not so fortunate.

A member commented that the Scrutiny Committee would be considering green financing at its meeting on 19 January 2023 and asked how any recommendations from that committee would be fed into Cabinet and the Treasury Management Strategy. The Interim Head of Finance, Audit and Risk said that green finance tended to finance debt. The council had about £3m debt to finance in the short-term, and whilst this was not a lot of debt, the council had an opportunity to consider green finance and invest in a MMF which was sustainable. Members noted that the Scrutiny Committee would also be considering the budget proposals at its meeting on 2 February 2023 and would have an opportunity to put in recommendations to Cabinet on 8 February and Budget Council.

The Corporate Finance Business Partner concluded his presentation of the report and pointed out that the TMP10 related to member and officer training, which would be considered under the next agenda item.

The Interim Head of Finance, Audit and Risk referred to Table 5.2, Capital Prudential Indicators, that sets out the Capital Financing Requirement (CFR) for each year, and assured members that he considered that the calculations for the Minimum Revenue Provision (MRP) for next year were correct.

During discussion on borrowing, the Interim Head of Finance, Audit and Risk, referred to Table 5.4a Estimated Forward Projections of Borrowing and said that the final tranche of a long-term debt of £50m was due to be repaid this financial year. Table 5.4b Estimated Forward Projections for Borrowing set out future projections for borrowing. The council would not be taking forward any new long-term borrowing during 2022/2023, and would use cash supporting the council's reserves, balances and cash flow rather than taking out external borrowing when interest rates were high. The Corporate Finance Business Partner added that the council would continue this temporary approach for as long as possible. He referred to Table 5.7 Link Group Interest Rate View which showed when interest rates were likely to fall.

The Interim Head of Finance, Audit and Risk referred to Table 5.5 The Council's Current Investment and Borrowing Position and said that the council's total cash investments were £186m by the end of December 2022. There was a tension about where the council should put investments, including paradoxically loaning it back to the government, MMFs or to other local authorities. The council would only invest in products that were A credit rated and counterparties on its list to reduce this risk.

A member suggested that it was ethical to pay off its £210m debt rather than invest £186m. The Interim Head of Finance, Audit and Risk said that some of the loans over a 25 and 50 year term had a redemption penalty, to compensate government for its expected return. Loan arrangements would be constantly reviewed as there was a “sweet spot” when interest rates increased and a corresponding reduction in the redemption penalty. The Corporate Finance Business Partner confirmed that in such cases the early redemption of the loan would be brought before members for sign off.

In reply to a member’s question, the Interim Head of Finance, Audit and Risk said that the increase in interest rates, with a further three-quarter percentage increase forecast, was good for the council’s investment. The Corporate Finance Business Partner said that the council’s debt was at a fixed rate. Investment was at a variable rate and, therefore, receiving, a better return.

The chair commented that the average wage increases were over 6 per cent in the private sector. He considered that interest rates were too high and needed to be reduced.

A member referred to the discussion at the last meeting regarding investment in ESG (environmental, social and governance) investments and asked what assessment was available for this. The Interim Head of Finance, Audit and Risk said that there was a growing demand for ESG products but there was a dearth of A rated products at the moment, and so as not to increase the risk to the council, it was necessary to wait for the market to create green or ethical products. In reply to a further question from the member, the Corporate Finance Business Partner said that the market did not assess products on ESG ratings alone. However, a Counterparty’s credit rating would be affected by the type of investments it invested in for example, fossil fuels. It was not as transparent as would be preferred but was the case until the market caught up.

Councillor Price requested a recorded vote and seconded by the chair, and on being put to the vote was agreed.

RESOLVED, having noted the report, with 3 members voting in favour (Councillors Kendrick, Driver and Wright) and 1 member abstaining from voting (Councillor Price), to recommend that Cabinet and Council approve the Treasury Management Strategy for the year to 31 March 2024.

4. Draft Effective Scrutiny of Treasury Management Self-Assessment

The Corporate Finance Business Partner introduced the report and referred to the treasury management process, TM10 Training qualifications and the CIPFA Code which require that members and officers responsible for Treasury Management receive adequate training in this area. Officers had conducted some research about what was available and completed the draft self-assessment based on the first meeting of the committee (14 November 2022).

The Corporate Finance Business Partner confirmed that he and the Senior Technical Accountant attended the annual CIPFA Treasury Management Conference for their professional development. There were courses available for members and officers, some of which were free or available as Webinars.

During discussion, a member said that he considered that the responses to the self-assessment questionnaire made by officers was a fair one. Members agreed that training was needed. The Internal Head of Finance, Audit and Risk said that details of training courses would be circulated and that gaps in training or specific requests, such as assessment of green credentials, could be provided by officers or consultants from the Link Group.

RESOLVED to:

- (1) approve the Effective Scrutiny self-assessment questionnaire;
- (2) ask the Interim Head of Finance, Audit and Risk to provide details of Treasury Management Training opportunities, to be circulated by the committee officer.

CHAIR