

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: Treasury Management Policy & Strategy 2018-19

Purpose: This report outlines the Council's Prudential Indicators for 2018/19 – 2021/22 and sets out the expected treasury operations for this period and requests approval for the Treasury Management Policy, Strategy and Prudential Indicators for 2018/19 – 2021/22

Recommendation(s): To recommend to Full Council that the following be approved:

- a) The Treasury Management Strategy 2018-19 to 2021-22 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 2018-19 (**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 2018-19

The strategy for 2018-19 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, Department for Communities and Local Government (DCLG) Minimum revenue provision (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 24th February 2017. Further training is taking place at this meeting of the Governance and Audit Committee. The training needs of treasury management officers are reviewed on an ongoing basis.

1.5 Treasury management consultants

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 which end 31st March 2020.

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

Consultation

As detailed in the mid-year report, also being presented to this meeting, the Department for Communities and Local Government (DCLG) is currently consulting on proposed changes to the Prudential Framework of Capital Finance. In addition, CIPFA is currently conducting a review of the Treasury Management Code of Practice and the Prudential Code. This review will particularly focus on non-treasury investments and especially on the purchase of property with a view to generating income. Such purchases could involve undertaking external borrowing to raise the cash to finance these purchases, or the use of existing cash balances. Both actions would affect treasury management.

CIPFA has also indicated in its draft proposals that they will be withdrawing the following prudential indicators -

- Incremental impact of capital investment decisions on council tax
- Estimates of the ratio of financing costs as a percentage of net revenue stream for three years ahead
- Actual ratio of financing costs to net revenue stream (after the year-end)

CIPFA have also indicated that they will change the requirement to report on investments for longer than 364 days to longer than 365 days

No indicators have been removed from, or new ones added to the proposed 18/19 Policy as the above is currently only at consultation or proposal stages. 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. ***If any changes are required these will be reported back to the next available meeting to ensure the 18/19 Policy documentation remains compliant.***

Investment returns

The investment environment remains challenging. Alternative investment instruments such as: Ultra Short Dated Bond Funds, Corporate Bonds and Property Funds remain available under the 18/19 Policy but there are varying degrees of and types of risks associated with such asset classes. Credit risk, liquidity risk, interest rate risk and market risk, which are often intertwined and any option in which an investor hopes to generate an elevated rate of return will almost always introduce a greater level of risk so whilst these remain available, separate approval will be sought for certain types of investment as set out in Appendix B2

As from 21 July 2018, there will be three structural options for existing Money Market Funds; Constant Net Asset Value Funds, Low Volatility Net Asset Value Funds, and Variable Net Asset Value Funds. The only true Constant Net Asset Fund (where there is no valuation change) is the Debt Management Account Deposit Facility (DMADF) which is listed separately on the Council's counterparty list at Appendix B2. Money Market Funds including Ultra Short Dated Bond Funds have been added back to the Council's 18/19 Policy but will only be used as a last resort. Link Asset Services will support the Council to determine which funds are appropriate.

Markets in Financial Instruments Directive II

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 institution to ensure business as usual from 3rd January 2018.

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**

5.1 **Financial**

5.1.1 Financial information is included within the report

5.2 **Financial**

5.2.1 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 - Constant Net Asset Value
DCLG – Department for Communities & Local Government
DMADF - Debt Management Account Deposit Facility
HRA – Housing Revenue Account
LIBID - London Inter-bank Bid rate
MPC – Monetary Policy Committee
MRP - Minimum Revenue Provision
PFI - Private Finance Initiative
PWLB - Public Works Loans Board
TMP - Treasury Management Practice
VRP – Voluntary Revenue Provision

Background papers:- None

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Key Decision: No
Exempt Decision: No

This report refers to a Discretionary Service

Appendices attached to this report:

Appendix A – Treasury Management Strategy 2018-19 to 2021-22

Appendix B – Investment strategy 2018-19

Appendix B1 – Treasury Management Practice (TMP) 1

Appendix B2 – Treasury management policy 2018-19

Appendix C – Economic background

Appendix D – Approved countries for investments