

<b>Report of</b>	<b>Assistant Director, Policy &amp; Corporate</b>	<b>Author</b>	<b>Steve Heath</b>
<b>Title</b>	<b>Treasury Management Strategy Statement 2018/19</b>		
<b>Wards affected</b>	Not applicable		

## 1 Executive Summary

- 1.1 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.”
- 1.2 The proposed Treasury Management Strategy Statement (TMSS) for 2018/19, including the Minimum Revenue Provision Policy Statement and Annual Investment Strategy, is included as a background paper to this report. The following paragraphs contain a summary of the strategy for 2018/19, which covers the following issues:
  - the capital plans and the prudential indicators;
  - the Minimum Revenue Provision (MRP) Policy;
  - the current treasury position;
  - treasury indicators which limit the treasury risk and activities of the Council;
  - the economic background and prospects for interest rates;
  - the borrowing strategy;
  - the policy of borrowing in advance of need;
  - debt rescheduling;
  - the investment policy and strategy, and credit worthiness policy;
  - the policy on use of external service providers.

## 2 Action required

- 2.1 The Panel is asked to review the 2018/19 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy prior to it being considered by Cabinet and Full Council as part of the 2018/19 budget report.

## 3 Reason for scrutiny

- 3.1 The Council agreed to adopt the revised CIPFA Treasury Management in the Public Services Code of Practice on 17 February 2010. The Code requires the Council to approve an annual Treasury Management Strategy Statement, which should be submitted for scrutiny prior to the start of the year to which it relates, and to keep treasury management activities under review.
- 3.2 The Local Government Act 2003 introduced new freedoms for local authorities though the prudential borrowing framework. It also requires the Council to set Prudential and Treasury Indicators to ensure that capital investment plans are affordable, prudent and sustainable.

## 4 Treasury Management Strategy

- 4.1 The Council's Prudential and Treasury Indicators for 2018/19 through to 2020/21 have been produced to support capital expenditure and treasury management decision making, and are designed to inform whether planned borrowing and the resultant revenue costs are affordable and within sustainable limits. The indicators take into account all the economic forecasts and proposed borrowing and investment activity detailed in the report, as well as the latest medium term revenue and capital forecasts. The main Prudential and Treasury Indicators are summarised in the table below:

£'000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Total Capital Expenditure	22,095	26,304	38,604	36,073	20,637
Net financing need	1,510	2,533	10,263	12,662	11,506
Capital Financing Requirement (CFR)	154,597	155,434	163,952	174,624	184,137
Gross Debt	138,794	145,701	155,273	167,322	178,505
Operational Boundary		150,568	159,613	170,973	181,321
Authorised Limit		170,734	180,252	192,024	202,537

- 4.2 The Minimum Revenue Provision (MRP) Policy Statement for 2018/19 states that the historic debt liability will continue to be repaid on an equal instalment basis over a period of 50 years, with the charge for more recent capital expenditure being based on the useful life of the asset and charged using the equal annual instalment method.
- 4.3 The UK bank rate was increased from 0.25% to 0.50% in November 2017. This reversed the emergency cut in August 2016 after the EU referendum. The current view from the Council's treasury advisers, Link Asset Services, is that the Bank Rate is now expected to remain unchanged until quarter 4 of 2018, and not to rise above 1.25% by quarter 1 of 2021. **Appendix A** to the TMSS draws together a number of current forecasts for short term and longer term interest rates.
- 4.4 The Council is currently maintaining an under-borrowed position. The borrowing strategy is to reduce the difference between gross and net debt by continuing to 'borrow internally', which is primarily due to investment rates on offer being lower than long term borrowing rates. This has the advantages of maximising short-term savings and reducing the Council's exposure to interest rate and credit risk. However, against this, the long term saving resulting from borrowing at very low rates will be considered. Consequently this approach will be kept under review during the year.
- 4.5 The TMSS and Prudential and Treasury Indicators take into account the requirements for new borrowing summarised in the table below. The decision regarding when to borrow will be taken in view of the borrowing strategy, the interest rates forecast, and the target rates for borrowing advised by Link Asset Services.

New Borrowing £'000	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
CNGN Sports Hub	0	0	1,380	0
Sheepen Road Phase 2	0	1,500	0	0
Waste Fleet	0	4,340	1,275	205
Tackling Homelessness	0	916	0	0
HRA - Housing Investment Programme	2,251	0	0	0
Energy Company	282	0	2,300	0
Housing Company	0	3,507	7,707	11,301
<b>Total</b>	<b>2,533</b>	<b>10,263</b>	<b>12,662</b>	<b>11,506</b>

- 4.6 Investment instruments identified for use in 2018/19 are detailed in **Appendix B** of the TMSS. It should be noted that whilst this table includes a wide range of investment instruments, it is likely that a number of these will not be used. However, their inclusion enables the required credit controls to be stated if their use is to be considered. The monetary limits for Banks and Building Societies have each been increased by £2.5m to

take into account possible fluctuations in the Council's cash flow arising from the new borrowing requirements detailed above as well as the creation of the new commercial companies.

- 4.7 The investment policy reflects the Council's low appetite for risk, emphasising the priorities of security and liquidity over that of yield. Its main features are as follows:
- The Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties, which also enables diversification and avoidance of concentration risk.
  - The Council applies the creditworthiness service provided by Link Asset Services, which combines ratings and other data from credit rating agencies with credit default swaps and sovereign ratings.
  - The Council will only use approved counterparties from countries with a minimum credit rating of 'AA-', based on the lowest available rating (**Appendix C**). However, this policy excludes UK counterparties.
  - The suggested budgeted return on investments placed for periods up to 100 days during the year is 0.60%.

## **5 Strategic Plan references**

- 5.1 Prudent treasury management underpins the budget strategy required to deliver all Strategic Plan priorities.

## **6 Financial implications**

- 6.1 Interest paid and earned on borrowing and investments is shown within the Central Loans and Investment Account (CLIA). The strategy documents have been produced with reference to the agreed CLIA budget for 2018/19.

## **7 Risk management implications**

- 7.1 Risk Management is essential to effective treasury management. The Council's Treasury Management Policy Statement contains a section on treasury Risk Management (TMP1).
- 7.2 TMP1 covers the following areas of risk all of which are considered as part of our treasury management activities:
- Credit and counterparty risk
  - Liquidity risk
  - Interest rate risk
  - Exchange rate risk
  - Refinancing risk
  - Legal and regulatory risk
  - Fraud, error and corruption, and contingency management
  - Market risk

## **8 Other standard references**

- 8.1 Having considered consultation, publicity, equality, diversity and human rights, community safety, and health and safety implications, there are none that are significant to the matters in this report.

## **Appendices**

None

## **Background Papers**

Treasury Management Strategy Statement 2018/19