

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	2019/20 Treasury Management, Capital and Investment Strategies
Meeting/Date:	Cabinet – 14th February 2019
Executive Portfolio:	Executive Councillor for Strategic Resources: Councillor J A Gray
Report by:	Head of Resources
Wards affected:	All Wards

Executive Summary:

The Council is now required by law to approve, on an annual basis;

- Treasury Management Strategy;
- Capital Strategy
- Investment Strategy
- Minimum Revenue Provision Statement
- The Flexible use of Capital Receipts Strategy

This requirement is within CIPFA's Treasury Management in the Public Services: Code of Practice (2017), CIPFA's Prudential Code (2017), and MHCLG Guidance on Local Government Investments 2018. The revision of these codes and guidance has required the Council to produce and approve two new strategies the Capital Strategy and the Investment Strategy. The intention is that these strategies will be iterative documents and will be developed so that they contain an increasing amount of detail of the Council's plans and procedures in addition to the financial information.

The aim of the Treasury Management Strategy is to

- Manage the Council's investments, cash flows, banking, money market and capital market transactions, loans and borrowings within the requirements of an effective control environment but coupling this with the pursuit of optimum performance and yield and at the same time managing the portfolio's risk profile.

The 2019/20 Treasury Management Strategy includes:

- The operation of the strategy within an economic climate that is weak, where inflation is maintaining an above target level, and interest rates that have moved upward slightly but are forecast to remain low although possibly rising slowly into the medium term.
- The continuation of the Council's policy to use mainly short-term investments which are highly liquid and as a consequence are lower risk. This includes the

use of call accounts and money market funds.

The Capital Strategy includes;

- A high level overview of the Council's capital programme and borrowing.
- The borrowing strategy and the borrowing limits

The Investment Strategy includes;

- The strategy relating to the CIS
- The management of service loans
- An overview of financial guarantees

The Minimum Revenue Provision Statement;

- The various policies to deal with the financing of capital projects
- An addendum to the existing policy to deal with voluntary MRP for CIS purchases

The Flexible Use of Capital Receipts Strategy;

- Outlining how Capital Receipts will be used
- Whether any receipts will be used on transformation schemes (which fit the strict criteria set out in the strategy)

Recommendations:

That the Cabinet is recommended to Council the approval of the;

1. The Treasury Management Strategy, Appendix 1.
2. The Capital Strategy, Appendix 2.
3. The Investment Strategy, Appendix 3.
4. The Minimum Revenue Provision Statement, Appendix 4.
5. The Flexible Use of Capital Receipts Strategy Appendix 5.

1. WHAT IS THIS REPORT ABOUT?

1.1 The aim of the Treasury Management Strategy is to provide strategic guidance on how the Council shall conduct its Treasury Management activity. The Strategy shall:

- Include relevant policies, objectives and treasury and prudential indicators; as well as illustrating its approach to risk management.
- Comply with the Code or Practice for Treasury Management and the Prudential Code for Capital Finance (as issued by the Chartered Institute of Public Finance and Accountancy, CIPFA) and reflect published Government advice.
- Approve the way in which the Minimum Revenue Provision is calculated.

1.2 The Treasury Management Strategy is a key element of the Council's Code of Financial Management.

1.3 The Capital Strategy gives an overview of capital expenditure and financing. The strategy includes;

- The borrowing strategy
- The investment strategy
- Governance

1.4 The Investment Strategy, which includes;

- Service loans
- Property investments
- Financial guarantees

1.5 The Flexible Use of Capital Receipts Strategy, outlines how the Council intends to make use of Capital Receipts.

1.6 In addition to complying with CIPFA's Treasury Management in the Public Services: Code of Practice 2017 Edition, the Council must also comply with the MHCLG's Guidance on Local Authority Investments (2017), both of which require the approval of an annual Treasury, Investment and Capital strategies before the start of each financial year. This strategy fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.

2. WHY IS THIS REPORT NECESSARY/BACKGROUND

2.1 To seek Council approval for the:

- i. Treasury Management Strategy, as attached at **Appendix 1** including the required indicators. The aim of the:
 - investment strategy is to provide a framework through which the Council will invest any surplus funds that balances the risk of default by the borrower against a fair rate of interest.
 - borrowing strategy is to permit borrowing for cash flow purposes and for the funding of current and future capital expenditure over whatever periods are in the Council's best interests.

- ii. The Capital Strategy, which gives an overview of the capital programme and financing. **Appendix 2**
- iii. The Investment Strategy, giving an overview of the CIS approved in 2015 and service based loans. **Appendix 3**
- iv. The Minimum Revenue Provision policy including a new section on voluntary MRP. **Appendix 4**
- v. The Flexible Use of Capital Receipts Strategy, detailing any use of capital receipts for revenue. **Appendix 5**

2.2 For 2019/20, the Council is anticipating having a total capital financing requirement (which is both past and new capital expenditure) of £74.6m (rising to £85.6m by 2021/22), of which £30.0m will be new capital expenditure relating to the CIS. The Council has an authorised limit for 2019/20 of £135m. It should be noted that the Minimum Revenue Provision applicable to this capital programme is fully funded and included in next year's budget and the MTFs.

2.3 The authority has and will borrow and invest substantial sums of money and is therefore exposed to financial risks including the loss of funds and the revenue effect of changes in interest rates. The identification, monitoring and control of such risks are central to the Council's Treasury Management and Investment Strategy.

2.4 In accordance with MHCLG guidance, the Council will be asked to approve a revised Treasury Management, Capital Investment Strategy, MRP Policy and a Flexible Use of Capital Receipts Strategy, should the assumptions on which it is based change significantly. Such circumstances could include an unexpected change in interest rates, a change in the capital programme or in the level of investment balance.

3. OPTIONS CONSIDERED/ANALYSIS

3.1 The Treasury Management, Capital and Investment Strategies are a statutory requirement, thus it has to be considered in its entirety. However, the Strategy must not be viewed as a straightjacket; it is a framework within which the Council will conduct its Treasury, Investment and Capital activity.

4. KEY IMPACTS/RISKS? HOW WILL THEY BE ADDRESSED?

4.1 The emphasis of this report is to recognise the risks inherent in achieving a yield from investments (both treasury and commercial), and the management of that risk.

5. COMMENTS OF OVERVIEW & SCRUTINY PANEL

5.1 The comments of Overview & Scrutiny Panel (Performance and Growth) will follow as a separate item.

6. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

- 6.1 When approved this strategy will be used as an operational document for Treasury Management, Commercial and Service Investments, as well as management of capital expenditure and financing.

7. LINK TO CORPORATE PLAN

- 7.1 Treasury Management comes under the “Becoming a more efficient and effective council”.

8. CONSULTATION

- 8.1 No consultation was needed.

9. LEGAL IMPLICATIONS

- 9.1 No direct, legal implications arise out of this report.

10. RESOURCE IMPLICATIONS

- 10.1 The resource implications are included within the report.

11. OTHER IMPLICATIONS

- 11.1 No other implications.

12. REASONS FOR RECOMMENDED DECISIONS

- 12.1 The Council is required, by law, to approve on an annual basis a:
- The Treasury Management Strategy. The purpose of which is to provide the framework within which the Council can operate its Treasury related activity.
 - The Capital Strategy. The purpose of which is to give a high level overview of how capital expenditure is managed.
 - The Investment Strategy. The purpose of which is to provide the framework to support service investments and commercial investments.
 - Policy in respect of its Minimum Revenue Provision so it can prudently account for the revenue impacts of capital investment decisions.
 - The Flexible Use of Capital Receipts Strategy, which describes if and how the Council will use capital receipts on transformation projects.

13 LIST OF APPENDICES INCLUDED

Appendix 1: The Treasury Management Strategy
Appendix 2: The Capital Strategy
Appendix 3: The Investment Strategy
Appendix 4: The Minimum Revenue Provision Statement
Appendix 5: The Flexible Use of Capital Receipts Strategy

BACKGROUND PAPERS

Working papers held in Finance

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