DRAFT TREASURY MANAGEMENT STRATEGY 2020/21

1 **Introduction**

1.1 The Authority both borrows and invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

1.2 Treasury risk management for local authorities is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires each authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2 **Borrowing Strategy**

2.1 The authority will continue to need to take borrowing in support of funding its capital programme. The chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

2.2 With short-term interest rates currently lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead. By doing so, the Council can reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

3 **Investment Strategy**

3.1 On a day to day basis the Council can hold significant surplus funds representing income received in advance of expenditure requirements, in addition to balances and reserves held. In the past 12 months, the Council's investment balance has ranged from £15 to £50 million, reflecting in particular the profiles of capital spending, grant funding, short term borrowing levels and long term debt repayments.

3.2 Cash flow surpluses can be considered as falling into three categories –

- Short-term funds that are required to meet cash flows occurring in the next month or so, and for which the preservation of capital and liquidity is therefore of paramount importance. Generating investment returns is of limited concern here, although should not be ignored. Instant access AAA-rated money market funds and bank deposit accounts will be the main methods used to manage short-term cash.

- Medium-term funds that may be required in the next one to twelve months will be managed concentrating on security, with less importance attached to liquidity but a slightly higher emphasis on yield. The majority of investments in this period will be in the form of fixed term deposits with banks and building societies. A spread of counterparties and maturity dates will be maintained to maximise the diversification of credit and interest rate risks.

- Long-term funds that are not required to meet any liquidity need and can be invested with a greater emphasis on achieving higher returns. Security remains fundamental however, as any losses from defaults will impact on the total return. Liquidity is of lesser concern, although it should still be possible to sell investments with due notice if large cash commitments arise unexpectedly. This is where a wider range of instruments, including structured deposits, certificates of deposit, gilts, corporate bonds and pooled funds in bond, equity and property funds, which could be used to diversify the portfolio.

3.3 Given the increasing risk and very low returns from short-term unsecured bank investments, the Authority aims to diversify into secure higher yielding asset classes during 2020/21. This is especially the case for amounts estimated to be available for longer-term investment. All of the Authority's surplus cash is currently invested in short-term unsecured bank deposits and money market funds along with fixed term deposits with other local authorities and the Debt Management Office (DMO). This diversification will represent a change in strategy over the coming year.

4 Changes to Reporting of Lease Commitments

4.1 For the financial year ending 31 March 2020/21, there are changes to the accounting treatment of operating leases. Operating leases have previously been charged to the service area each month as they have been incurred. These leases are now required to be included as an asset and corresponding liability on the balance sheet. This is a change in accounting treatment only and will have no operational effect, however, as this will result in additional borrowing being reported, there will be an impact on the borrowing limits and indicators set for 2020/21.

4.2 The impact of this change is still being quantified and therefore a number of areas in the Treasury Management Strategy which are likely to be subject to change.

5 Investment Criteria and Treasury Management Indicator for 2020/21

5.1 The proposed investment criteria and treasury management indicators are expected to be essentially the same as were agreed last year, but will be impacted by the change in accounting treatment for leases, as mentioned above.

5.2 As the impact of the change in accounting treatment for leases is still being quantified, these criteria and indicators are yet to be finalised.