

BRECKLAND DISTRICT COUNCIL

Report of: Christine Marshall, Executive Director Commercialisation

To: Governance and Audit Committee 1st December 2017

Author: Christine Marshall, Executive Director Commercialisation

Subject: Mid-year Treasury Management Report

Purpose: This report requests Governance and Audit Committee to note this update on the Treasury Management Strategy, Policy and Prudential Indicators

Recommendation(s):

- 1) That Governance and Audit Committee note the report and the information on treasury activity.

1.0 BACKGROUND

Treasury management is defined 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.”

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return (SLY = Security-Liquidity-Yield).

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 the Council can meet its capital spending operations.

The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised 2011) has been adopted by this Council. The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council (delegated to the Governance and Audit Committee for this Council) of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-Year Review report (this report) and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of the scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Governance and Audit Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of 2017/18;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2017/18;
- A review of the Council's borrowing strategy for 2017/18;
- A review of compliance with Treasury and Prudential Limits for 2017/18.

1.1 SUMMARY OF KEY ISSUES AND CHANGES

- 1.2 The Council's Treasury Advisors, Capita Asset Services were acquired by Link Group on 6th November 2017 and subsequently changed their name to Link Asset Services. There are no changes to the contractual arrangements. The Council continues to use Link Asset Services colour coding methodology to select suitable counterparties. The base rate increased to 0.50% on 2nd November 2017. Further details on the economic outlook are included in Appendix 1 (Update from Link Asset services).

The 18/19 Policy documents are also being presented to this meeting as a separate agenda item. The Department for Communities for Local Government (DCLG) is currently consulting on proposed changes to the Prudential Framework of Capital Finance. No changes are agreed yet but subject to the outcome of the consultation there may be an impact on Local Authority Investment Guidance and Minimum Revenue provision (MRP) guidance. This may require changes to the 18/19 Policy documents (The Treasury management Strategy Statement, The Annual Investment Strategy and the Council's MRP Policy). There may also be a requirement to add information to the Council's Capital strategy.

The key areas under consultation are to improve the transparency of Local Authority financial and non-financial investments and to implement indicators to assess the total risk exposure an authority has resulting from borrowing and investment decisions which include both property and cash investments. The principle of extending Security, Liquidity, Yield (SLY) to non-financial investments is included in the consultation to ensure that any commercial investments such as property purchases are proportionate to the overall budget and income of the Council and are affordable.

A further change in 2017/18 is the "Markets in Financial Instruments Directive II" (MIFID II). This is a new directive which regulates both retail and wholesale investment business and will be effective from 3rd January 2018. The Financial Conduct Authority requires respective clients to be classified into one of the following three categories;

- i) eligible counterparties
- ii) professional clients and
- iii) retail clients.

Local Authorities by default will be categorised as retail clients but to enable us to continue trading as we do now, we need to elect up to professional status and we are currently liaising with financial institutions to ensure business as usual from 3rd January 2018.

2.0 OPTIONS

2.1 That Governance and Audit Committee note the report and the information on treasury activity.

3.0 REASONS FOR RECOMMENDATION(S)

3.1 To comply with the Local Government Act 2003 and to safeguard the Council's financial assets whilst maximising returns with regard to the SLY principles.

4.0 EXPECTED BENEFITS

4.1 To ensure Members are updated regularly on the Treasury Management service so that they can adequately scrutinise treasury management activity.

5.0 IMPLICATIONS

In preparing this report, the author has considered the likely implications of the decision as follows:

5.1 Financial

5.1.1 The report is of a financial nature and financial details are included in the report and appendices .

5.2 Risk Management

5.2.1 I can confirm that risk has been given careful consideration and it is addressed in TMP1 within the Treasury Policy Statement 2017-18.

6.0 WARDS/COMMUNITIES AFFECTED

6.1 N/A

7.0 ACRONYMS

7.1 Acronyms are dealt with within the report or appendices as they occur.

Background papers:- None

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Key Decision: No

Exempt Decision: No

This report refers to a Mandatory Discretionary Service

Appendices attached to this report:

Appendix 1 – Economic Outlook
Appendix 2 – Treasury Management Strategy Statement