

## BRECKLAND DISTRICT COUNCIL

**Report of: Suzanne Jones, Executive Director Commercialisation**

**To: Governance and Audit Committee 9<sup>th</sup> December 2016**

**Author: Suzanne Jones, Executive Director Commercialisation**

**Subject: Treasury Management Policy & Strategy 2017-18**

**Purpose: This report outlines the Council's Prudential Indicators for 2017/18 – 2020/21 and sets out the expected treasury operations for this period and requests approval for the Treasury Management Policy, Strategy and Prudential Indicators for 2017/18 – 2020/21**

### **Recommendation(s):**

- 1) To recommend to Full Council that the following be approved:
  - a) The Treasury Management Strategy 2017-18 to 2020-21 at **Appendix A**
  - b) The Minimum Revenue Provision (MRP) statement contained within **Appendix A** which sets out the Council's policy on MRP
  - c) The Prudential Indicators and limits contained within **Appendix A** (Tables 1-10)
  - d) The Investment Strategy 2017-18 (**Appendix B**) and the detailed criteria included in **Appendix B1**
  - e) The Treasury Management Policy at **Appendix B2**

### **1.0 BACKGROUND**

- 1.1 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.

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.

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."*

### **1.2 Reporting Requirements**

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.

**Prudential and treasury indicators and treasury strategy** (this report) – the first and most important report 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).

**A mid-year treasury management report** – This updates 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. (Report is also an agenda item at this meeting)

**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.

**Scrutiny** – The above reports are required to be adequately scrutinised and this role is undertaken by the Governance and Audit Committee.

### **1.3 Treasury Management Strategy for 2017-18**

The strategy for 2017-18 covers two main areas:

Capital issues

- The capital plans and the prudential indicators
- The minimum revenue provision (MRP) policy.

Treasury management issues

- The current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- the investment strategy;
- creditworthiness policy; and
- policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DCLG MRP Guidance, the CIPFA Treasury Management Code and DCLG Investment Guidance.

### **1.4 Training**

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Treasury training for Members last took place 11<sup>th</sup> December 2015. Further training is planned for the February Governance and Audit Committee meeting. The training needs of treasury management officers are reviewed on an ongoing basis.

### **1.5 Treasury management consultants**

The Council uses Capita Asset Services (Treasury Solutions) as its external treasury management advisors and a contract is in place until March 2017.

The Council recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

## **1.6 Summary of main changes and key issues**

A summary of the main points to note within this report are detailed below:

- No change to the MRP policy.
- No change to counterparty limits.
- Due to the timing of writing this report, the budget information is as at 25/11/2016 and may be subject to change as it progresses to Cabinet and Council in February 2017.
- The Council continues to use Capita's colour coding methodology to select suitable counterparties and holds instant access cash in AAA rated Constant Net Asset Value (CNAV) Money Market Funds (MMFs) in line with its policy. All MMF's that have European funds have adopted an approach whereby technically they are still a CNAV fund but in reality in a negative interest rate environment the Council could get back less than the full value of its shares. Capita have advised (November 16) that they still support the use of these MMF's because MMF's would reduce fees to ensure they did not enter a negative interest rate environment and if we did enter such an environment, all investments would be at risk. In addition, we would be warned that the MMF was entering a negative interest rate environment. Capita consider a strategy where a counterparty is solely selected on the basis of a true CNAV to be flawed. However, because we have been specifically notified of this risk by the MMF's, we have been exploring new instant access accounts which will offer reduced interest but aim to reduce the risk of losing principle. We have opened a Government deposit facility (DMADF) which earns 0.15% and we have re-opened the Handelsbanken instant access account also at 0.15%. This is a non-UK counterparty and the balance will reflect any other non-UK investments out at any given time. A further instant access account is required so until such time as we open a further account we will still have some funds in the CNAV MMF's (which does still remain within policy but it is desirable to zero these balances as soon as possible).

The 17/18 Policy document (Appendix B1 and B2) recommends that MMF's without a true CNAV are removed from the approved counterparty list from 01/04/2017.

## **2.0 OPTIONS**

2.1 Recommend to Full Council to approve the recommendations.

2.2 Recommend to Full Council to approve the recommendations with amendments.

## **3.0 REASONS FOR RECOMMENDATION(S)**

3.1 To comply with the Local Government Act 2003 and to safeguard the Council's financial assets.

## **4.0 EXPECTED BENEFITS**

4.1 To comply with the Local Government Act 2003 and to safeguard the Council's financial assets.

## **5.0 IMPLICATIONS**

### **5.7 Financial**

5.7.1 Financial information is included within the report

### **5.9 Risk Management**

5.9.1 Risk is addressed in TMP1 within the Treasury Management Policy.

6.0 **WARDS/COMMUNITIES AFFECTED**

6.1 N/A.

7.0 **ACRONYMS**

7.1	CFR	Capital Financing Requirement
	CDS	Credit Default Swap
	CIPFA	Chartered Institute of Public Finance & Accountancy
	CNAV	Current Net Asset Value
	DCLG	Department for Communities & Local Government
	DMADF	Debt Management Account Deposit Facility
	LIBID	London Inter-bank Bid rate
	MRP	Minimum Revenue Provision
	PFI	Private Finance Initiative
	PWLB	Public Works Loans Board
	TMP	Treasury Management Practice

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Background papers:- None

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**Lead Contact Officer**

Name and Post: Margaret Bailey, Senior Accountant Capital & Treasury

Telephone Number: 01362 656218

Email:Margaret.bailey@breckland.gov.uk

**Key Decision:** No

**Exempt Decision:** No

**This report refers to a Discretionary Service**

**Appendices attached to this report:**

Appendix A – Treasury Management Strategy 2017-18 to 2020-21

Appendix B – Investment strategy 2017-18

Appendix B1 – Treasury Management Practice (TMP) 1

Appendix B2 – Treasury management policy 2017-18

Appendix C – Economic background

Appendix D – Approved countries for investments