

## BRECKLAND DISTRICT COUNCIL

**Report of:** Christine Marshall, Executive Director Commercialisation

**To:** Governance and Audit Committee 15<sup>th</sup> February 2019

**Author:** Christine Marshall, Executive Director Commercialisation

**Subject:** Treasury Management Policy & Strategy 2019-20

**Purpose:** This report outlines the Council's Prudential Indicators for 2019-20 to 2022-23 and sets out the expected treasury operations for this period and requests approval for the Treasury Management Policy, Strategy and Prudential Indicators for 2019-20 to 2022-23

### **Recommendation(s):**

Recommend to Full Council that the following be approved:

- 1) The Treasury Management Strategy 2019-20 to 2022-23 at **Appendix A**
- 2) The Minimum Revenue Provision (MRP) statement contained within **Appendix A** which sets out the Council's policy on MRP
- 3) The Prudential & Local Indicators and limits contained within **Appendix A** (Tables 1-11)
- 4) The Investment Strategy 2019-20 (**Appendix B**) and the detailed criteria included in **Appendix B1**
- 5) The Treasury Management Policy at Appendix B2

### 1.0 **BACKGROUND**

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 low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. 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 spending obligations.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activity (arising usually from capital expenditure) and are separate from day to day treasury management activity.

Treasury management is defined as: "The management of the local authority's 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".

As reported in the mid-year treasury report to Committee, revised reporting is required for the 2019-20 reporting cycle due to revisions of the MHCLG Investment Guidance, the MHCLG Minimum Revenue Provision (MRP) Guidance, The CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the requirement for a Capital Strategy to provide a longer term focus to the capital plans and greater reporting requirements surrounding any commercial activity undertaken under the

Localism Act 2011. The Capital Strategy is being reported on separately through the budget setting.

### 1.1 **Reporting Requirements**

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

**Prudential and treasury indicators and treasury strategy** (this report) – the first and most important report covers:

- The capital plans (including prudential indicators);
- A minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- The treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- An investment strategy (the parameters on how investments are to be managed).

**A mid-year treasury management report** – This updates members with the progress of the capital position, amending prudential indicators as necessary, and whether the treasury strategy is meeting the strategy or whether any policies require revision.

**An annual treasury report** - This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

**Scrutiny** – The above reports are required to be adequately scrutinised and this role is undertaken by the Governance and Audit Committee.

### 1.2 **Treasury Management Strategy for 2019-20**

The strategy for 2019-20 covers two main areas:

Capital issues

- The capital plans and the associated prudential indicators
- The minimum revenue provision (MRP) policy.

Treasury management issues

- The current treasury position;
- Treasury indicators which limit the treasury risk and activities of the Council;
- Prospects for interest rates;
- The borrowing strategy;
- Policy on borrowing in advance of need;
- The investment strategy;
- Creditworthiness policy; and
- Policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

### 1.3 **Training**

The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to Members responsible for scrutiny. Treasury training for Members last took place 1<sup>st</sup> December 2017. Further training is available but the decision has been taken to delay the training until membership of the Governance and Audit Committee is agreed after Council Elections in May 2019. The training needs of treasury management officers are reviewed on an ongoing basis.

#### 1.4 **Treasury management consultants**

The Council's external treasury management advisors are Link Asset Services. There have been no changes to the contractual arrangements which end 31<sup>st</sup> March 2020. The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

The Council does not have a retained advisor for non-financial investments but subject to procurement rules will engage the use of external advice on legal and property matters as required.

#### 1.5 **Summary of key issues and changes**

The mid-year report to Governance and Audit Committee 14<sup>th</sup> December 2018 set out the key changes arising as a result of the new guidance. Broadly these were: the definition of an investment now covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment property portfolios. This may include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk framework

The Council's Treasury Management Policies and Prudential Indicators have been more closely aligned to the Council's Capital strategy and have been amended to include both a definition of and a schedule of financial and non-financial investments. New indicators have been added to the Treasury Management Strategy to ensure the same robust procedures for the consideration of risk and return are applied to both financial and non-financial investments.

Changes made to the Strategy content compared to the current years are shown in red text.

The management and monitoring of the Treasury Management Policies and Prudential indicators (for financial and non-financial investments) remains the responsibility of Full Council (via the Governance and Audit Committee)

## 2.0 **OPTIONS**

2.1 Recommend to Full Council to approve the recommendations

2.2 Recommend to Full Council to approve the recommendations with amendments

## 3.0 **REASONS FOR RECOMMENDATION(S)**

3.1 To comply with the Local Government Act 2003 and to safeguard the Council's financial assets whilst maximising returns

## 4.0 **EXPECTED BENEFITS**

4.1 To ensure Members are updated regularly on the Treasury Management service so that they can adequately scrutinise treasury management activity.

## 5.0 **IMPLICATIONS**

In preparing this report, the report author has considered the likely implications of the decision - particularly in terms of Carbon Footprint / Environmental Issues;

Constitutional & Legal; Contracts; Corporate Priorities; Crime & Disorder; Equality & Diversity/Human Rights; Financial; Health & Wellbeing; Reputation; Risk Management; Safeguarding; Staffing; Stakeholders/Consultation/Timescales; Transformation Programme; Other. Where the report author considers that there may be implications under one or more of these headings, these are identified below:

**5.1 Financial**

5.1.1 The report is of a financial nature and financial details are included in the report and appendices

**5.2 Risk Management**

5.2.1 I can confirm that risk has been given careful consideration and it is addressed in TMP1 within the Treasury Policy Statement 2019-20.

**6.0 WARDS/COMMUNITIES AFFECTED**

6.1 N/A

**7.0 ACRONYMS**

7.1 CFR - Capital Financing Requirement  
CDS - Credit Default Swap  
CIPFA - Chartered Institute of Public Finance & Accountancy  
CNAV - Constant Net Asset Value  
MHCLG – Ministry for Housing Communities & Local Government  
DMADF - Debt Management Account Deposit Facility  
HRA – Housing Revenue Account  
LIBID - London Inter-bank Bid rate  
MPC – Monetary Policy Committee  
MRP - Minimum Revenue Provision  
PFI - Private Finance Initiative  
PWLB - Public Works Loans Board  
TMP - Treasury Management Practice  
VRP – Voluntary Revenue Provision

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Background papers:- None

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**Lead Contact Officer**

Name and Post: Margaret Bailey, Senior Accountant Capital & Treasury  
Telephone Number: 01362 656218  
Email: margaret.bailey@breckland.gov.uk

**Key Decision:** Yes

**Exempt Decision:** No

**This report refers to a Discretionary Service**

**Appendices attached to this report:**

Appendix A Treasury Management Strategy 2019-20 to 2022-23  
Appendix B Investment Strategy 2019-20  
Appendix B1 Treasury Management Practice (TMP 1)  
Appendix B2 Treasury Management Policy 2019-20  
Appendix C Economic Background (Link Asset Services)  
Appendix D Approved Countries for Investment