

Central Bedfordshire Council

Executive

5th February 2019

Treasury Management Strategy and Treasury Policy 2019-20

Report of: Cllr Richard Wenham, Deputy Leader and Executive Member for Resources
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This report relates to a Key Decision

Purpose of this report

1. To facilitate effective financial management and planning, this report outlines the Treasury Management Policy, Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Policy for 2019/20. Central Bedfordshire Council agrees its Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Policy annually and, as a minimum, every three years, the Treasury Management Policy. This is in line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Treasury Management in the Public Services: Code of Practice (2017 Edition)* and the CIPFA *Prudential Code for Capital Finance in Local Authorities (2017 Edition)*.

RECOMMENDATION

The Executive is asked to recommend to Council that:

1. The Treasury Management Policy, Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Policy for 2019/20 be approved.

Overview and Scrutiny Comments/Recommendations

1. This report will be considered by the Corporate Resources Overview and Scrutiny Committee on 31st January 2019 and this Committee will be advised of the Overview and Scrutiny Committee's comments and recommendations in respect of the proposed Treasury Management Policy, Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Policy at its meeting on 5th February 2019.

Issues

2. The Council's Treasury Management Strategy Statement (TMSS) is underpinned by the adoption of CIPFA's Code of Practice, which includes the requirement for determining a treasury strategy covering the likely financing and investment activity for the forthcoming financial year.
3. The Council's Treasury Management Policy (TMP) is attached at Appendix A; this was revised in February 2018 and is subject to review every three years. No changes are proposed to the TMP.
4. A revised Treasury Management Strategy Statement (TMSS) is attached at Appendix B with updated Prudential Indicators (PIs) at Appendix C and the Minimum Revenue Provision (MRP) Policy at Appendix D.
5. The Code requires the TMP, TMSS, PIs and MRP Policy for the year to be approved by Council, and these will be submitted for approval on 21st February 2019. Local arrangements require the Corporate Resources Overview & Scrutiny Committee to scrutinise the proposed revised strategy on an annual basis. Both the Policies and the Strategy documents are presented to the Executive for recommendation to Council.

Treasury Management Policy

6. It is the Council's responsibility to approve a Treasury Management Policy (TMP) on a periodic basis. This Policy will be reviewed every three years or whenever legislative, regulatory or best practice changes materially impact the effectiveness of the current Policy. The current TMP (see Appendix A) was adopted by Council in February 2018. In the absence of changes, the next scheduled date for review is February 2021.
7. The Treasury Management Policy, which has not been altered since its last triennial review in February 2018, sets out the objectives and the regulatory requirements of the Council's treasury management function.
8. The principal objectives of this Treasury Management Policy are to provide a framework within which:
 - i) risks which might affect the Council's ability to fulfil its responsibilities or which might jeopardise its financial security, can be identified;

- ii) borrowing costs can be minimised whilst ensuring the long term security and stability of the Council's financial position; and
- iii) investment returns can be safely maximised and capital values maintained.

Treasury Management Strategy Statement

9. CIPFA's *Treasury Management in the Public Services: Code of Practice (2017 Edition)* and their *Prudential Code for Capital Finance in Local Authorities (2017 Edition)* require local authorities to determine the TMSS on an annual basis.
10. No substantive changes have been made to the TMSS compared to the previous year.
11. The TMSS is included at Appendix B, and comprises three main components:
 - i) the 'External Context', drafted by the Council's current external treasury advisers, Arlingclose Ltd. This is important as the rate at which the Council can borrow and the return it will obtain on cash balances are linked to the performance of the wider UK and global economy.
 - ii) a Borrowing Strategy, including the approved sources of long-term and short-term borrowing.
 - iii) a treasury Investment Strategy, including the type of institutions the Council is able to place its cash with and the limits with each type of institution.
12. The TMSS also includes other items that the Council is required by CIPFA and the Ministry of Housing, Communities and Local Government (MHCLG) to include as part of its strategy, including the Council's policy on the use of financial derivatives, interest charges between the HRA and the General Fund and borrowing in advance of need.

Prudential Indicators

13. The CIPFA *Prudential Code for Capital Finance in Local Authorities (2017 Edition)* requires performance against specified key indicators to be measured and reported. The purpose of these indicators is to demonstrate prudence, affordability and sustainability.

14. Explanations of the Prudential Indicators are included in Appendix C. Key objectives of the indicators are to:
- ensure borrowing is less than the Council's Capital Financing Requirement (CFR), demonstrating that all long-term borrowing has been undertaken for capital purposes in line with the Prudential Code;
 - set the Council's authorised and operational limits for borrowing; and
 - show the percentage of the revenue budget required to be spent on financing borrowing.
15. In line with the best practice requirements outlined in the CIPFA Treasury Management Code of Practice, all PIs are monitored throughout the year and reported to Council at mid-year and at the end of the financial year.

Minimum Revenue Provision Policy

16. Appendix D includes a statement of the Council's Minimum Revenue Provision (MRP) Policy which is how the Council calculates the annual amount set aside towards repaying any borrowing used in the past to finance capital expenditure. The Local Government Act 2003 requires the Council to have regard to the Ministry of Housing, Communities and Local Government's Guidance on Minimum Revenue Provision (the MHCLG Guidance), most recently issued in 2018.
17. This Guidance applies for the 2019/20 financial year and has not impacted the Council's existing methodology for calculating MRP.

Reason for decisions

18. The reason for the decisions is to retain an effective treasury management framework for the Council.

Council Priorities

19. The effective management of the combined activities of debt and investments and the associated risks contribute to the Council's financial resources and is a cornerstone to the delivery of a more efficient and responsive Council.

Corporate Implications

Legal Implications

20. The Council's treasury management activities are regulated by statute, professional codes and official guidance. The Local Government Act 2003 (as amended) (the Act) provides the powers to borrow and invest as well as providing controls and limits. Under the Act, the Ministry of Housing, Communities and Local Government (MHCLG) has issued revised *Capital Finance: Guidance on Local Government Investments (Third Edition)* to structure and regulate the Council's investment activities. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (as amended), develops the controls and powers within the Act. The Regulations require the Council to undertake any borrowing activity with regard to the CIPFA *Prudential Code for Capital Finance in Local Authorities (2017 Edition)*, and operate the overall treasury function with regard to the CIPFA *Treasury Management in the Public Services: Code of Practice (2017 Edition)*.

Financial and Risk Implications

21. The Council's Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) are derived from the Medium Term Financial Plan (MTFP). The TMSS and PIs are explained within the appendices to this report.

Treasury management is defined by the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Treasury Management in the Public Services: Code of Practice (2017 Edition)* as: 'The 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.'

Equalities Implications

23. There are no equalities implications to this report.

Conclusion and next Steps

24. Overall responsibility for treasury management remains with the Council.

25. The purpose of the proposed TMSS is to ensure that an effective treasury management framework is in place for 2019/20. The strategy proposed is prudent in relation to the Council's borrowing activities, based on market interest rate forecasts, and its investment activities. Investment and cash balances will be managed with priority being given to security and liquidity before yield. The borrowing strategy for the Council's debt portfolio will see increasing use of temporary (short term) debt which currently offers low financing costs with the risk that unexpected increases in interest rates would create financial pressures. The recommended Draft Capital Programme that was considered by Executive on 9th January 2019 sets out more information on the revenue implications of interest rates should they be in excess of current assumptions.

26. The Treasury Management Policy, Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Policy for 2019/20 as outlined in this report will be reported to Council for approval in line with statutory requirements.

Appendices

- Appendix A: Treasury Management Policy
- Appendix B: Treasury Management Strategy Statement
- Appendix C: Prudential Indicators
- Appendix D: Minimum Revenue Provision Policy

Background Papers

None.

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