Scrutiny of the Treasury Management Strategy and Policies – Questions and Answers (Overview and Scrutiny Committee 22 April 2024)

The following questions and answers will help to demonstrate that the Council's Treasury Management Strategy and Policies were subject to robust member scrutiny and demonstrate compliance with the CIPFA Code of Practice for Treasury Management.

First some questions on the day-to-day process.

Question No. 1

On a daily basis, how do you work out whether we need to borrow money or have spare cash available that we can lend out?

Cash flow projections are prepared annually and daily. The annual cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received on new or revised amounts to be paid or received as and when they are known and the council downloads data from its bank on a daily basis.

Question No. 2

If I have understood this correctly, in essence you are estimating what you expect the end of day position to be at the bank when all the pending transactions, including payments to suppliers and the clearance of cheques or direct debits into our account, have been processed – what happens therefore if you get it wrong?

Of course, from time-to-time we receive amounts earlier or later than expected, amounts we weren't expecting or where values differ from those reported to us. This can be for a number of reasons e.g. new burdens funding, payments made to us in error (for instance intended for Wyre Forest District Council) or unexpected announcements at short notice (e.g. response to the Cost of Living crisis related).

With the introduction of a group aggregate auto transfer facility ('roll-up') in February 2018, any funds remaining in the council's bank accounts at close of business are automatically cleared into the interest bearing Liquidity account thus stopping any under investment of funds. There will be an automatic transfer from the interest bearing account (assuming adequate funds available) crediting the group control account with the required balance from the interest bearing account. This avoids an overdrawn balance and the subsequent charges.

From 1 September 2011, and following a cost/benefit analysis, we took a decision to cease the formal overdraft facility. The formal overdraft facility used to cost the council £2,000 plus 1% over the base rate for overdrawn net balances over £500,000. The new arrangement now incurs charges at 4% over the current base rate for net overdrawn balances with no annual arrangement fee. There have been no occasions since the introduction of the new group aggregate transfer facility when the council's net bank account position was overdrawn.

Question No. 3

Is there one person who does the day-to-day dealing and what happens if they are away on leave?

Within the Treasury Management Policy Statement and Practices that is approved annually by Cabinet/Council in February/March there is a list of all the different functions and a table showing which officers can do what. For example, the day-to-day dealing can be done by, either of the three Finance Business Partners or either of three Assistant Accountants. Authorisation of short-term borrowing or investing falls to the Corporate Director Resources, Assistant Director of Finance, Revenue and Benefits, the Assistant Director of Governance and Legal (Monitoring Officer) or the Principal Accountant.

Question No. 4

So what do you have to do if you want to invest some money?

The Treasury Management Policy Statement and Practices states that the council applies the creditworthiness service provided by Link Asset Services who are our Treasury Management Consultants. This service employs a sophisticated modelling approach combining credit ratings, credit watches and credit outlooks (see Appendix 1) in a weighted scoring system which is then combined with an overlay of CDS (Credit Default Swaps) spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. They provide us with this weekly credit list and supplement it with emails for any changes to counterparty credit ratings. Lending is only made to counterparties within the council defined colour bands according to the colour coded creditworthiness list.

In addition, the Practices say that the council will also look at other market information in order to establish a full investment strategy; such as up to date market information, which includes Sovereign and individual counterparty ratings, together with a wide range of relevant economic data. In reality, other than daily news headlines/reports, no further challenges are made to the treasury advisors guidance.

If we are using the council's bank, the NatWest, for investments in the Liquidity account the balance is left in the current account and will be automatically transferred into the Liquidity account at the close of business. If we are using the Money Market Funds then this is entered on to the FisGlobal System and an email is sent prompting the authorising officer to agree the transfer. All transactions on the FisGlobal System must be authorised before, either 1pm, 1.30pm or 2pm dependent on the fund, in order for them to be actioned that day.

If we are using Brokers we telephone to obtain the rate for the amount and length of time we want to invest. Should we wish to confirm the deal or give notice, if necessary, a bank transfer is made from the council's banks. If we are using Svenska Handelsbanken, Qatar National Bank or Santander again a bank transfer is made from the council's bank with the appropriate authorisation.

Question No. 5

What about if you need to borrow money temporarily – what happens then?

The Treasury Management Policy Statement and Practices clearly states that the council must access temporary loans through approved brokers on the London money market. The approved borrowing limit for short-term debt is £14.964m.

In essence, we telephone the brokers and ask them to find somebody who can lend us the amount we need and for the required term, for example, are we happy for the money to be called back at any time or do we want to fix it to a particular date. We aren't fussy about who lends us the money and the brokers currently charge commission at 1% of interest due. There is no commission charge for undertaking investment transactions via the brokers.

The last time we borrowed was in 2009/10.

<u>Question No. 6</u>

The BBC reported in January 2024 that Council borrowing amounts to almost £100 billion, or the equivalent of £1,455 per resident. What long-term borrowing does the council have?

Historically, the council entered into a small number of long-term loans to help fund the capital programme. As of September 2022, the following two remained:

Date	Loan ref.	Value (£)	Period (Years)	Rate (%)	Maturing
05/03/2008	494404	552,000	30	4.48	September 2037
05/03/2008	494405	1,000,000	50	4.41	September 2057
Total		**1,552,000**			

In October 2022, as a result of advantageous conditions during the Truss economic era, the council were able to repay the principal above at a discount, saving over £70,000 and ensuring that future interest payments of £1.9m would no longer be payable.

The council has remained debt free since then and so Wyre is not contributing to the £100 billion referred to by the BBC in their article earlier this year.

<u>Question No. 7</u>

So what guarantees do we have that somebody in the finance team isn't going to disappear to the Caribbean with a significant amount of the council's money – presumably there are sufficient checks and balances?

Firstly, I'm not good in places with extreme temperatures but on a more serious note, there are a number of controls in place including;

- ✓ All lending is only made to institutions on the Link Creditworthiness Weekly List.
- ✓ All loans raised and repayments made go directly to and from the institution's bank account.
- ✓ Authorisation limits are set for every institution.
- ✓ Brokers have a list of named officials authorised to perform loan transactions.
- ✓ There is adequate insurance cover for employees involved in loan management and accounting.
- ✓ The control totals for borrowing and lending are regularly reconciled with the ledger balance sheet codes by the Financial Services Team.

- ✓ There is a separation of duties in the Section between the processing and authorisation of transactions.
- ✓ The council's bank holds a list of council officials who are authorised signatories.
- ✓ No member of the Treasury Management team responsible for borrowing and lending is an authorised signatory.

A key aim of the Treasury Management Policy Statement is that the council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

And if you are still worried, then it is worth noting that the council has 'Fidelity' insurance cover with Zurich Municipal (ZM). This covers the loss of cash by fraud or dishonesty of employees. This cover is limited per transaction as follows:

Type	**Limit of indemnity**	**Excess**
Public liability	£25m	£10,000
Officials' indemnity	£5m	£10,000
Employers' liability	£30m	£10,000

<u>Question No. 8</u>

How do you know if you are doing a good job – what measures do you use to assess your performance?

We do an annual outturn report in July each year showing the overall position and activities for the previous year. The report includes the following issues, where relevant:

- ✓ total debt and investments at the beginning and end of the financial year and average interest rates;
- ✓ borrowing strategy for the year compared to actual strategy, including interest paid;
- ✓ investment strategy for the year compared to actual strategy, including interest received;
- ✓ explanations for variance between original strategies;
- ✓ debt rescheduling done in the year;
- ✓ actual borrowing and investment rates achieved through the year;
- ✓ the performance of in-house investment earnings will be measured against the SONIA rate (Sterling Overnight Index Average); and
- ✓ compliance with Prudential and Treasury Management Indicators.

We also complete a half-yearly Report on Treasury Management which is submitted to Council in the third quarter of the year which reviews the performance of the debt and investment portfolios. This report contains the same information as the annual report but only includes information for the first six months of the year.

Last year investments earned an average return of 1.83% against a benchmark SONIA 7-day average of 2.19%. The Bank of England base rate stated the year at 0.75% and gradually increased through the year to 4.25% by March 2023.

In the six months to 30 September 2023 investments have achieved an average return of 4.34% against a benchmark SONIA 7-day average of 4.71%. The average return achieved is distorted by the current account interest rate. If this is excluded the average return achieved is 4.75%.

And now just a few questions concerning the wider Treasury Management arrangements…

Question No. 9

I understand that we are with the NatWest bank and have been for some time – do we ever consider switching?

Whilst we have been with NatWest for over 30 years, banking services have traditionally been re-tendered or renegotiated every 3 years to ensure that the level of prices reflect efficiency savings achieved by the supplier and current pricing trends. The council retendered for Banking Services using the Government Framework in 2021. This resulted with our present providers NatWest being awarded the contract, which resulted in considerable savings for the Authority. The current contract expired at the end of March 2024 and a benchmarking exercise was undertaken with other Lancashire districts to ensure value for money is still being achieved.

Question No. 10

And whilst we are talking about the costs of treasury management – do we have other advisors that we use and how much do they cost?

Link Asset Services are engaged as the council's treasury advisor. The initial appointment was for one year and was considered to be value for money having sought other quotations. The service was benchmarked in 2023 and further benchmarking exercises will be conducted every three years to ensure value for money is maintained. The cost of the service is £8,250 per year. However, training is no longer available for staff and members within this price and they would charge around £2,000 for an hour's training session with Members, hence why I'm here tonight instead!

Question No. 11

I know you've mentioned the half-yearly and annual performance reports to Council but are there other reports that we need to produce to ensure compliance with the CIPFA Code of Practice for Treasury Management?

Yes, there are a number of reports that we are required to complete and take to Council on an annual basis. It is a requirement as well as being useful to review the Treasury Management Policy Statement and Treasury Management Practices each year. The specific requirements ask for the following:

- ✓ The Treasury Management Strategy Statement - sets out the specific expected treasury activities for the forthcoming financial year and is submitted to the Cabinet in February and then full Council in March. It involves determining the appropriate borrowing and investment decisions in the light of the anticipated movement in both fixed and shorter-term variable interest rates. For instance, the council may decide to postpone borrowing if fixed interest rates are expected to fall, or borrow early if fixed interest rates are expected to rise. It covers a number of items including:

- Prudential and Treasury Indicators
- current Treasury portfolio position
- borrowing requirement
- prospects for interest rates
- borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling (not applicable to Wyre anymore)
- investment strategy
- creditworthiness policy
- policy on the use of external service providers
- any extraordinary treasury issue
- the MRP strategy

✓ The Annual Investment Strategy – is received at the same time as the Treasury Management Strategy Statement and sets out the following:

- The council's risk appetite in respect of security, liquidity and optimum performance
- The definition of 'high credit quality' to determine what are specified investments as distinct from non- specified investments
- Which specified and non-specified instruments the council will use
- Whether they will be used by the in-house team, external managers or both (if applicable)
- The council's policy on the use of credit ratings and other credit risk analysis techniques to determine creditworthy counterparties for its approved lending list
- Which credit rating agencies the council will use
- How the council will deal with changes in ratings, rating watches and rating outlooks
- Limits for individual counterparties and group limits
- Country limits
- Cash balances
- Interest rate outlook
- Budgeted investment return
- Use of a cash fund manager (if applicable)
- Policy on the use of external service providers (if applicable)

✓ The Annual Minimum Revenue Provision Statement - is received at the same time as the Treasury Management Strategy Statement and sets out how the council will make revenue provision for repayment of its borrowing using the four options for so doing. Our adopted policy is that all expenditure reflected within the debt liability at 31 March 2008 will under delegated powers be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method (Asset Life Method).

✓ Policy on Prudential and Treasury Indicators – the limits are approved by Council before the beginning of each financial year and, in addition to being presented with the Revenue and Capital Estimates in March, are incorporated into the Annual Treasury Management Strategy.

✓ A Capital Strategy will be prepared each year for approval by Council in March. This is a recent requirement introduced in response to some of the more risky investments undertaken by local authorities in response to falling budgets. Ours will be fairly basic compared to those authorities with significant external borrowing and complex loans and will evolve as new guidance is issued.

Question No. 12

I'm interested in what our advisors said about the prospects for interest rates?

Link Asset Services most recent forecasts indicate that the base rate would not rise from its position of 5.25%. Rates are expected to reduce from recent highs over the next 24 months. However, much is dependent on the current political issues both at home and abroad.

Question No. 13

And if we wanted to borrow to fund some of the capital works that are currently being assessed, what would the costs be?

If we borrowed £2m in February 2024 the interest rate is currently projected to be 5.64% (PWLB) and if we used the money to fund assets with lives of 25 years then the cost for principal and interest repayments would be £192,800pa.

The Prudential Code for Capital Finance aims to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. The Code sets out indicators that must be used and requires local authorities to set relevant limits and ratios. As the council is currently projecting a gap between expenditure and income of £4m in 2028/29 new borrowing is not considered to be affordable, prudent or sustainable.

Question No. 14

A question was asked at full Council recently about whether or not we have an ethical investment policy. The answer was no, but why is that?

We are allowed to consider environmental, social and corporate governance aspects in our Treasury Management activities. However, there is currently no ethics rating equivalent of the credit ratings we use to determine how ethical our investments are. Our Treasury Management consultants are of the view that it is impossible at the moment to follow £1 with confidence through the banking system and be assured that it won't end up financing unethical activity. Around the time of the Football World Cup when it was hosted in Qatar, the Guardian published an article on local authorities who invest with the Qatar National Bank (QNB) and Wyre was one of the ones listed, albeit at the lower end of the scale of investments. The advice we have had is that rather than shy away from investing in institutions such as QNB, we can try and use our influence to encourage positive changes.

And finally, are there any further questions?