

BRECKLAND DISTRICT COUNCIL

Report of: Christine Marshall, Executive Director Commercialisation

To: Governance and Audit Committee 16th February 2018

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Subject: Update to Treasury Management Policy & Strategy 2018-19

Purpose: This report updates the Council's Prudential Indicators for 2018-19 to 2021-22 to meet the requirements of the revised CIPFA Treasury Management Code of Practice and the revised Prudential Code. It sets out the expected treasury operations for this period and requests approval for the updated Treasury Management Policy, Strategy and Prudential Indicators for 2018-19 to 2021-22

Recommendation(s): To recommend to Full Council that the following updated documents are 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 1-9)
- 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

In late December 2017 (after the last Governance & Audit Committee meeting), CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focused 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 and has led to the requirement to update the Treasury Policy and Strategy.

Where changes to the Appendices previously approved have occurred as a result of the new Codes, this shows in red. In addition, we have taken the opportunity to update the tables in Appendix A to reflect the latest budget position being presented to Council in February 2018.

The application of the new Codes may be subject to further amendment in the light of any additional commentary from CIPFA, in particular we are awaiting the detailed Guidance to each Code and the revised Investment Guidance and Minimum Revenue Provision Guidance from the MHCLG.

2.0 Summary of main changes since report to Governance & Audit Committee in December 2017

Definition

The word borrowing has been added to the Treasury Management definition, CIPFA now define Treasury management as:

"The management of the local authority's borrowing, 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.”

Prudential Indicators

As a result of the revised Treasury Management Code of Practice and a revised Prudential Code, the Prudential Indicators (Appendix A) in the revised Prudential Code 2017 are as before, with the exception of the following:

- Net Debt and the CFR prudential indicator have been updated to Gross Debt and the CFR (Appendix A table 6).
- The prudential indicator requirement to note the approval of the Treasury Management Code has been removed.
- The incremental impact on the Council tax/Housing Rents prudential indicators have been removed (previously table 6 in Appendix A of 1st December report to Governance & Audit Committee).

CIPFA have not yet updated the Treasury Management Code of Practice Guidance notes and as such there may be further changes to Treasury Indicators. If there are changes, these will be reported to Governance & Audit Committee in the 18-19 mid-year report.

Investment guidance

The MHCLG revised guidance on Investment has not yet been issued. This will focus particularly on non-financial asset investments. It is expected that the 364 day limit specified in the previous investment guidance will be changed to 365 days and this report assumes the new 365 days (Appendix B Table 1).

MRP guidance

The MHCLG revised guidance on MRP has not yet been issued. This will focus particularly on expenditure on purchasing non-financial asset investments.

Treasury Management Policy Statements (TMP's)

TMP1 and TMP4[6] at Appendix B have been updated to reflect the new Codes. Further amendments to TMP's will be required once more detailed guidance is issued.

Role of S151 Officer

The list of specific responsibilities assigned to the S151 in the 2017 Treasury Management Code has not changed. However, implicit in the changes in both Codes, is a major extension of the functions of this role, especially in respect of non-financial investments, (which CIPFA has defined as being part of treasury management) with security and portfolio liquidity when investing treasury funds being a priority.

The Investment Policy Statement in Appendix B has been updated to reflect this revised definition

The following are examples of additional responsibilities required in the management of non-financial investments.

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money.
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority.

- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing.
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources.
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities.
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees.
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority.
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above.
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following:
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
 - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*
 - *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
 - *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

CIPFA have issued a statement acknowledging the late issue of both Codes and as such, full implementation is not expected until 2019-20 across all authorities. However, the Council will need to be mindful during 2018-19 of the additional responsibilities and reporting requirements. TMP's will be updated in accordance with the new code and will set out how non-financial investments will be carried out and managed.

Capital Strategy

As required under the extended S151 responsibilities above, from 2019-20, all local authorities will be required to prepare an additional report, a Capital Strategy report, which is intended to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this report is to ensure that all elected members on the Full Council fully understand the overall strategy, governance procedures and risk appetite entailed by this Strategy.

This Council already prepares an annual Capital Strategy which is an appendix to the budget setting report to Council. However, the 18-19 Strategy does not fully reflect the requirements of the new Prudential and Treasury Management Codes. This will be reviewed during 2018-19 to implement the required changes for the 2019-20 Capital Strategy report.

The Capital Strategy does not form part of the Treasury reports received by Governance and Audit Committee but new TMP's will refer to the Capital Strategy to demonstrate how non-financial investments will be carried out and managed.

As at 31 December 2017, the Council held £29m in cash deposits and £34m in investment properties (those properties which generate an ongoing return).

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 **Risk**

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
MHCLG – Ministry for Housing, 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