

Treasury Strategy Statement 2019-20

Cabinet

Date: 6th February 2019

Authors: Cabinet Member for Finance

Director of Finance

Wards: All

Parishes Affected: All

1. Purpose and Reasons

- 1.1 To report the Treasury Management Strategy for 2019/20, including Prudential Indicators up to 2023/24, 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 21st February 2019.
- 2.2 Recommend the terms of the UK Municipal Bond Agency, as set out in Appendix 2, for approval by Full Council on 21st February 2019.
- 2.3 Approve the loan facilities outlined in paragraph 3.23 below to Swindon Music Services.

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

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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 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.”
- 3.6 Revised reporting is required for the 2019/20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans, and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately as part of the Capital programme 2019/20 report. The Treasury Management Strategy for 2018/19 was reviewed and agreed by Council in February 2018 then reported to Cabinet mid-year (Council Minute 84, 2018/19 and Cabinet Minute 50, 2018/19 refer).

Reporting requirements

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

Capital Strategy

- 3.8 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report, a capital strategy report, which will provide the following:

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- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed
 - 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 investments usually driven by expenditure on an asset.

Treasury Management reporting

- 3.11 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.
- 3.12 **Treasury Strategy Statement** (this report) - The first, and most important report is forward looking and covers:
- The capital plans, (including prudential indicators);
 - A minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
 - The treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
 - An investment strategy, (the parameters on how investments are to be managed).
- 3.13 **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.
- 3.14 **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.
- 3.15 The above reports are required to be adequately scrutinised before being recommended to the Council. 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.

Treasury Management Strategy for 2019/20

- 3.16 The strategy for 2019/20 covers two main areas:
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Capital issues

- The capital expenditure plans and the associated prudential indicators;
- The minimum revenue provision (MRP) policy.

Treasury management issues

- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- Debt rescheduling;
- The investment strategy;
- Creditworthiness policy; and
- The policy on use of external service providers.

- 3.17 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

- 3.18 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 15th October 2018 and further training will be arranged as required.
- 3.19 The training needs of treasury management officers are periodically reviewed.

UK Municipal Bonds Agency

- 3.20 The Council is considering whether to join the UK Municipal Bonds Agency's (the "UK MBA") borrowing framework (the "Framework"). The intention of the Framework is to leverage the collective borrowing power/financial status of the participating authorities to obtain loans at a rate that is preferential to the rate offered by the Public Works Loan Board.
- 3.21 UK MBA is a PLC established by the LGA and, at the time that it produced the Framework supporting documentation, it had 56 local authority shareholders.
- 3.22 The Framework is underpinned by a requirement for each participating authority to enter into a joint and several guarantee (the "Guarantee") and the ability of UK MBA to require contribution payments from each participating authority (other than the defaulting authority) in the event of a default in repayment by one of the participating authorities. Appendix 2 contains a more

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detailed summary of how the UKMBA will operate and the implications for the Council.

Loan to local charity

- 3.23 As allowed for within this strategy it is proposed to make a loan to Swindon Music Service, to be repaid over a 3 year period. The loan will comprise 2 elements

3.23.1 A cash flow loan facility of £50k repayable over 3 years to enable them to transition from a Council service to a separate charitable trust, (subject to interest)

3.23.2 A bond facility of £45k to mitigate any pension fund liabilities, this bond will be held in escrow by the Council, (no interest will be charged on this element).

3.23.3 In both cases the charity will make quarterly payments to cover their liability.

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

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

- 5.4 There are no such direct implications.

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Diversity Impact Assessment

- 5.5 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

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

6. Consultees

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

7. Background Papers

- 7.1 None

8. Appendices

- 8.1 Appendix 1 - Treasury Management Strategy 2019/20

8.1.1 Annex 1 - The Capital Prudential Indicators 2019/20 – 2021/22

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

- 8.2 Appendix 2 - UK Municipal Bonds Agency's Framework Agreement, And Joint And Several Guarantee

9. Key Decision/Decision in Cabinet Work Programme

- 9.1 This is not a key decision and is included in the Cabinet Work Programme for February 2019.