Reigate & Banstead
BOROUGH COUNCIL
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REPORT OF:	DIRECTOR OF FINANCE & ORGANISATION (CFO)
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TO:	EXECUTIVE
DATE:	18 MARCH 2019
EXECUTIVE MEMBER:	COUNCILLOR T. SCHOFIELD

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	ALL

SUBJECT:	**TREASURY MANAGEMENT STRATEGY 2019/20**

RECOMMENDATIONS:

That the Treasury Management Strategy 2019/20 be approved.

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.

Full Council is required to approve the recommendation noted above.

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 Treasury Management Strategy 2019/20 is attached at Annex 1.

5. The Strategy consists of four sections and appendices that have been compiled in accordance with the Council's Treasury Management Policy Statement.

6. These are:

   - Introduction (Section 1)
   - The Capital Prudential Indicators 2019/20 to 2023/24 (Section 2)
   - Borrowing (Section 3)
   - Annual Treasury Investment Strategy (Section 4)
   - Appendices

7. Each section contains the appropriate Prudential Indicators relevant to that area. In addition, the Treasury Risk Management Assessment has been incorporated in the report in Section 4, the Annual Treasury Investment Strategy.

Objectives

8. To accord with the Council's Treasury Management Policy Statement, the Treasury Management Strategy has the following objectives:

   - To consider and effectively address the risks associated with Treasury Management activity.
   - To optimise the flow of cash through the organisation in order to maximise the potential for using it to earn investment income for the Council.
   - To optimise the returns from investments while meeting the overriding need to protect the capital sum and ensure that the cash is available when the Council requires it.
   - To align investments in relation to cash flow, within statutory constraints, in order to increase investment returns in future years.
   - To optimise the revenue costs of undertaking all treasury activities.
   - To monitor and review significant changes in the pattern of cash movements and interest rate movements and react accordingly.
   - To incorporate any changes to the Treasury Management Code of Practice and the Prudential Code that will affect effective treasury management.

The Treasury Position 2018/19

9. The following table shows the Council's net investment position at 31 December 2018 and the projected position for 31 March 2019. The table also splits both the borrowings and investments between fixed or variable interest rates.

	Actual as at 31/3/2018	Average Earnings or Interest Paid Rate	Current position as at 31/12/18	Average Earnings or Interest Paid Rate	Estimated Position as at 31/3/19	Anticipated Average Earnings or Interest paid Rate
	£000	%	£000	%	£000	%
Fixed Rate Borrowing	0	n/a	0	n/a	0	n/a
Variable Rate Borrowing	0	n/a	0	n/a	0	n/a
Total Borrowing	**0**	**0**	**0**		**0**	**0**
Fixed Investments:						
Through Broker	43,000	1.00%	46,000	1.25%	43,000	1.27%
In House	13,000	0.80%	5,000	1.50%	5,000	1.50%
Total Investments	**56,000**	**0.95%**	**51,000**	**1.27%**	**48,000**	**1.29%**
Net Investments	56,000		51,000		48,000	

Matters for Consideration

Guidance

10. 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.

11. These changes are intended to reflect the increasingly complex business models being adopted by Local Authorities in response to reductions in other funding streams.

12. 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

13. The Council's Capital Investment Strategy is reported separately on this agenda.

14. The Capital Programme as reflected in this report represents approved capital expenditure to date and forecast future investment plans. These are also potentially subject to review as the Capital Investment Strategy is finalised.

Financial Reporting Standards

15. 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

16. The statutory Prudential Indicators contained within the Treasury Management Strategy are based on the new guidance.

17. The changes in mandatory Prudential Indicators include the removal of the following:

    - Estimates of the incremental impact of capital investment decisions on the council tax

18. There is a new mandatory prudential indicator that compares 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.

Summary of Key Prudential Indicators

	2018/19 Projected £'000	2019/20 Projected £'000	2020/21 Projected £'000	2021/22 Projected £'000	2022/23 Projected £'000	2023/24 Projected £'000
Capital Expenditure	45,714	20,827	29,410	27,902	18,074	2,974
Capital Financing Requirement	20,000	36,269	42,825	50,082	49,717	49,337
Authorised Limit for External Debt	80,000	80,000	80,000	80,000	80,000	80,000
Operational Boundary for External Debt	70,000	70,000	70,000	70,000	70,000	70,000
Upper Limits on Variable Rate Exposure	25%	25%	25%	25%	25%	25%
Upper Limits on Fixed Rate Exposure	100%	100%	100%	100%	100%	100%

OPTIONS

19. There are 3 options:

20. **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.

21. **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.

22. **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

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

FINANCIAL IMPLICATIONS

24. 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

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

COMMUNICATION IMPLICATIONS

26. There are no communication implications arising from this report

RISK MANAGEMENT CONSIDERATIONS

27. These are detailed in Annex 1

OTHER IMPLICATIONS

28. There are no other implications arising from this report

CONSULTATION

29. The Draft Treasury Management Strategy was reviewed by a Member Panel led by the Portfolio Holder for Finance in early February and then by the Overview and Scrutiny Committee on 15 February. Their feedback has been taken into account when preparing the final Treasury Management Strategy Statement.

POLICY FRAMEWORK

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

Background Papers:

31. None