

Report of	Assistant Director, Policy & Corporate	Author	Margaret Donaldson Interim Finance Manager ☎ 282338
Title	Treasury Management Strategy 2019/20		
Wards affected	Not Applicable		

1. Executive Summary

- 1.1. 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 line with the Treasury Management Policy, which includes the Council's risk appetite for Treasury Management Investments.
- 1.2. The second main function of the treasury management service is the funding of the Council's capital plans, in line with the Council's Capital Investment Strategy. 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 investment obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3. The Council's Treasury Management arrangements are guided by various statutory requirements and CIPFA guidance.

2. Action Required

- 2.1 The Panel is asked to review the 2019/20 Treasury Management Strategy Statement and associated Prudential Indicators, Minimum Revenue Provision Policy Statement and Annual Investment Strategy prior to it being considered by Cabinet and Full Council as part of the 2019/20 budget report.

3. Reason for Scrutiny

- 3.1. The Council agreed to adopt the revised CIPFA Treasury Management in the Public Services Code of Practice on 17 February 2017. The Code requires the Council to approve an annual Treasury Management Strategy Statement

(TMSS), which should be submitted for scrutiny prior to the start of the year to which it relates, and to keep treasury management activities under review.

- 3.2. Under the terms of the 2017 code, Full Council is required to adopt the TMSS annually, as part of the budget strategy reports and associated Medium Term Financial Plan.

4. Background

- 4.1 CIPFA defines treasury management as: “The management of the organisations 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.”

- 4.2 The strategy for 2019/20 covers the following Capital and Treasury Management issues:

- the economic background and prospects for interest rates under which the Council’s Treasury Management Strategy is set;
- the current treasury position;
- the capital plans and the prudential indicators;
- treasury indicators which limit the treasury risk and activities of the Council;
- the borrowing strategy;
- the policy of borrowing in advance of need;
- debt rescheduling;
- the investment policy and strategy, and credit worthiness policy;
- The Minimum Revenue Provision Policy (MRP);
- reporting requirements;
- training requirements; and
- the policy on use of external service providers.

- 4.1 The CIPFA Code of Practice for Treasury Management in Public Services (the TM Code), the CIPFA Prudential Code 2017, statutory investment guidance 2018, and statutory MRP guidance 2018 and various associated guidance regulates the Council’s treasury activities.

5. Treasury Management Strategy Statement 2019/20

- 5.1 The Treasury Management Strategy Statement for 2019/20 is detailed in full at **Appendix A** and reflects the Council’s risk appetite for treasury management investments and borrowing. The Council’s risk appetite in relation to Non Treasury Management investments, such as investments in Local Authority Companies and Commercial property is included in the Capital Strategy.
- 5.2. The strategy sets out that the Council’s borrowing requirement over the coming years. The Council has agreed long term borrowing to support the Northern Gateway Sports scheme and purchase of waste vehicles. In addition separate reports on this agenda set out proposals relating to Council housing which include borrowing. The Council continues a policy of ‘internal borrowing’ to support the capital programme where it is possible. However, during the coming year it is likely that it will be necessary to borrow some funds externally.

Given some of this is expected to cover temporary borrowing it is expected that most new borrowing will be for short periods to take advantage of lower interest rates.

5.3 The key elements of the Strategy are as follows:

- The Council's current Treasury position is a net borrowing position, primarily as a result of the HRA primarily due to the Housing Revenue Account Subsidy reform in April 2012,
- The Strategy is informed by the Council's future capital investment plans, as detailed at **paragraph 4 of Appendix A**,
- The Council has a statutory duty to self-manage its external debt, ensuring borrowing is affordable in the long term. Therefore as required by CIPFA a set of Prudential Indicators and Minimum Revenue Provision policy is established and monitored throughout the year. These are detailed at **paragraphs 6 to 9 of Appendix A**,
- The Council's Investment strategy is included at **paragraph 10**; and includes the following changes to the policy:
 - For Non Specified investments, the limit for 2019/20 has been reduced to £10m and 25% of the total portfolio to more fully represent the risk associated with such investments; and
 - In preparation for a disorderly UK exit from the EU and the potential reduction in the UK's sovereignty rating, the minimum counterparty limit of AA- has been applied to all country counterparties.
- The required financial reporting arrangements are included in **paragraph 11 of Appendix A**.

6. Standard References

6.1. There are no particular references to the Strategic Plan; consultation or publicity, community safety, equality and health and safety.

7. Financial implications

7.1. The financial implications of the Strategy are included at **Appendix A**.

8. Risk Management Implications

8.1. The Council has identified a low risk appetite in managing its cash surpluses and follows the principal of ensuring that the principal investment is secure, with cash balances being available to finance operating and capital investment as required; before giving consideration to returns.

8.2 The day to day delivery of the TMSS is undertaken through a set of Treasury Management Practices which will be updated in February 2019.

Appendices

Appendix A – Treasury Management Strategy Statement 2019/20