Runnymede Borough Council

Overview and Scrutiny Select Committee

Thursday, 3 February 2022 at 8.32 pm

Members of the Committee present:	Councillors J Furey (Chairman), S Dennett (Vice-Chairman), A Balkan, D Coen, R King, S Williams and L Gillham (Substitute, in place of A Alderson).
Members of the Committee absent:	Councillors S Mackay and S Walsh.

438 Minutes

The Minutes of the meeting of the Overview and Scrutiny Select Committee on 2 December 2021 were confirmed and signed as a correct record.

439 Apologies for Absence

Apologies for absence were received from Councillor S Walsh.

440 Declarations of Interest

None declared.

441 2022/23 Treasury Management Strategy, Annual Investment Strategy, Prudential and Treasury Management Indicators and Minimum Revenue Provision Statement

The Committee considered a report on the 2022/23 Treasury Management Strategy, Annual Investment Strategy, Prudential and Treasury Management Indicators and Minimum Revenue Provision Statement. The four recommendations in the report had been recommended to Full Council on 10 February 2022 by the Corporate Management Committee at its meeting on 20 January 2022.

The Treasury Management (TM) Strategy was one of the ways in which the Council managed its financial planning, risk management, and governance processes. The TM Strategy placed controls over where, and in what, the Council could invest and borrow and ensured adequate planning for the cash flow requirements of the capital and revenue plans agreed by Members. The TM Strategy set out the framework each year for the Council's treasury operations and had to cover capital issues and treasury management issues. The Committee agreed to recommend the Council's Treasury Management Strategy as set out in the report and the Annual Investment Strategy at Appendix 'A' to the report which maintained the principle of prudent investment with regard to protecting security and liquidity before making returns or yield.

The Council had adopted both the CIPFA Treasury Management and Prudential Codes and new versions of these Codes had been published just before Christmas 2021 and the Committee noted the implications for the Council of those Codes. The key objectives of the Prudential Code were to ensure, within a clear framework, that the capital investment plans of local authorities were affordable, prudent and sustainable; that treasury management decisions were taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal were supported. The new Code added that decisions must also be proportionate.

The new Prudential Code applied immediately, with the exception of the reporting requirements which did not take effect until the 2023/24 financial year, although early adoption was recommended. Officers had incorporated some of the new requirements in the Council's Capital and Treasury Management Strategies and would look to enhance all future reports with the new reporting requirements once the associated guidance notes had been received.

The Council's Treasury advisors had provided a section in the report on the economy and prospects for interest rates. The projections in the report showed that the Base Rate would climb to 0.75% by the end of the next financial year and the Council's financial plans and Medium Term Financial Strategy had been based upon these projections. The 2022/23 estimate for investment income and debt interest based upon these projections was noted.

The Council's Treasury advisors had predicted a first rise in the Base Rate in June 2022. However, the Bank of England Monetary Policy Committtee (MPC) had agreed to raise the Base Rate by one quarter of one per cent to 0.5% on 3 February 2022. Furthermore 4 of the 9 MPC members had wanted to increase the Base Rate by one half of one per cent as inflation was now predicted to peak at 7.25 % in April 2022. This suggested that the next Base Rate rise would probably be implemented sooner rather than later. Any increase in the Base Rate would not affect the Council's borrowing costs as they were all at fixed rates but it would make any future borrowing by the Council more costly. However, any new investments made as existing investments matured would benefit from a higher Base Rate which would result in more investment income for the Council. There were no proposed changes to the Council's borrowing strategy for next year. In general the Council would borrow for one of two purposes – to finance cash flow in the short term or to fund capital investment over the longer term.

The new Prudential Code stated that an authority must not borrow to invest for the primary purpose of commercial return. The Committee queried why the Government had imposed this prohibition. It was noted that local authorities had acquired commercial properties to provide an income stream at a time when they no longer received Governement grant. This had inflated the market, the private sector had not been able to obtain loans at the low interest rates which had been available to local authorites and the UK economy had been loaded with debt. These consequences had led the Government to prohibit local authorities from borrowing to invest for the primary purpose of commercial return.

In order to gain access to Public Works Loan Board funding, local authority Chief Finance Officers now had to certify that their Council's capital spending plans did not include the acquisition of assets primarily for yield. The Government's current requirement for local authorities holding commercial assets was that local authorities should seek to divest themselves of these assets where appropriate. It was not feasible for the Council to sell its commercial assets in the short term as it required the income generated by these assets for its General Fund. Asset swaps were not allowed under the new Code. The Council could not sell a commercial property and then buy another commercial property.

The Committee agreed to recommend the Prudential and Treasury Management Indicators for 2022/23 as set out in Appendix 'B' to the report. This included a total authorised limit for external borrowing by the Council in 2022/23 (the statutory limit determined under Section 3 (1) of the Local Government Act 2003) of £720,710,000, which was recommendation iii) in the report. These indicators were designed to support and record local decision making. They were not performance indicators and were not comparable between authorities. All of the indicators for next year included a provision for the effects of the introduction of a new Reporting Standard on Leases (IFRS 16). This standard would come into effect on 1 April 2022 and brought all leases onto the Council's Balance Sheet as a debt liability for the first time. The inclusion of a provision in the indicators to account for leases was important as from 1 April 2022 it would be unlawful to enter into a lease if there was no headroom in the authorised limit for the new lease liability.

The Council was limited in its ability to invest in environmentally friendly and/or ethical deposits. A majority of the Council's investments were in fixed term deposits rather than investment funds. The few sustainable and/or ethical deposits that were available either did not meet the Council's credit criteria or required higher or longer deposits than the Council's investment strategy would allow. Altering the strategy to meet these requirements would then mean that the Council could not maintain its overriding principle of prudent investment with regard to protecting security and liquidity before making returns or yield.

The Council was required to pay off an element of the accumulated General Fund capital spend each year (the Capital Financing Requirement – CFR) through Minimum Revenue Provision (MRP) which was a charge to revenue in order to have sufficient monies set aside to meet the future repayment of principal on any borrowing undertaken. The Council was required to approve an MRP statement in advance of each year. In November 2021, the Government had begun a consultation exercise on proposed amendments to the MRP regulations to take effect from 1 April 2023. Whilst it was not something that the Council had ever done, there was a sentence in the Council's current MRP Policy which stated that "*Where schemes require interim financing by loan, pending receipt of an alternative source of finance (for example capital receipts) no MRP charge will be applied".* This course of action appeared to be contrary to the amendments which were the subject of the consultation exercise. As it would have no effect on the Council's current operations or plans, therefore the Committee agreed to recommend the MRP Policy for 2022/23 as set out in recommendation iv) to the agenda report which did not include this sentence.

The Committee noted that the last Member training on treasury management had been carried out in November 2017. Plans for further training in June 2020 had to be delayed as a result of the pandemic and had been planned to take place in November 2021. However, CIPFA had now proposed a "Treasury Management Knowledge and Skills Framework" for officers and Members, including a learning needs analysis to support it, so this training had been deferred again until later in 2022 in order to ensure that the new requirements were met.
The Committee noted the reasons for the current delay in the Member training on treasury management and was advised that Member training on treasury management had previously been held every three years. It was noted that the training would consist of one session provided by officers and one session provided by the Council's treasury advisers.
It was suggested that officers might consider sending Members a package of key points on treasury management which Members could refer to when they had the time to do so. The Committee considered that Member training on treasury management should be held more frequently and agreed to recommend that it be held every two years as set out in recommendation ii) below. It was suggested that this training might be considered as part of any Constitution Member Working Party discussions on Member training and that it should be referred to in any induction packages sent to new Members of the Council.

Recommendation to Full Council on 10 February 2022:

i) Council notes that the Committee concurs with recommendations i) to iv) in the report; and
ii) Member training on Treasury Management be held every two years.

Councillor R King requested a recorded vote on the above recommendations and the voting was as follows: -

For (6): Councillors Furey, Dennett, Balkan, Coen, Gillham and Williams.
Against (1): Councillor R King.

(The meeting ended at 9.08 pm.)

Chairman