

East Herts Council Report

Council/Executive/Committee

Performance, Audit & Governance Oversight Committee

Executive

Council

Date of Meeting:

14th January 2020 PAGO

21st January 2020 Executive

29th January 2020 Council

Report by: Councillor Geoff Williamson, Deputy Leader & Executive Member for Financial Sustainability

Report title: TREASURY MANAGEMENT STRATEGY 2020/21

Ward(s) affected: All

Summary

- The report sets out the proposed Treasury Management and Annual Investment Strategy for 2020-21, including the prudential indicators.

RECOMMENDATIONS FOR PERFORMANCE, AUDIT & GOVERNANCE OVERSIGHT COMMITTEE:

To endorse that the Executive considers the following for recommendation to Council, that:

- (a) The Treasury Management Strategy and Annual Investment Strategy Appendix A, including the prudential indicators discussed in paragraphs 3.6 be approved;**
- (b) The credit and counterparty risk management and approved countries list discussed in paragraphs 3.7 be approved.**

1.0 Proposal(s)

- 1.1 The report includes the East Herts Treasury Management and Investment Strategy for 2020-21 which members of the Performance, Audit & Governance Committee are asked to consider and, with or without amendment, endorse for consideration by the Executive.

2.0 Background

- 2.1 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.
- 2.2 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. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 2.3 The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either

on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

- 2.4 Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.
- 2.5 This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 2.6 This activity is supported by the council's appointed independent advisors – Link Asset Services.

3.0 Reason(s)

- 3.1 The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.
- 3.2 Prudential and treasury indicators and treasury strategy (this report) - The first, and most important report is forward looking and 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).
- 3.3 A mid-year treasury management report – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.
- 3.4 An annual treasury report – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- 3.5 The above reports are required to be adequately scrutinised before being recommended to the Council.
- 3.6 Prudential Indicators are included in Appendix ‘A’: Treasury Management Strategy and Annual Investment Strategy 2020-21 paragraphs 2.1, 2.2, 2.3, 3.1, 3.2, and 5.2. Which are designed to assist members’ overview and confirm capital expenditure plans.
- 3.7 Please refer to the Credit and Counterparty Risk Management paragraph 5.4 and Approved Countries List paragraph 5.5.

4.0 Options

- 4.1 The treasury management strategy report is a statutory document, required by both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

5.0 Risks

- 5.1 One of the biggest areas of risks within treasury

management is interest rate risk, which is discussed in paragraph 3.3 of Appendix A Treasury Management Strategy and Annual Investment Strategy 2020-21.

- 5.2 East Herts aims to be one of a number of financially sustainable councils that achieve independence from Central Government funding. Such councils are diverse and take a wide range of approaches to achieve financial independence. However, one thing they all have in common is investments in commercial properties for a given rate of return.
- 5.3 East Herts has the appetite to consider opportunities inside and outside of the district, as there are limited options in the area and this could constrain the portfolio of investments which could result in reduced returns, excessive risk, or both.

6.0 Implications/Consultations

- 6.1 No.

Community Safety

No

Data Protection

No

Equalities

No

Environmental Sustainability

No

Financial

All financial implications are included in this report.

Health and Safety

No

Human Resources

No

Human Rights

No

Legal

All statutory requirements have been considered in preparing this report

Specific Wards

No

7.0 Background papers, appendices and other relevant material

- 7.1 Appendix A - Treasury Management Strategy and Annual Investment Strategy 2020-21

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