



<b>REPORT OF:</b>	DIRECTOR OF FINANCE & ORGANISATION (CFO)
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<b>TO:</b>	EXECUTIVE
<b>DATE:</b>	24 JANUARY 2019
<b>EXECUTIVE MEMBER:</b>	COUNCILLOR T. SCHOFIELD

<b>KEY DECISION REQUIRED:</b>	YES
<b>WARD (S) AFFECTED:</b>	ALL

<b>SUBJECT:</b>	<b>DRAFT TREASURY MANAGEMENT STRATEGY 2019/20</b>
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**RECOMMENDATIONS:**  
That Executive approves the contents of this report and annexes for formal consultation in accordance with the Council's Constitution.

**REASONS FOR RECOMMENDATIONS:**  
To support the adoption of a Treasury Management Strategy for the 2019/20 financial period.

**EXECUTIVE SUMMARY:**  
To comply with the Code of Practice on Treasury Management, the Council must approve Prudential Indicators and a Treasury Management Strategy each year that reflect the Council's expected operations in this area for the 2019/20 financial year.

Executive has authority to approve the above recommendations

### STATUTORY POWERS

1. The Council operates its Treasury Management activity as an integral part of its statutory obligation to effectively manage the Council's finances under the *Local Government Act 2003* and associated regulations.
2. The Council's Treasury Management activities are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities, and the Government's Investment Regulations.

## **ISSUES**

### **Background**

3. The Council is required to approve an annual Treasury Management Strategy and Prudential Indicators so that borrowing and investments are prudent, affordable and sustainable.
4. The Strategy has been prepared in line with the CIPFA Treasury Management Code of Practice published in late 2017. The draft for consultation is attached at Annex 1.

### **Matters for Consideration**

#### **Guidance**

5. A number of changes have been required when preparing the Council's 2019/20 Treasury Management Strategy as a consequence of recent revisions of MHCLG Investment Guidance, MHCLG Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.
6. These changes are intended to reflect the increasingly complex business models being adopted by Local Authorities in response to reductions in other funding streams.
7. Changes to the guidance include the introduction of a new requirement to publish a Capital Investment Strategy, to provide a longer-term focus to the capital plans. There are also enhanced reporting requirements surrounding commercial activity undertaken under the Localism Act 2011.

### **Capital Investment Strategy and Capital Programme**

8. The Council's Capital Investment Strategy will be presented to Executive in March and full Council in April 2019. It is likely that further changes to the scope/ structure of the final draft of the Treasury Management Strategy will be required at that stage to ensure full alignment.
9. The Capital Programme as reflected in this report represents approved capital expenditure to date and forecast future investment plans. These are also subject to review as the Capital Investment Strategy is finalised.

### **Financial Reporting Standards**

10. IFRS 9 replaces IAS 39, Financial Instruments – Recognition and Measurement - and was effective from April 2018. It is intended to respond to criticisms that IAS 39 was too complex and inconsistent with the way entities manage their businesses and risks, and defers the recognition of credit losses on loans and receivables until too late in the credit cycle. The implications of these changes for this Council will be assessed during the final accounts process for the financial year 2018/19.

## Prudential Indicators

11. The statutory Prudential Indicators contained within the Treasury Management Strategy are based on the new guidance.
12. The changes in mandatory Prudential Indicators include the removal of the following:
  - Actual and estimates of the ratio of financing costs to net revenue stream
  - Estimates of the incremental impact of capital investment decisions on the council tax
13. There is a new mandatory prudential indicator that measures the level of gross debt to the current Capital Financing Requirement (CFR). The purpose of this indicator is ensure that gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2019/20 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

## OPTIONS

14. There are 3 options:
15. **Option 1 – Approve the recommendations within this report**

This would provide the best opportunity to maximise the potential returns that can be earned during the coming financial year and minimise the risk of audit criticism.

This is the recommended option.
16. **Option 2 - To defer the report and ask Officers to provide more information and/or clarification on any specific points**

The current Investment Regulations issued by MHCLG means that this Strategy must be approved prior to the financial year to which it relates.

Any delay in approving the Strategy could leave the Council open to the same risks identified in option 3 below.
17. **Option 3 - To not support the contents of this report**

This would mean that Officers will not have a mandate to undertake treasury management activities, which will lead to the Council only receiving minimal returns on its investments and hence poor value for money.

It would also leave the Council not being compliant with the MHCLG statutory guidance and the CIPFA Code of Practice, which will result in criticism from our External Auditor.

## LEGAL IMPLICATIONS

18. There are no direct legal implications arising from this report.

### **FINANCIAL IMPLICATIONS**

19. The financial impacts of this proposed strategy have already been reflected within the Council's 2019/20 Budget proposals. There are no additional direct financial implications that arise from this report or from the changes to the CIPFA Treasury Management Code of Practice and the Prudential Code.

### **EQUALITIES IMPLICATIONS**

20. There are no equality implications arising from this report.

### **COMMUNICATION IMPLICATIONS**

21. The report should set out what communications plans are in place to support the decision, or to communicate the reasons for the decision. This could include proactive promotion, campaigns, key messages, and partnership communications.
22. Where there are significant communications implications, the draft report must be shared with the communications team before white list stage.

### **RISK MANAGEMENT CONSIDERATIONS**

23. These are detailed in Annex 1

### **OTHER IMPLICATIONS**

24. There are no other implications arising from this report

### **CONSULTATION**

25. This report will be reviewed by a Member Panel led by the Portfolio Holder for Finance in February and then by the Overview and Scrutiny Committee at its February meeting.

### **POLICY FRAMEWORK**

26. The Strategy is part of the Council's Policy Framework as set out in Article 4 of the Constitution.

### **Background Papers:**

27. None