



Treasury Management Strategy 2019/20

27 February 2019

Report of Cabinet

PURPOSE OF REPORT
This report sets out the 2019/20 treasury management framework for Council's approval.
This report is public

RECOMMENDATIONS:

- 1) That the Council notes the report and approves the Treasury Management Framework and associated Prudential Indicators as set out in Appendices 1 to 3.**

1 INTRODUCTION

- 1.1** The Code of Practice on Treasury Management ("the Code") requires that a strategy outlining the expected Treasury activity for the forthcoming 3 years be adopted, but that it be reviewed at least annually. It needs to reflect treasury policy and cover various forecasts and activities, in order to integrate the Council's spending and income plans with decisions about investing and borrowing.
- 1.2** Over the years, the regulatory and economic environment has changed significantly and this has led the sector to consider more innovative types of investment activity. Reflecting this, Members will be aware that changes have been made regarding the capital and treasury management framework.
- 1.3** The main objective of these changes was to respond to the major expansion of local authority investment activity over the last few years into the purchase of non-financial investments, particularly property. The updated framework distinguishes between treasury management activities and investment in non-financial investments.
- 1.4** Treasury management activities represent the placement of residual cash held in the bank resulting from the authority's day to day activities in relation to S12 Local Government Act investment powers. The Treasury Management Strategy, therefore deals principally with investments and borrowing.
- 1.5** Non-treasury investments would include commercial investments whereby the objective is primarily to generate capital or revenue resources. The resources thus generated would then help facilitate the delivery of council services.
- 1.6** The Prudential Code 2017 also introduced a new requirement to produce and annual capital strategy. This is an over-arching corporate document which deals with the key areas of strategic context, corporate priorities, capital investment ambition, available resources, affordability, capacity to deliver, risk appetite, risk management and

determining an appropriate split between non-financial and treasury management investments in the context of ensuring the long term financial sustainability of the authority. It sets the context for the Treasury Management and Investment Strategies. The Capital Strategy is included elsewhere on this agenda.

2 TREASURY MANAGEMENT FRAMEWORK

- 2.1 The proposed Strategy for 2019/20 to 2022/23 is set out at **Appendix 3**. The document contains the necessary details to comply with both the Code and Government investment guidance. Responsibilities for treasury management are set out at **Appendix 1** and the policy statement is presented at **Appendix 2**.
- 2.2 Key elements and assumptions feeding into the proposals are outlined below. These take account of Cabinet's existing budget proposals as far as possible at this stage. Should there be any changes to the budget, then the treasury framework would need to be updated accordingly before being referred on to Budget Council. For these reasons, delegated arrangements are being sought for finalising the framework.

2.3 Borrowing Aspects of the Strategy

- 2.3.1 Based on the draft budget, for now the physical borrowing position of the Council is projected to remain fairly constant over the next three years, allowing for scheduled repayments. It is also projected that the HRA capital programme will not require any additional borrowing.

2.4 Investment Aspects of the Strategy

- 2.4.1 Overall, the strategy put forward follows on from 2018/19 in that it is based on the Council having a comparatively low risk appetite with focus on high quality deposits. The 2019/20 strategy continues to use the same investment criteria as approved by Members in 2018/19.
- 2.4.2 The proposed investment aspects of the strategy for treasury activities continues to provide for investing with other local authorities given that these, in effect, are as secure as investing with the Government but they offer greater returns and from an Officer perspective, it makes sense to keep the benefits of such temporary cash investing/borrowing wholly within the local authority family.

3 Consultation

- 3.1 Officers have liaised with Link Asset Services, the Council's Treasury Advisors, in developing the proposed framework. The framework will be considered by Budget and Performance Panel at its meeting on 19 February.

4 Conclusion

- 4.1 The Treasury Management Framework must fit with other aspects of the budget, such as investment interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators.
- 4.2 Any alternative proposals or amendments to the proposed Strategy in **Appendix 3** would have to be considered in light of legislation, professional and economic factors, and importantly, any alternative views regarding the Council's approach to risk.

- 4.3 The proposed framework is based on the Council continuing to have a comparatively low risk appetite regarding the security and liquidity of investments. It is stressed though that in terms of treasury activity, as with many other functions, there is no risk free approach.

RELATIONSHIP TO POLICY FRAMEWORK

The proposed Treasury Management framework forms part of the Council's budget and policy framework, and fits into the Medium Term Financial Strategy.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

No direct implications arising.

FINANCIAL IMPLICATIONS

The Strategy is in support of achieving the borrowing cost and investment interest estimates included in the budget.

OTHER RESOURCE IMPLICATIONS

None directly arising.

SECTION 151 OFFICER'S COMMENTS

This report is in the name of the s151 Officer. His comments and advice are reflected in the report.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

None.

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