

BRECKLAND DISTRICT COUNCIL

Report of: Councillor Phillip Cowen, Executive Member Finance

To: Governance and Audit Committee, 14th December 2018

Author: Christine Marshall, Executive Director Commercialisation & S151

Purpose: The report is a mid-year update on treasury activity

Recommendation:

- 1) That Governance and Audit Committee agree the mid-year report and information on treasury activity

1.0 BACKGROUND

Treasury management is defined 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”

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.

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 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.

- 1.1 The new Chartered Institute of Public Finance Accountancy (CIPFA) Code of Practice on Treasury management and the Prudential Code are effective from 01/04/2018. They include the revised Ministry for Communities, Housing and Local Government (MCHLG) statutory guidance on Local Government Investments
- 1.2 The definition of an investment now covers all the financial assets of the organisation, as well as other non-financial assets which the organisation holds primarily for financial returns, such as investment property portfolios. This may include investments which are not managed as part of normal treasury management or under treasury management delegations. All investments require an appropriate investment management and risk framework
- 1.3 The anticipated changes to both the Treasury Policy and Strategies and the Capital Strategy was reported to Governance and Audit Committee on 16th February 2018. CIPFA did not anticipate the changes being implemented in full until 19/20 and this report therefore highlights the key changes that are proposed. The Capital strategy will be put forward for approval as part of the budget setting report to Council in February and the proposed amendments to the Treasury documentation will be put forward to Governance and Audit Committee in February 2019.

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

- Key changes to documentation proposed to comply with the new Code of Practice and Prudential code;
- An economic update for the first half of 2018/19;
- 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 2018/19;
- A review of the Council's borrowing strategy for 2018/19;
- A review of compliance with Treasury and Prudential Limits for 2018/19

2.0 **KEY CHANGES TO DOCUMENTATION**

For 2019-20 the Treasury Management Policies and Prudential Indicators must be more closely aligned to the Council's Capital strategy. The Capital Strategy itself will be amended to include a new section setting out the Council's approach to non-financial investments. Whilst yield is a determining factor, due consideration will be given to the risks relating to the following and they will either be reported on Pentana or monitored as a risk:

1. failure to create income/exposure to market changes
2. covenant strength/possibility of arrears
3. ongoing management/maintenance of the asset
4. lease arrangements
5. exposure in one sector
6. exposure to one/few tenants
7. exposure to one locality

The additional S151 responsibilities in respect of non-financial investments will also be embedded into the appraisal and approval process for capital and the performance management and reporting process.

In addition, new indicators are proposed in the Treasury Strategy to report yield on financial and non-financial investments and also borrowing in respect of non-financial investments. The new indicator will monitor the extent to which the Council relies on income generating activity to achieve a balanced budget (proportionality indicator). Proportionality in this sense describes the size and risk of commercial activities with regards to the Council's operating and reserves activities.

The management and monitoring of the Treasury Management Policies and Prudential indicators (for financial and non-financial investments) remains the responsibility of Full Council (via the Governance and Audit Committee)

2.0 **OPTIONS**

2.1 That Governance and Audit Committee agree the mid-year report and 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.

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 2018-19.

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 Service

Appendices attached to this report:

Appendix A – Economic Outlook from Link Asset Services

Appendix B – Treasury Management Strategy Statement