

Treasury Strategy Statement 2020-21

Cabinet

Date: 5th February 2020

Authors: Cabinet Member for Finance, Education and Skills
Corporate Director of Finance and Assets

Wards: All

Parishes Affected: All

1. Purpose and Reasons

- 1.1 To report Treasury Management Strategy for 2020/21, including Prudential Indicators up to 2024/25, the Annual Investment Strategy, and the Minimum Revenue Provision Policy Statement.
- 1.2 The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities.

2. Recommendations

Cabinet is recommended to (Minute for Confirmation):

- 2.1 Recommend the Treasury Management Strategy, Minimum Revenue Provision Policy and Prudential Indicators, as set out in Appendix 1, for approval by Full Council on 20th February 2020.

3. Detail

Treasury Strategy

- 3.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 3.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 3.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or

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Treasury Strategy Statement 2020-21

Cabinet

Date: 5th February 2020

the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

- 3.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

- 3.5 CIPFA defines treasury management 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.”

Reporting requirements

- 3.6 The Council is required to receive and approve, as a minimum, three treasury management reports and a capital strategy report each year.

Capital Strategy

- 3.7 **Capital Strategy (Part of the Capital Programme Report on this agenda)**

- 3.8 The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

3.8.1 A high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.

3.8.2 An overview of how the associated risk is managed, and

3.8.3 The implications for future financial sustainability.

- 3.9 The aim of this 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.

- 3.10 This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the core treasury function under security, liquidity and yield principles, and the policy and commercialism

Treasury Strategy Statement 2020-21

Cabinet

Date: 5th February 2020

investments usually driven by expenditure on an asset. The capital strategy will show:

- 3.10.1 The corporate governance arrangements for these types of activities;
 - 3.10.2 Any service objectives relating to the investments;
 - 3.10.3 The expected income, costs and resulting contribution;
 - 3.10.4 The debt related to the activity and the associated interest costs;
 - 3.10.5 The payback period (MRP policy);
 - 3.10.6 For non-loan type investments, the cost against the current market value;
 - 3.10.7 The risks associated with each activity.
- 3.11 Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.
- 3.12 Where the Council has borrowed to fund any non-treasury investment, there should also be an explanation of why borrowing was required and why the MHCLG Investment Guidance and CIPFA Prudential Code have not been adhered to.
- 3.13 If any non-treasury investment sustains a loss during the final accounts and audit process, the strategy and revenue implications will be reported through the same procedure as the capital strategy.
- 3.14 To demonstrate the proportionality between the treasury operations and the non-treasury operation, high-level comparators are shown throughout this report.

Treasury Management reporting

- 3.15 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.
- 3.16 **Treasury Strategy Statement** (this report) - The first, and most important report is forward looking and covers:
- 3.16.1 The capital plans, (including prudential indicators);
 - 3.16.2 A minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);

Treasury Strategy Statement 2020-21

Cabinet

Date: 5th February 2020

3.16.3 The treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and

3.16.4 An investment strategy, (the parameters on how investments are to be managed).

3.17 **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

3.18 **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny

3.19 The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee.

Treasury Management Strategy for 2020/21

3.20 The strategy for 2020/21 covers two main areas:

3.21 **Capital issues**

3.21.1 The capital expenditure plans and the associated prudential indicators;

3.21.2 The minimum revenue provision (MRP) policy.

3.22 **Treasury management issues**

3.22.1 The current treasury position;

3.22.2 Treasury indicators which limit the treasury risk and activities of the Council;

3.22.3 Prospects for interest rates;

3.22.4 The borrowing strategy;

3.22.5 Policy on borrowing in advance of need;

3.22.6 Debt rescheduling;

3.22.7 The investment strategy;

3.22.8 Creditworthiness policy; and

3.22.9 The policy on use of external service providers.

Treasury Strategy Statement 2020-21

Cabinet

Date: 5th February 2020

- 3.23 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

Training

- 3.24 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. A members training session was held on the 17th September 2019 and further training will be arranged as required.
- 3.25 The training needs of treasury management officers are kept under review, and officers attend training events and seminars held by CIPFA and the Council's treasury advisers.
- 3.26 The scope of investments within the Council's operations now includes both conventional treasury investments, (the placing of residual cash from the Council's functions), and more commercial type investments, such as investment properties. The commercial type investments require specialist advisers, and the Council seeks independent expert advice in relation to this activity.

4. Alternative Options

- 4.1 Any alternative options for specific areas are set out within the report.

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

- 5.1 These proposals ensure that a robust financial framework is in place to provide governance for the treasury function, thereby seeking to safeguard the Council from extremes within the financial markets.

Legal and Human Rights Implications

- 5.2 All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.
- 5.3 The legal department have reviewed the documentation pack for the UK Municipal Bond Agency and their advice has been provided to the Lead Member for Finance

Climate Change Impact

- 5.4 The proposals would not bring a change in service delivery and Officers believe that there is no expected effect on the Council's carbon footprint.

Treasury Strategy Statement 2020-21

Cabinet

Date: 5th February 2020

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

- 5.5 There are no such direct implications.

Diversity Impact Assessment

- 5.6 A Diversity Impact Assessment (DIA) is not relevant to this report as this is a regulatory report, which covers the Councils treasury management processes and doesn't directly affect any services.

Risk Management

- 5.7 None other than those highlighted in the body of the report.

6. Consultees

- 6.1 The Corporate Director of Finance and Assets (Section 151 Officer) and Chief Legal Officer (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

- 7.1 None

8. Appendices

(The appendix and annexes are available online at the Council's website or on request from Committee and Member Services committeeservices@swindon.gov.uk)

- 8.1 Appendix 1 - Treasury Management Strategy 2020/21

8.1.1 Annex 1 - The Capital Prudential Indicators

8.1.2 Annex 2 - Credit and Counterparty Risk Management, Specified and Non- Specified Investments