SURREY
COUNTY COUNCIL

Audit & Governance Committee
29 January 2020

Treasury Management Strategy Statement 2020/21

Purpose of the report:

This report sets out the Council's Treasury Management Strategy for 2020/21, as required, to ensure compliance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code).

Recommendations:

The Audit and Governance Committee is asked to approve the Treasury Management Strategy Statement (TMSS) for 2020/21 including the Prudential Indicators.

Introduction:

1. The Audit and Governance Committee is asked to approve the Treasury Management Strategy Statement (TMSS) for 2020/21 including the Prudential Indicators.

2. The TMSS is a key part of the Council's overall financial strategy and has been developed alongside the 2020/21 revenue budget and capital programme, with advice from the Council's Treasury Management Advisor, Arlingclose.

3. The TMSS sets out the approach taken by the Council to managing cash flows and associated risks, particularly our borrowing strategy and the safeguarding of our investments. The TMSS ensures that the full costs of funding the capital programme are prudent, sustainable and affordable and that our cash balances are safeguarded whilst delivering an investment return.

4. The Resources & Performance Select Committee provided scrutiny of the draft TMSS on 24 January 2020 and the Final TMSS, in Appendix 1, has been recommended for approval by Cabinet at its meeting 28 January 2020.

6 **Overview of Treasury Management:**

Summary

5. Treasury Management covers two main areas; borrowing and investment. Together, these manage the Council's overall cash position. The Council's cash position is dictated by three factors:

   - Past and projected borrowing;
   - The level of reserves; and
   - The timing of income and expenditure.

6. The Council works proactively with Arlingclose, to set the strategy and ensure that the best balance is struck between minimising cost, safeguarding investments and managing risk.

7. The Council's approach to treasury management is supported by key prudential and treasury indicators, which are set out in Annex 1 to the TMSS.

Borrowing

8. Managing the cost of the Council's borrowing is at the heart of the strategy.

9. The Council only borrows to fund capital expenditure after the application of grants, contributions and capital receipts. However, the level of external debt, has historically been substantially less than the underlying borrowing requirement. This is because the Council is able to use its internal resources (reserves and cash surpluses) to minimise the need to borrow externally.

10. Where external borrowing is required, a balance must be struck between taking advantage of low interest rates for short-term borrowing and the certainty that comes with long-term fixed rate loans. The Council continually monitors prevailing economic conditions against its borrowing requirement and seeks regular advice from Arlingclose on the best balance between short and long-term debt.

11. At present, a focus on short-term borrowing has been determined to represent the best balance between cost minimisation and risk management but this is kept under constant review.

12. The TMSS sets limits on the level of overall external debt – an operational boundary. This sets an indication of the expected maximum debt at any given time and an authorised limit which is an absolute legal cap on our total debt, set according to statute.

Investment

13. The Council usually receives income (for example from Council Tax, Business Rates and Government Grant) in advance of incurring expenditure, leading to surplus cash balances. These are used in the first instance to minimise external borrowing as in the prevailing external environment, the cost of borrowing exceeds available returns from investment. However, the Council needs to maintain a prudent level of liquidity (ability to access cash) and so a level of investment activity is required. 6

14. The Council maintains relatively low levels of cash balances as it has the ability to access cash quickly and cheaply via borrowing from other Local Authorities. As such the focus for investment is on security and liquidity, rather than high interest rate returns. Security is of paramount concern, particularly given current uncertain economic conditions.

15. The TMSS sets out the approach to investment, including approved limits for investment counterparties, set according to their credit limit, and maximum amounts to be invested with any one counterparty.

Conclusion:

16. The TMSS sets out the Council's strategy for managing its borrowing and investments to deliver best value for money and a balanced approach to managing risk. The TMSS has been set out according to the legal framework and best practice and supports the delivery of the Council's budget, capital programme and Medium Term Financial Strategy.

Financial and value for money implications

17. The impact of this strategy on the interest paid and interest receivable budgets are included within Appendix 1 and have also been factored into the Medium-Term Financial Strategy for 2020/21.

Equalities and Diversity Implications

18. There are no direct equalities implications of this report.

Risk Management Implications

19. The Authority measures and manages its exposures to treasury management risks using indicators outlined in Annex 1 of Appendix 1.

Next steps:

20. The Treasury Team will monitor borrowing and cash investments and will continue to update this Committee as appropriate.

21. A half-year monitoring report and full-year report for 2020/21 will be presented to this committee.

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Sources/background papers:

- CIPFA Code of Practice for Treasury Management in the Public Services (Revised)
- 2020/21 Final Budget and Medium-Term Financial Strategy, 28 January 2020