

CABINET

15 January 2019

TREASURY MANAGEMENT STRATEGY AND CAPITAL INVESTMENT STRATEGY

Report of the Director for Resources

Strategic Aim:	Sound Financial and Workforce Planning	
Key Decision: Yes	Forward Plan Reference: FP/260718	
Exempt Information	No	
Cabinet Member(s) Responsible:	Mr G Brown, Deputy Leader and Portfolio Holder for Planning, Environment, Property and Finance.	
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Ward Councillors	Not Applicable	

DECISION RECOMMENDATIONS

That Cabinet RECOMMENDS TO COUNCIL to approve:

- a) the Treasury Management Strategy in Appendix 1 including the Investment Strategy, Borrowing strategy, Minimum Revenue Provision statement and Capital Expenditure Prudential indicators.
- b) the Capital Investment Strategy in Appendix 2.

1 PURPOSE OF THE REPORT

- 1.1 This report sets out the statutory reports expected in relation to treasury and capital investment operations for 2019/20, linked to the Council's Budget, Medium Term Financial Strategy and Capital Programme.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 Statutory guidance

- 2.1.1 CIPFA and the Ministry for Housing, Communities and Local Government (MHCLG) updated guidance in relation to financial and non-financial investments in 2018/19 as a result of the number of commercial investments made by Councils.

- 2.1.2 Both the Treasury Management Strategy and the Capital Investment Strategy (CIS) have been prepared in line with the guidance, including:

- Prudential Code for Capital Finance in Local Authorities (2017) (Prudential Code)
- Treasury Management: Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code)
- Minimum Revenue Provision - Guidance issued by the Secretary of State under section 21(1A) of the Local Government Act 2003. This prevents various practices such as spreading the MRP charge over a period longer than 50 years or making retrospective changes which give rise to a credit – “Changing the method used to calculate MRP can never give rise to an overpayment and should not result in a LA making a charge of £nil for the accounting period in which the change is made”.
- Guidance on Local Authority investments - Issued under section 15(1)(a) of the Local Government Act 2003. This guidance is consistent with the Codes described above.

2.2 Coverage

- 2.2.1 The two key strategies cover a range of issues as set out below:

Treasury Management Strategy (TMS)	Capital Investment Strategy (CIS)
Treasury Management Requirements	Capital Investment Strategy objectives
Capital Prudential Indicators	Capitalisation policy
Borrowing	Objectives and priorities
Annual Investment Strategy	Resourcing strategy
MRP Statement	Indicative plans and available funding

Treasury Management Strategy (TMS)	Capital Investment Strategy (CIS)
Investment Selection Criteria	Appraisal process for Capital Investment
Economic Outlook	Commercial Investment Policy (objectives, rules, assessment process, governance and reporting)
	Reporting Requirements
	Performance Indicators

2.3 Treasury Management Strategy

- 2.3.1 The TMS outlines that the Council's approach to treasury investment is largely unchanged.
- 2.3.2 Our focus is on deposits for up to a 12 month period given uncertainty in the markets.
- 2.3.3 The Council will continue to look at longer term options (Government Bonds, Property Funds etc.) but existing preference is to use available funds to focus on commercial investments as set out in the Commercial Investment Policy.
- 2.3.4 There are no changes proposed from last year's TMS in terms of the Council's approach to borrowing. The Council will look to repay borrowing if there is a financial business case. It will also only borrow where that borrowing is likely to deliver a positive revenue impact.
- 2.3.5 The Council's MRP policy is also included as part of the TMS and again no changes are being proposed.

2.4 Capital Investment Strategy

- 2.4.1 The CIS outlines that the Council's approach to non-financial investment is largely unchanged.
- 2.4.2 The key points to note are:
- The Council incurs capital expenditure/makes capital investment to deliver on its aims and priorities including statutory objectives.
 - It has indicative plans which are approved as part of the budget and updated throughout the year.
 - It holds funds which are available to meet spending plans and can supplement these funds with borrowing if required.
 - Capital investment/expenditure has traditionally focused on what are called "service investments" – investment in assets held primarily for the delivery of operational services.

- The Council has a priority to be more commercial and the Capital Strategy sets out a policy for “commercial investment” – those taken for mainly financial reasons. This is included in The Commercial Investment Policy (Appendix 2 – Annexe A1). The Council has not yet made any investments in line with this Policy.

3 CONSULTATION

- 3.1 No formal consultation is required. However, CIPFA guidance encourages Councils to use Scrutiny to review proposals prior to approval by Council. This report will therefore be presented at the Budget Scrutiny panel in January which will then allow Council to consider any comments before it is presented for approval in February.

4 ALTERNATIVE OPTIONS

- 4.1 Option 1. To approve the Capital Strategy and Treasury Management Strategy as presented. This is the recommended option.
- 4.2 Option 2. Not to accept the 2019/20 Treasury Management Strategy and Capital Strategy. This is not recommended as it means that the Council will be in breach of its statutory obligations.
- 4.3 Option 3. To approve the Strategies with any revisions.

5 FINANCIAL IMPLICATIONS

- 5.1 The Medium Term Financial Plan includes three amounts for interest payable on loans (this is fixed), interest receivable on investments (changes in the Treasury Management Strategy may result in increased returns) and MRP (which is based on the current capital plans). PWLB loans will be monitored and if it is advantageous for the Council, repayment or restructuring will be considered.
- 5.2 The implementation of the Commercial Investment Policy aims to deliver Revenue Income and a net return for the Revenue Account but this is not included in the MTFP at this time. The net target (after costs) from a £10m investment is c£500k per annum. When the Policy is implemented (i.e. assets are purchased), the MTFP will be updated accordingly.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

- 6.1 The report meets the requirements of the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Council’s Financial Procedure Rules. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.
- 6.2 The Council’s treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken;
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the MHCLG has issued Investment Guidance to structure and regulate the Council's investment activities; and
- Under Section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices.

6.3 The Council's strategies explain how it complies with this legal framework.

6.4 As per Article 4 of the Council's Constitution the Treasury Management Strategy and Capital Investment Strategy form part of the Council's Policy Framework. It therefore requires the approval of Full Council.

7 DATA PROTECTION IMPLICATIONS

7.1 A Data Protection Impact Assessment (DPIA) has not been completed because there are no service, policy or organisational changes being proposed.

8 EQUALITY IMPACT ASSESSMENT

8.1 An Equality Impact Assessment (EqIA) has not been completed because there are no service, policy or organisational changes being proposed.

9 COMMUNITY SAFETY IMPLICATIONS

9.1 There are no community safety implications.

10 HEALTH AND WELLBEING IMPLICATIONS

10.1 There are no health and wellbeing implications.

11 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

- 11.1 The Council is required to approve a Treasury Management Strategy and Capital Strategy.

12 BACKGROUND PAPERS

- 12.1 None

13 APPENDICES

Appendix 1: Treasury Management Strategy
Appendix 2: Capital Investment Strategy

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577.