Guildford Borough Council

Report to: Council

Date: 5 December 2023

Ward(s) affected: All

Report of Director: Transformation & Governance

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Report Status: Open

Capital and Investment outturn report 2022/23

1. Executive Summary

1.1 This outturn report includes capital expenditure, non-treasury investments and treasury management performance for 2022/23 financial year.

Capital programme

1.2 In total, expenditure on the General Fund capital programme was £35.4 million against the original budget of £158 million, and a revised[1] budget of £169 million. Details of the revised estimate and

[1] Revised budget being the budget approved at Council in February plus any unspent amounts brought forward from previous financial year and supplementary estimates.

actual expenditure in the year for each scheme is included at Appendix 3.

1.3 The budget for Minimum Revenue Provision (MRP) was £1.5 million and the outturn was £1.38 million. This was due to slippage in the programme in 2021/22.

1.4 Officers have reviewed the programme and have determined that there are schemes that are no longer required, that no longer meet the original business case or have been removed pending a new business case in light of the Council's ongoing budget deficit. These schemes are detailed in the Financial Recovery Plan within the capital programme workstream. Removing these schemes will reduce the Council's underlying need to borrow for capital purposes and will generate a saving to the revenue account in respect of MRP and interest.

Non-treasury investments

1.5 The Council's investment property portfolio stood at £178 million at the end of the year. Our rental income was £9.5 million, and our income return 5.7% against the benchmark of 4.7%.

Treasury management

1.6 The Council's cash balances have built up over several years and reflect our strong balance sheet with considerable revenue and capital reserves in the HRA. Officers carry out the treasury function within the parameters set by the Council each year in the capital and investment strategy. On 31 March 2023, the Council held £98 million in investments, £295 million in borrowing, of which £147 million is HRA, £32 million relates to the Weyside Urban Village project (WUV), and £115 million of short term borrowing, so net debt of £197 million.

1.7 We borrowed short-term from other local authorities for cash flow purposes in the year and took out a loan for WUV under the infrastructure rate. We capitalise borrowing interest to capital schemes using the pooled interest rate of the Council, so whether we are borrowing short or long term the borrowing associated with the capital programme expenditure is capitalised against the project and not charged to the GF as interest payable.

1.8 The report (section 8) confirms that the Council complied with its prudential indicators, treasury management policy (TMP) statement and treasury management practices for 2022/23. The policy statement is included and approved annually as part of the Capital and investment Strategy and the TMPs are approved under delegated authority.

1.9 Treasury management performance compared to estimate for the year is summarised in the table below. The report highlights the factors affecting this performance throughout the report and in Appendix 1.

	Estimate %	**Actual %**	**Estimate (£000)**	**Actual (£000)**
General fund Capital Financing Requirement (CFR)			245,861	175,204
Housing Revenue Account CFR			217,024	199,204
Total CFR			**462,885**	**374,408**
Return on investments	1.69	1.62	1,278	1,900
Interest paid on external debt			5,987	5,471
Total net interest paid			**4,709**	**3,571**

1.10 There was slippage in the capital programme which resulted in a lower CFR than estimated (more information in Appendix 1, section 3). Interest paid on debt was lower than budget due to less long-term borrowing taken out on the GF due to slippage in the capital programme.

1.11 The yield returned on investment was lower than estimated, but the interest received was higher due to more cash being available to invest in the year – a direct result of the capital programme slippage. Officers have been reporting higher interest receivable and payable and a lower charge for MRP during the year as part of the budget monitoring when reported to councillors during the year.

1.12 Detailed information on the return on investments, and interest paid on external debt can be found in section 7 of this report.

1.13 This report was considered by the Corporate Governance and Standards Committee at its meeting on 16 November 2023. The Committee commended the report to the Executive, subject to a number of comments which are set out in section 8 below. At its meeting on 23 November 2023, the Executive also considered the report and commended the recommendation to the Council below for adoption.

2. Recommendation to Council:

2.1. That the capital and investment outturn report be noted.

2.2. That the actual prudential indicators reported for 2022/23, as detailed in Appendix 1 to this report, be approved.

3. Reasons for Recommendation:

3.1. To comply with the Council's treasury management policy statement, the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on treasury management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

3.2. As per the treasury management code although the scrutiny of treasury management (and indeed all finance) has been delegated to the Corporate Governance & Standards Committee, ultimate responsibility remains with full Council, this report therefore fulfils that need.

4. Exemption from publication

No

5. Purpose of Report

5.1. The Local Government Act 2003 states that the Council has a legal obligation to have regard to both the CIPFA code of practice on treasury management and the, then, Ministry of Housing, Communities, and Local Government (MHCLG) investment guidance.

5.2. The CIPFA treasury management code of practice, and the MHCLG investment guidance requires public sector authorities to produce an annual capital strategy (incorporating capital expenditure, non-treasury investments and treasury management activity).

5.3. This report covers the outturn of the elements of the strategy and the requirement to report on the prudential and treasury indicators for the year. The position of the Council's investment property portfolio is also presented along with progress on the capital programme.

5.4. The Council borrows and invests substantial sums of money and is, therefore, exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risks. The Council holds a substantial amount of investment property and has a large capital programme, all of which have risk.

5.5. Treasury management is a highly complex, technical, and regulated aspect of local government finance. We have included a glossary of technical terms (**Appendix 10**), to aid the reading of this report.

6. Strategic Priorities

6.1. Treasury management and capital expenditure are key functions in enabling the Council to achieve financial excellence and value for money. It underpins the achievement of all the Corporate Plan 2018-2023 themes.

6.2. This report details the activities of the treasury management function and the effects of the decisions taken in the year in relation to the best use of its resources. It also presents the outturn position for the year of the capital programme, and the performance on non-treasury investments.

7. Background

7.1. Treasury management and the capital programme are intrinsically linked – the capital programme impacts whether the Council has investments or borrowing, which then informs the revenue budget. Providing the information to councillors in a joint report ensures the context of the two areas to be considered alongside each other.

7.2. Treasury management is defined by CIPFA as

"the management of the organisation's borrowing, investments and cash flows, including 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".

7.3. The Council has overall responsibility for treasury management. Treasury management contains several risks. The effective identification and management of those risks are integral to the Council's treasury management objectives, as is ensuring that borrowing activity is prudent, affordable, and sustainable.

7.4. The Council has a statutory requirement, under the Local Government Act 2003, to adopt the CIPFA Prudential Code and produce prudential indicators.

7.5. The objectives of the prudential code are to ensure, within a clear framework, that capital investment plans are affordable, prudent, and sustainable, and the treasury management decisions are taken in accordance with good professional practice.

7.6. The Council has a large capital programme and a large investment property portfolio on its balance sheet. These, together with treasury management, are the management of the Council's cash and assets.

7.7. The Council operates its treasury management function in compliance with this Code and the statutory requirements.

7.8. This annual report, and the appendices attached to it, set out:

- A summary of the economic factors affecting the approved strategy and counterparty updates (sections 4 and 5 with details in Appendix 5)

- a summary of the approved strategy for 2022/23 (para 7.11 - 7.15)

- a summary of the treasury management activity for 2022/23 (para 7.16 - 7.30 with detail in Appendix 1)

- non-treasury investments (para 7.40 – 7.43)

- capital programme (para 7.44 – 7.46)

- compliance with the treasury and prudential indicators (para 7.47 – 7.51 with detail in Appendix 1)

- risks and performance (para 7.52 – 7.62)

- Minimum Revenue Provision (MRP) (para 7.63 – 7.66)

- details of external service providers (para 7.67 – 7.68)

- details of training (para 7.69 – 7.74)

Economic Environment

7.9. This section includes the key points of the economic environment for 2022/23, to show the treasury management activity in context. Appendix 5 contains more detail.

- The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession.

- Energy and commodity prices remained high along with high inflation impacted on the cost of living.

- Central Banks increased interest rates to try and tackle the high inflation despite potential economic slowdowns.

- The Bank of England increased rates to 4.25% during the financial year, from 0.75% in March 2022.

- There was uncertainty in the financial markets and bond yields were volatile due to concerns over elevated inflation and higher interest rates, as well as a potential recession.

- Over the year, 5-year benchmark yield rose from 1.41% to 3.36% at the end of the year, 10-year 1.61% to 3.49% and 20 year from 1.82% to 3.82%. All three peaked at over 4.5% in September.

- The collapse of US bank Silicon Valley Bank in March increased the uncertainty in the markets.

- Arlingclose reduced its recommended maximum duration limit for unsecured investments to 35 days as a precautionary measure.

7.10. The key points relevant to investment property in the local area are:

- The office market has been subdued, with the exception of the gaming sector.

- The retail market has also been subdued, with little sign of rental values showing a sustained recovery and take up of space as there is a move to more of an online presence.

- A continued strong investment demand for industrial units drove yields down along with an increase in online sales resulting in a surge in demand from E-Commerce and third party logistics firms.

- Guildford's growing reputation as a UK gaming cluster, momentum picked up in the office market in the town centre. Out of town did not fare so well, but schemes are coming forward in the next few years which will boost town centre supply.

- Whilst the cost-of-living crisis has dominated the headlines, this has not been reflected in retail sales, and several new brands have arrived in Guildford, mainly in food and beverage operators. There are still a number of empty shops, although landlords are taking a 10-year approach when renting which shows continued confidence in the local market.

Approved strategy and budgets for 2022/23 - a summary

7.11. Council approved the 2022/23 Capital and Investment Strategy in February 2022.

7.12. The strategy showed an underlying need to borrow in 2022/23 for the General Fund (GF) capital programme of £90.3 million.

7.13. It set out how we would manage our cash. It allowed for internally managed investments for managing cash flow and externally managed and longer-term investments for our core cash (cash not required in the short or medium term). See Appendix 9 for background.

7.14. It also highlighted the need to continue to diversify our investment portfolio to reduce credit risk. The approved strategy set the minimum long-term credit rating of A- (or equivalent) for investments in counterparties to be determined as 'high credit' using the lowest denominator principal for the three main credit rating agencies.

7.15. Investment property risks were examined in the strategy.

Treasury management activity in 2022/23

7.16. The treasury position of 31 March 2023, compared to the previous year is:

		31 March 2022 (£'000)	**Average Rate**	**31 March 2023 (£'000)**	**Average Rate**
Fixed Rate Debt	PWLB	170,235	3.22%	179,599	3.22%
Temporary borrowing	LAs	138,500	0.17%	115,000	0.51%
Total Debt		**308,735**	**1.73%**	**294,599**	**2.51%**

Fixed Investments		(99,400)	0.41%	(75,403)	0.97%
Variable Investments		(42,150)	0.28%	(7,029)	1.93%
Externally managed		(15,079)	3.94%	(15,434)	4.58%
Total Investments		**(156,629)**	**1.05%**	**(97,867)**	**1.62%**
Net Debt / (Investments)		**152,106**		**196,732**	

7.17. PWLB is the Public Works Loans Board and is a statutory body operating as an executive of HM Treasury. Its function is to lend money from the National Loans Fund to local authorities and other prescribed bodies.

7.18. The above table shows that net debt has increased overall, which is due to more investments matured than the increase in borrowing.

7.19. We have reduced short-term borrowing in favour of longer term borrowing for WUV.

7.20. We took out another £10 million from the PWLB Infrastructure loan for WUV. The interest on these loans will be capitalised to the scheme so that the borrowing can be repaid from capital receipts generated on the sale of land as part of the scheme. We have taken out a total of £32.8 million of the £100 million infrastructure rate facility.

7.21. We budgeted an investment return of 1.69% for the year and achieved 1.62%.

7.22. The Council’s budgeted investment income was £1.278 million, and actual interest was £1.878 million (£600,000 higher). This is mostly due to having more cash due to the slippage in the capital programme.

7.23. Our budgeted debt interest payable was £5.987 million. £5.052 million relates to the HRA. The outturn was £5.471 million (£4.799 million for the HRA, and £448,000 WUV which was capitalised).

7.24. All our external funds are distributing funds, and they achieved an overall weighted average return of 4.27%, split as follows:

Fund	Balance at 31 March £000	Average return	Type of fund
Aegon	2,406,382	2.43%	Equity focussed
Schroders	732,590	6.08%	Equity focussed with at least 80% on FTSE all share companies
UBS	1,767,992	5.49%	Investments in SMEs up to a max of £2,000
Funding Circle	96,005	5.17%	Multi asset
RLAM	2,132,764	4.92%	Global bond fund
Fundamentum	1,880,000	4.93%	Supported housing
CCLA	6,418,609	4.58%	Property

7.25. Our external fund portfolio is diverse, and we invest in a range of products and markets. The capital value of the funds can go up as well as down. Across all funds still held at the end of the year, there was a capital loss of £2.03 million, the biggest movement was on the CCLA fund with a loss of £1.25 million.

7.26. We are invested in bond, equity, multi-asset, and property funds. We invest what we call our “core cash” in these funds. Core cash is our cash backed reserves that we know we will not need for liquidity purposes, and we can therefore afford to keep the investment duration longer in a more volatile market to achieve good income returns.

7.27. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority’s medium to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

7.28. The Council also invested more in our subsidiaries and now holds £10.12 million of equity investment in Guildford Borough Council Holdings Ltd and £15.1 million of loans in North Downs Housing Ltd. We are now at the maximum approved level in the company. It has been operating for 5-years and is undergoing a review to ascertain how it has performed over that time frame against its aims, objectives and business plan.

7.29. The Council charges 5.5% on the loan to North Downs Housing Ltd. Up until September 2022 interest was rolled up into the loan and is payable from that date. Income has been accrued in the Council's accounts with a provision set up for non-payment as a prudent measure.

7.30. The equity investment in Guildford Borough Council Holdings Ltd will be subject to a dividend if a profit is achieved.

Capital Programme

7.31. The actual underlying need to borrow for the year, and the amount of internal borrowing actually taken, for the GF capital programme was £140 million, which is lower than budgeted of £150 million because of slippage in the capital programme, and also unbudgeted for capital contributions received. We will continue to support service managers with the scheduling of schemes in the capital programme to ensure it is kept up to date when project timescales change.

7.32. The Council must charge a Minimum Revenue Provision (MRP) on its internal borrowing, which is setting aside cash from council tax to repay the internal borrowing. MRP charged to the revenue account for the year was £1.53 million, against an original budget of £1.52 million.

7.33. Our overall underlying need to borrow, as measured by the Capital Financing Requirement (CFR) was £381 million (£182 million relates to the GF).

7.34. MRP is charged the year after the internal borrowing occurred. During the budget process we adjust the MRP to allow for slippage so as not to over budget.

Benchmarking and Performance Indicators

7.35. Arlingclose provide benchmarking data across their clients ("client universe"). It highlights the effect of changes in our investment portfolio and compares the basis of size of investment, length of investment and the amount of credit risk taken.

7.36. The benchmarking shows a snapshot of our average running yield on all investments, also split between internally managed and externally managed. The latest benchmarking data (at 31 March 2023), shows our average rate of investments for our total portfolio as being 2.60% against the client universe of 3.66%. The table shows that we have underperformed our investments compared to the client universe which is due to us having lower investments in the year than previously.

Benchmark	**Guildford**	**Client Universe**
Internally managed return	2.33%	3.67%
Externally managed (return only)	4.19%	3.93%
Total Portfolio	2.60%	3.66%
% of investments subject to bail in	21%	59%
No. of counterparties/funds	30	12

7.37. The difference in our return as part of the benchmarking (2.60%) and our own return (1.62%) is due to a different calculation in the way Arlingclose put the benchmarking return together.

7.38. The table above shows how far the Council has come to mitigate bail in risk – closing the year at 21% of investments subject to bail in. This percentage will change during the course of the year depending on the level of cash we have and what we are invested in.

7.39. One of our key areas in our treasury strategy is to maintain diversification in the portfolio. The number of counterparties and funds we are investing in are far higher than the client universe and shows that we have achieved our aim. This level of diversification will change at different points in the year, however.

<u>Non-treasury investments</u>

7.40. Appendix 2 sets out the Council investment property fund portfolio report for 2022/23. The key points are summarised below:

Sector	No. of assets	Sub-category	No. of assets
Office	6		
Industrial	68		
Retail	9	Shops Shopping centres	7 2
Alternatives	17	Nightclub/pub Petrol station Car Park Education/Community Barn Restaurant Water treatment works Theatre	3 1 4 3 2 2 1 1
TOTAL	**100**		

7.41. Fund statistics: the fund was valued at circa £178 million with a rent roll of £9.1 million from 100 properties across 4 sectors, representing a total return of 5.7% gross yield.

7.42. The performance shows that our portfolio has performed better than our benchmark.

7.43. In response to the PWLB's new rules during 2020/21, which have been reaffirmed in the CIPFA codes of practice, we have amalgamated the asset investment fund into the strategic acquisition fund and will be assessing all potential acquisitions against the strategic property acquisition procedure approved by the Executive in January 2021. We are only looking to invest in the Borough as per our policy and only for strategic or regeneration purposes.

General Fund Capital Programme

7.44. Appendix 3 sets out the actual expenditure on capital schemes, compared to the updated estimates, together with reasons for variances. Overall, we spent £122.1 million (78%) less on capital schemes than we originally estimated and £134.3 million (79%) less than the revised estimate, the schemes with more than £1 million variance to budget relate to:

- WUV – spend in 2023/24
- Ash Road Bridge – spend in 2023/24
- Midleton Industrial Estate – spend in 2023/24
- Property acquisitions – reprofiled into the future
- Shaping Guildford's Future – reprofiled into the future
- Vehicle replacement programme – spend in 2023/24
- Investment into North Downs Housing, both loan and equity – reprofiled into the future
- Guildford West station – reprofiled into the future

7.45. There are significant variations on other approved schemes under £1 million, as detailed in the appendix.

7.46. The table below summarises our capital expenditure and variances in the year:

	Original estimate (£m)	**Revised estimate (£m)**	**Actual (£m)**	**Variance to revised (£m)**
GF approved programme	111.9	122.9	34	88.9
GF provisional programme	44.5	43.7	0	43.7
GF Schemes financed from reserves	1.6	2.7	1.1	1.6
Total	**158**	**169.3**	**35.1**	**134.2**

Compliance with treasury and prudential indicators

7.47. The CIPFA prudential code and treasury management code of practices require local authorities to set treasury and prudential indicators.

7.48. The objectives of the Prudential Code, and the indicators calculated in accordance with it, provide a framework for local authority capital finance that will ensure:

- Capital expenditure plans are affordable,
- All external borrowing and other long-term liabilities are within prudent and sustainable limits,
- Treasury management decisions are taken in accordance with professional good practice and
- In taking the above decisions, the Council is accountable by providing a clear transparent framework.

7.49. The Prudential Code requires the Council to set a number of prudential indicators for the following and two subsequent financial years, and to monitor against the approved indicators during the year. We can revise these indicators during the year but need full Council approval.

7.50. Officers can confirm that the Council has complied with its prudential indicators for 2022/23, (see Appendix 1 for the outturn figures), its treasury management policy statement and its treasury management practices.

7.51. We have adhered to the approved treasury management strategy by:

- Financing of capital expenditure from government grants, usable capital resources, revenue contributions and cash flow balances rather than from external borrowing

- Taking a prudent approach in relation to the investment activity in the year, with priority given to security and liquidity over yield

- Maintaining adequate diversification between counterparties

- Forecasting and managing cash flow to preserve the necessary degree of liquidity.

Risks and performance

7.52. The Council considers security, liquidity, and yield, in that order, when making investment decisions.

7.53. The Council has complied with all the relevant statutory and regulatory requirements, which limit the level of risk associated with its treasury management activities. In particular, its adoption and implementation of both the prudential code and treasury management code of practice means our capital expenditure is prudent, affordable and sustainable, and our treasury practices demonstrate a low-risk approach.

7.54. Short-term interest rates and likely movements in these rates, along with our projected cash balances, determine our anticipated investment return. These returns can be volatile and whilst, loss of principal is minimised through the annual investment strategy, accurately forecasting future returns can be difficult.

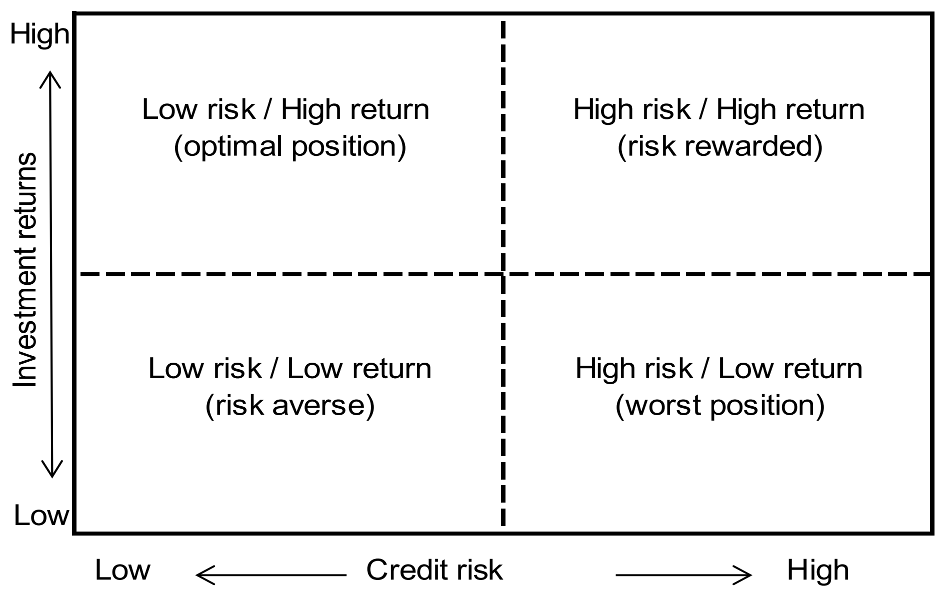
7.55. Under accounting rules, if the Council were to lose any of its investments, the GF will carry the loss, even if the cash lost is HRA cash. Interest is given to the HRA as per the Item 8 calculation as a set calculation for councils.

7.56. The Council invests in externally managed funds. These are more volatile than cash investments but can come with a higher return. Officers continually review our funds to ensure they still have a place in the portfolio. We view most of our funds over a three to five-year time horizon to take account of their potential volatility – they are not designed to be short-term investments, despite being able to get the money from them quickly.

Credit developments and credit risk management during the year

7.57. Security of our investments is our key objective when making treasury decisions. We therefore manage credit risk through the limits and parameters we set in our annual treasury management strategy. One quantifiable measure of credit quality we use is to allocate a score to long-term credit ratings. Appendix 8 explains the scoring in more detail.

7.58. This is a graphical representation used in the Arlingclose benchmarking:



7.59. Typically, we should aim to be in the top left corner of the chart where we get a higher return for lower risk. In the actual benchmarking, for average rate versus credit risk (value weighted) we were above the average of all clients and were in the top left box towards the middle vertical line. For time weighted we are well within the top left box (see Appendix 6 for the two charts).

7.60. We set our definition of high credit quality as a minimum long-term credit rating of A-, which attracts a score of 7. The lower the score, the higher the credit quality of the investment portfolio.

7.61. The table below shows that at each quarter date, the weighted average score of our investment portfolio, on a value weighted and a time weighted basis is well within our definition of high credit quality, ending the year at 4.88 (A+) and 3.07 (AA).

Date	Value Weighted Avg Credit Risk Score	Value Weighted Avg Credit Rating	Time Weighted Avg Credit Risk Score	Time Weighted Avg Credit Rating	Average Life (days)
31-03-22	4.39	AA-	4.36	AA-	214
30-06-22	4.68	A+	4.97	A+	237
30-09-22	4.59	A+	3.93	AA-	265
31-12-22	4.67	A+	3.47	AA	223
31-03-23	4.88	A+	3.07	AA	192

7.62. We have maintained security throughout the year within the portfolio on a value weighted basis and are slightly riskier than the client universe of 4.71/A+. We are less risky on a time weighted basis than the client universe of 4.56/A+ and have significantly reduced our risk over the year in our portfolio. We do have a much longer duration (ours is 192 days compared to the universe of 12 days) and this is due to us having a large portion of investments of covered bonds in the portfolio, which can be sold on the secondary market if required. The longer duration is with AAA rated covered bonds, so this has enhanced the security of the portfolio.

Minimum Revenue Provision (MRP)

7.63. The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2003 (SI 2003 No 414) place a duty on local authorities to make a prudent provision for debt redemption. Making an MRP reduces the Capital Financing Requirement (CFR) and leaves cash available to replenish reserves used for internal borrowing or making external debt repayments. There are three options for applying MRP available to us:

- Asset life method
- Depreciation method
- Any other prudent method

7.64. Any other prudent method means we can decide on the most appropriate method depending on the capital expenditure.

7.65. The latest MRP policy was approved by Council in February 2022, and stated that:

- The Council will use the asset life method as its main method, but will use annuity for investment property,
- In relation to expenditure on development, we may use the annuity method starting in the year after the asset becomes operational,
- Where we acquire assets ahead of a development scheme, we will charge MRP based on the income flow of the asset or as service benefit is obtained, and will not charge MRP during construction, refurbishment or redevelopment,
- We will apply a life of 50 years for the purchase of land and schemes which are on land (for example transport schemes)
- Where loans are made to other bodies for their capital expenditure, no MRP will be charged, where the other body is making principal repayments of that loan as well as interest. However, the capital receipts generated by the loan principal repayments on those loans will be put aside to reduce the CFR,
- For investments in shares classed as capital expenditure, we will apply a life related to the underlying asset in which the share capital has been invested,

7.66. The unfinanced capital expenditure in 2022/23 of £26 million related to Weyside Urban Village project, loan/equity to North Downs Housing Ltd, Midleton, Walnut Bridge, and transport schemes MRP will be chargeable to the revenue account the later of the next financial year or when the asset goes into use.

External service providers

7.67. The Council reappointed Arlingclose as our treasury management advisers in March 2022 ending on 31 March 2027. The Council is clear what services it expects and what services Arlingclose will provide under the contract.

7.68. The Council is clear that overall responsibility for treasury management remains with the Council.

Training

7.69. CIPFA's revised treasury management code of practice suggests that best practice is achieved by all councillors tasked with treasury management responsibilities, including scrutiny of the treasury management function, receiving appropriate training relevant to their needs and that they should fully understand their roles and responsibilities.

7.70. The MHCLG's revised investment guidance also recommends that a process is in place for reviewing and addressing the needs of the Council's treasury management staff for training in investment management.

7.71. Following the revised CIPFA code of practice and the stated requirement that a specified body be responsible for the implementation and regular monitoring of the treasury management policies, we use the Corporate Governance and Standards Committee to scrutinise the treasury management activity of the Council.

7.72. Training on treasury management will be given to new councillors and in particular the group leaders and members of the Corporate Governance and Standards Committee.

7.73. Officer training is undertaken on a regular basis, by attending workshops held by Arlingclose, and seminars or conferences held by other bodies, such as CIPFA. On the job training and knowledge sharing are undertaken when required. Those involved in treasury management are either a fully qualified accountant, or AAT qualified. The Lead Specialist for Finance, and Deputy s151 officer holds the 'Certificate in International Treasury Management for Public Finance' qualification, which is a joint qualification between the ACT (Association of Corporate Treasurers) and CIPFA.

7.74. Certain officers of the Council are deemed professional by the financial industry and therefore demonstrate the level of skill and expertise in the treasury function to ensure the Council retains professional status under the MiFID II regulations.

8. Consultations

8.1. Officers have consulted with the Lead Councillor for Finance and Property.

<u>Corporate Governance & Standards Committee – 16 November 2023</u>

8.2 At its meeting on 16 November 2023, the Corporate Governance and Standards Committee considered this report and commended it to the Executive at its meeting on 23 November, subject to the following comments made by the Committee during its debate:

- In relation to the Council's investment property fund portfolio, it was noted that demand for light industrial units was particularly high, and this element of the portfolio had performed considerably better than other parts of the property market within Guildford.
- Concerns were expressed regarding ongoing slippage in the capital programme and over provision in the budget for MRP. The Committee noted that MRP was calculated on a scheme-by-scheme basis, and it was only applicable when a capital scheme becomes operational. Where there was slippage, the impact on the budget for MRP was reduced.

- In response to a question as to the extent to which the Council was receiving a good return on its investments, and whether the Council should continue to hold certain investments, the Committee noted that a review of all investments would be taking place imminently.
- In relation to key points relevant to investment property in the local area, it was suggested that the office and retail markets were “stagnant” rather than “subdued”. Clarification was sought in respect of whether the comment in the report that landlords were “taking a 10-year approach when renting” meant that landlords were actually seeking 10-year leases.
- Clarification was also sought as to whether town centre retail vacancies were significantly down, and running at a lower vacancy rate than the south-east average.
- In response to a question as to the approximate proportion of the Public Works Loan Board (PWLB) debt related to assets acquired to increase rental incomes and therefore would no longer be allowed under the rules, it was confirmed that none of it was used for such purposes. It related mainly to the borrowing on the Housing Revenue Account and to the Weyside Urban Village project. The Council had used its own resources to finance the acquisition of investment properties.

9. Key Risks

9.1. This is a backward-looking report, and the mitigation of risks has been highlighted throughout the report.

10. Financial Implications

10.1. The detailed financial implications are summarised above and in Appendix 1

11. Legal Implications

11.1. A variety of professional codes, statutes and guidance regulate the Council’s treasury management activities. These are:

- The Local Government Act 2003 (“the Act”) provides the powers to borrow and invest. It also imposes controls and limits on these activities.

- The Act permits the Secretary of State to set limits on either the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken. There are no current restrictions.

- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 - Statutory instrument 3146 (2003) (“The SI”), as amended, develops the controls and powers within the Act.

- The SI requires the Council to undertake any borrowing with regard to the prudential code. The prudential code requires indicators to be set – some of which are limits – for a minimum of three forthcoming years.

- The SI also requires the council to operate the treasury management function with regard to the CIPFA treasury management code of practice.

- Under the terms of the Act, the Government issued “investment guidance” to structure and regulate the Council’s investment activities. The emphasis of the guidance is on the security and liquidity of investments.

12. Human Resource Implications

12.1. There are no human resource implications arising from this report other than the training discussed in section 14, which is already in place.

13. Equality and Diversity Implications

13.1. This duty has been considered in the context of this report and it has been concluded that there are no equality and diversity implications arising directly from this report.

14. Climate Change/Sustainability Implications

14.1. There are no direct implications.

15. Summary of Options

15.1. We could have invested in lower credit quality investments, but this would have increased our risk exposure.

15.2. We could have borrowed longer-term for our capital programme but would have suffered a cost of carry due to the slippage in the programme.

16. Conclusion

16.1. The Council has complied with the objectives of the CIPFA treasury management code of practice by maintaining the security and liquidity of its investment portfolio.

16.2. We maintained the security of our investment portfolio and did not borrow long-term in advance of need.

16.3. We have also complied with the requirements of the prudential code by setting, monitoring and staying within the prudential indicators set, except the variable limit on net investments due to higher investment balances than when the indicator was set.

17. Background Papers

- CIPFA Treasury Management in the Public Services – Code of Practice and Cross Sectoral Guidance Notes (2021 edition)
- CIPFA Treasury Management in the Public Services – Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (2021 edition)
- CIPFA the Prudential Code for Capital Finance in Local Authorities (2021 edition)

- CIPFA the Prudential Code for Capital Finance in Local Authorities – Guidance Notes for Practitioners (2021 edition)
- Capital and Investment Strategy 2022/23

18. Appendices

Appendix 1: Treasury management activity, treasury and prudential indicators 2022/23

Appendix 2: Investment property fund portfolio report 2022/23

Appendix 3: capital programme at 31 March 2023

Appendix 4: schedule of investments at 31 March 2023

Appendix 5: economic background – a commentary from Arlingclose

Appendix 6: benchmarking graphs

Appendix 7: credit score analysis

Appendix 8: credit rating equivalents and definitions

Appendix 9: background to externally managed funds

Appendix 10: glossary