

Treasury Strategy Statement 2018/19

Audit Committee

Date: 6th February 2018

Author: Cabinet Member for Finance and Commercialisation
Corporate Director, Resources and Growth

Wards: All

Parishes Affected: All

1. Purpose and Reasons

- 1.1 To report the Treasury Management Strategy for 2018/19, including Prudential Indicators up to 2020/21, 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:

- 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 22nd February 2018.

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. Available cash (resulting from the Council's day-to-day cash management processes) is 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 needs 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 temporarily in lieu of new loans.
- 3.3 Treasury management is defined by the CIPFA Code of Practice for Treasury Management as the:

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“management of the local authority’s 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”.

- 3.4 The Treasury Management Strategy for 2018/19 has not altered significantly from the 2017/18 strategy, which was reviewed and agreed by Council in February 2017 then reported to Cabinet mid-year (Council Minute 87, 2017/18 and Cabinet Minute 62, 2017/18 refer).
- 3.5 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates, and actuals. Under the Council’s Constitution, the Audit Committee scrutinises the treasury management activities undertaken by the Director of Finance and his team, including compliance with agreed policies.
- 3.6 **A Treasury Management Strategy Statement** (This report) - The first, and most important report covers:
- 3.6.1 The Capital spending plans (including prudential indicators) based on Cabinet and Council decisions;
- 3.6.2 A Minimum Revenue Provision (MRP) Policy (which details how capital expenditure funded by borrowing is charged to the revenue budget over time);
- 3.6.3 The Treasury Management Strategy, as set out in Appendix 1, which details how the investments and borrowings are managed overall, including treasury indicators; and
- 3.6.4 An Investment Strategy, which sets the parameters around how investments are to be managed on a day-to-day basis.
- 3.7 **A Mid-Year Treasury Management Report** – This updates Members on Treasury Management performance for the first half of the financial year.
- 3.8 **An Annual Treasury Management Report** – This details the full year Treasury activity and performance.
- 3.9 The Treasury Management Strategy for 2018/19 covers three main areas:
- 3.9.1 Capital Issues:
- 3.9.2 The capital plans and the prudential indicators;
- 3.9.3 The MRP strategy.
- 3.10 Treasury Management issues covered are:
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Further information on the subject of this report can be obtained from Ian Burbidge on Direct Dial No.07769 281641, or Email imburbidge@swindon.gov.uk.

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- 3.10.1 The current treasury position;
- 3.10.2 The treasury indicators which will limit the treasury risk and activities of the Council;
- 3.10.3 The prospect for interest rates;
- 3.10.4 The borrowing strategy;
- 3.10.5 The policy on borrowing in advance of need;
- 3.10.6 Debt rescheduling;
- 3.10.7 The investment strategy;
- 3.10.8 The creditworthiness policy; and
- 3.10.9 The policy on use of external service providers.
- 3.11 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

Investment Returns

- 3.12 The annual Investment Strategy details priorities, which follow both CIPFA and DCLG guidance, when making Investments of surplus funds as
 - 3.12.1 Security first (i.e. ensuring we get our money back),
 - 3.12.2 Liquidity second (we get it back when we need it),
 - 3.12.3 Return on investment (we get the best possible return on our money).
- 3.13 The impact of this guidance is that the potential return on investments is secondary to security and liquidity and these parameters have a significant impact on the interest rate achieved by the Council in comparison with some other bodies and individuals as it restricts both to whom the Council can lend, and for how long.
- 3.14 The current Investment Strategy currently restricts investments to a maximum of two years. The Policy also recommends that investments greater than 1 year are limited to £20m in total and £10m to any one Counterparty. The exact length of any investment will, as always, be based on rates available at that time, interest rate forecasts, and forward liquidity requirements.
- 3.15 The Council currently has an investment in the Local Authority Property Fund (LAPF) of £15m, any proposals to increase this level of investment in either this fund or a similar multi asset fund will be brought to Cabinet for specific approval.

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- 3.16 The Council is part of a benchmarking club, which consists of around 12 to 13 other public bodies in the West and Wales, including a variety of Local Authorities, Fire Authorities etc. Investment returns are regularly checked against the other public bodies in this group, and used to inform future investment strategies.

Changes to the Treasury Management and Prudential Codes

- 3.17 A revised Prudential Code was issued at the end of December, this requires a capital strategy to be produced and a change to a number of the key performance indicators.
- 3.18 The revised Prudential Code has introduced the need for the Council to adopt a Capital Strategy and CIPFA have recognised that it may not be possible to fully adopt this new requirement until 2019/20. The Capital Strategy will need to include the following:
- 3.18.1 Capital Expenditure – governance, long term plans and asset management planning
 - 3.18.2 Debt, Borrowing and Treasury Management – external debt projections, MRP arrangements, authorised limit and treasury management processes (Appendix 1 to this report)
 - 3.18.3 Commercial Activity - An overview of the authorities approach covering due diligence and risk appetite.
 - 3.18.4 Other long term liabilities – an overview of the governance arrangements, monitoring and risk management.
 - 3.18.5 Knowledge and Skills of the expertise available to the Council when making decisions.
 - 3.18.6 Links to existing policies of the Council regarding asset and risk management.

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 have been reflected in the body of the report.

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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.

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

- 5.3 There are no such direct implications.

Diversity Impact Assessment (DIA)

- 5.4 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

- 5.5 There are no direct risks arising from this report.

6. Consultees

- 6.1 The Director of Finance (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers

- 7.1 None

8. Appendices

- 8.1 Appendix 1 – Treasury Management Strategy

9. Key Decision/Decision in Cabinet Work Programme

- 1.1. This is not a key decision for the Cabinet (as the approval of the full Council is required) it is included in the Cabinet Work Programme and Forward Plan for February 2018.