

South Lakeland District Council
Cabinet, Wednesday 6 February 2019
Council, Tuesday 26 February 2019
Treasury Management and Capital Strategies
2019/20 - 2023/24

Portfolio: Finance Portfolio Holder
Report from: Assistant Director Resources (Section 151 Officer)
Report Author: Lee Hurst – Chief Accountant, Claire Read – Financial Services Officer
Wards: (All Wards);
Forward Plan: Treasury Management Framework 2019/20 to 2023/24 first published on the forward plan published on 2 October 2018

1.0 Expected Outcome

1.1 It is expected that the Treasury Management Strategy and Capital Strategy for 2019/20 – 2023/24, will be approved by Council on 26 February 2019. The Strategies ensure that the Council have robust arrangements for investing and only borrows where it is appropriate and affordable.

2.0 Recommendation

2.1 It is recommended that Cabinet:-

Note and recommend that Council approve the Treasury Management and Capital Strategies and the authorised borrowing limits within the report.

2.2 It is recommended that Council:-

Approve the Treasury Management and Capital Strategies and the authorised borrowing limits within the report

3.0 Background and Proposals

3.1 This report sets out the Council's Treasury Management Strategy and Capital Strategy for 2019/20 – 2023/24. The Strategies have been updated to reflect the 2019/20 budget and capital programme.

3.2. The framework fulfils five key legislative requirements:

- Chartered Institute of Public Finance and Accounting (CIPFA)'s Prudential Code requires the Council to set a number of **Prudential Indicators** setting out the expected capital activities and financing.
- The Council's **Minimum Revenue Provision (MRP) Policy**, sets out how the Council will pay for capital assets through revenue each year.

- The **Treasury Management Strategy Statement** sets out how the Council's treasury service will support the capital decisions taken, the day to day treasury management and the limitations on activity through treasury prudential indicators;
- The **Investment Strategy** which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss.
- The **Capital Strategy**, to demonstrate that the authority takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability

This report reflects the latest budget proposals being considered as part of this agenda.

- 3.3. The Council is required to set a balanced annual revenue budget. The timing and nature of income and expenditure within the budget needs to be understood and managed so that cash is available when it is required. This is a key function of the treasury management operation.
- 3.4. The second key function is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council. This may involve arranging new or replacement loans or the planned use of cash balances.
- 3.5. CIPFA defines treasury management 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. ”
- 3.6. 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. These reports are required to be adequately scrutinised by committee before being recommended to the Council. These are as follows:
 - **Capital Strategy and Treasury Management Strategy** (this report), setting out the expectations for a minimum of three years, linked into the Council's wider budget setting process.
 - **A Mid-Year Treasury Management Report** – This will update 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. This report is incorporated into the Council's quarterly corporate monitoring reports.
 - **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.

- 3.7. The Treasury Management Strategy is based on the proposed capital programme for 2018/19 – 2023/24 being considered on this agenda.
- 3.8. The Capital Strategy includes potential capital expenditure not currently in the proposed programme and arising from the review of Council Assets. The resulting indicators in the Capital Strategy are therefore higher as it includes potential expenditure and borrowing which may not arise, depending on future decisions around service delivery. The Capital Strategy will assist in ensuring the Council has funds available in the future to meet future opportunities which may arise. It also considers organisational issues including how the capital programme will be prioritised and considerations including capacity to deliver.
- 3.9. The appendices to this report contain the strategy for 2018/19 which covers two main areas:

Treasury management Issues (appendices 1 and 2)

- prudential and treasury indicators;
- the Minimum Revenue Provision statement.
- high level Treasury Management Policy statement;
- prospects for interest rate;
- the current treasury position;
- the borrowing strategy;
- policy on borrowing in advance of need;
- the investment strategy including creditworthiness policy;
- non treasury management investments
- policy on use of external service providers;
- Indicative lending list based on the proposed investment strategy.

Capital issues (appendices 3 and 4)

- Capital Strategy;
 - the Capital Programme 2018/19 – 2023/24
- 3.10. The Treasury Management and Capital Strategies cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Ministry of Housing and Communities and Local Government (MHCLG) MRP Guidance, the CIPFA Treasury Management Code and the MHCLG Investment Guidance. They are mainly technical documents that also reflects the decisions made as part of the wider budget process.
- 3.9. It is important to note that the key controls around placing investments focus on counterparty security, liquidity and then yield, in that order, in line with the CIPFA Code.
- 3.10. In addition to the credit rating criteria, the report also details the type of investment instruments officers can use. The instruments selected are designed primarily to ensure preservation of capital and sufficient liquidity, with yield to be considered once security and liquidity are assured.

4.0 Consultation

4.1 The strategies have been prepared in consultation with the Council's Treasury advisor (Link Asset Services). The draft strategies will be considered by Cabinet and Overview and Scrutiny Committee before the final version is presented to Council for approval on 26 February 2019.

5.0 Alternative Options

5.1 No alternative options are proposed; the Treasury Management Framework is driven largely by legislation and external guidance and reflects the 2019/20 budget.

6.0 Links to Council Priorities

6.1 These arrangements enable the priorities as set out in the Council Plan to be achieved. Performance indicators are included within the report.

7.0 Implications

Financial, Resources and Procurement

7.1 Although concerned with good financial management, the report in itself has no direct financial implications.

Human Resources

7.2 This report has no direct impact on the staffing of the Council.

Legal

7.3 This report provides a framework for treasury management in accordance with legislation. There are no other legal implications.

Health, Social, Economic and Environmental

7.4 Have you completed a Health, Social, Economic and Environmental Impact Assessment? No

7.5 If you have not completed an Impact Assessment, please explain your reasons: This has not been carried out as this policy does not directly impact individuals

Equality and Diversity

7.7 Have you completed an Equality Impact Analysis? No

7.8 If you have not completed an Impact Assessment, please explain your reasons: This has not been carried out as this policy does not directly impact individuals

Risk

Risk	Consequence	Controls required
Reporting is not compliant with the statutory guidance.	Members do not have the opportunity to scrutinise the Treasury function.	Full year TM report to be presented to Scrutiny, Cabinet and Council.
Investment and borrowing activity is outside of the approved TM framework.	The Council is exposed to an unauthorised level of Treasury related risk.	Robust governance arrangements to control day to day operations, based on the approved strategy, with regular reporting of compliance.
Long-term borrowing is taken at rates that are not advantageous.	Council incurs unnecessary interest	Treasury advice is taken on optimum timing of

Risk	Consequence	Controls required
	costs.	borrowing
Repayment of long term borrowing at rates that are not advantageous	Council occurs unnecessary premium costs	Treasury advice is taken on optimum timing of loan repayment
Investment of principal sums with insecure counterparties.	Loss of principal due to default by borrower.	Stringent and cautious lending criteria are built into the Council's Investment Strategy.
Investment returns are volatile and may fall short of expectations.	Underperformance and underachievement of budgeted income levels.	Monitoring performance of in-house investments
Borrowing is not affordable.	Financial pressure on the General Fund.	Prudent borrowing in accordance with the Strategy and indicators. Forecast borrowing costs are factored into the 2019/20 Budget and Medium Term Financial Plan.
Brexit - there is considerable uncertainty at the time of preparation of this report (late December 2018) as the format of Brexit is yet to be determined and as such this report assumes no changes to inflation or interest rates	Potential increased costs and lost opportunities	Close monitoring of developments surrounding Brexit

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Appendices Attached to this Report

Appendix No.	Name of Appendix
1	Treasury Management Strategy for 2019/20 to 2023/24
2	Example 2019/20 Counterparty List
3	Capital Strategy for 2019/20 to 2023/24
4	Capital Programme for 2018/19 to 2023/24

Background Documents Available

Name of Background document	Where it is available
2019/20 Revenue and Capital budget	On the same agenda

Tracking Information

Signed off by	Date sent
Legal Services	18/12/2018
Section 151 Officer	18/12/2018
Monitoring Officer	18/12/2018
SMT	20/12/2018

Circulated to	Date sent
Assistant Director	18/12/18
Human Resources Manager	N/A
Communications Team	N/A
Leader	21/12/2018
Committee Chairman	N/A
Portfolio Holder	21/12/2018
Ward Councillor(s)	N/A
Committee	11/1/2019
Executive (Cabinet)	6/2/2019
Council	26/2/2019