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Appendix 1 - Treasury Management Strategy 2019/20
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1 THE ISSUE

1.1 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

1.2 Treasury management is the management of the Authority's cash flows, borrowing and investments, and the associated risks. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk are therefore central to the Authority's prudent financial management.

1.3 Investments held for service purposes or for commercial profit are considered in the Capital and Investment Strategy within the Budget Report which is also included on this meeting's agenda.

2 RECOMMENDATIONS

The Corporate Audit Committee is asked to note –

- The actions proposed within the Treasury Management Strategy Statement (Appendix 1) to February Council and the Investment Strategy as detailed in Appendix 2 to February Council.

- The Treasury Management Indicators detailed in Appendix 1

3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

3.1 The resource implications are included in the report and appendices.

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

4.1 This report is a statutory requirement.

5 THE REPORT

Background

5.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

5.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

5.3 The suggested strategy for 2019/20 in respect of the following aspects of the treasury management function is based on the Treasury Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor, Arlingclose.

The strategy covers:

•	Treasury limits in force which will limit the treasury risk and activities of the Council;
•	Treasury Management Indicators;
•	The current treasury position;
•	The borrowing requirement;
•	Prospects for interest rates;
•	The borrowing strategy;

•	The investment strategy.

5.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure (which includes investments expected to produce revenue savings and generate new income) must be limited to a level whereby the net impact on the revenue budget from: -

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any net increases in running costs from new capital projects , and
3. increases in the Minimum Revenue Provision for capital expenditure

Increases are limited to a level which is affordable within the overall projected income of the Council for the foreseeable future.

5.5 Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code). This requires the Treasury Management Strategy and policies to be scrutinised by an individual / group of individuals or committee, and the Corporate Audit Committee have been nominated by Council to carry out this function, and the report is on the agenda for the 7th February 2019 meeting.

2019/20 Treasury Management & Investment Strategy

5.6 The Strategy Statement for 2018/19 set Treasury Indicators for 2018/19 – 2020/21, which included a total borrowing requirement at the end of 2018/19 of £405 million. At the end of December 2018, external borrowing was at £206.7 million, which may increase before the end of the 2018/19 financial year should a review of the Council's cashflow and capital investment decisions highlight additional borrowing is required. The level of borrowing is in line with the policy of utilising internal cash to reduce net borrowing costs and investment counterparty risk.

5.7 The proposed Treasury Management Strategy is attached as Appendix 1 and includes the Treasury Management Indicators required by the Treasury Management Code.

5.8 Although the indicators provide for a maximum level of total borrowing, this should by no means be taken as a recommended level of borrowing as each year affordability needs to be taken into account together with other changes in circumstances, for example revenue pressures, levels and timing of capital receipts, changes to capital projects spend profiles, and levels of internal cash balances.

5.9 The Budget Report, which is also on the agenda, includes appropriate provision for the revenue costs of the capital programme in accordance with this Treasury Management Strategy.

5.10 Appendix 1 also details the Council's current portfolio position as at 31st December 2018, which shows after the netting off of the £53.2 million investments, the Council's net debt position was £153.5 million.

5.11 The 2019/20 Investment Strategy is attached at Appendix 2. This sets 'outer limits' for treasury management operations. While the strategy uses credit ratings in a "mechanistic" way to rule out counterparties, in operating within the policy Officers complement this with the use of other financial information when making investment decisions, for example Credit Default Swap (CDS) prices, Individual Ratings, and the financial press. This has been the case in previous years, which has protected the Council against losses of investment, for example in Icelandic banks.

5.12 The Counterparty listing in Appendix 3 includes credit ratings from three agencies, as well as a sovereign rating for each country. Counterparties who now meet the minimum criteria as recommended in Appendix 2 as at 31st December 2018 are included in the listing in Appendix 3.

5.13 Interest rate forecasts from the Council's Treasury advisors are included in Appendix 4.

5.14 The Council has met the conditions to opt up to MiFID II professional status and intends for this to continue in 2019/20 in order to continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to continue to receive the same level of support from our treasury management advisors.

6 RATIONALE

6.1 This report is a statutory requirement.

6.2 In accordance with the CLG Guidance, the Council will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates, or in the Authority's capital programme or in the level of its investment balance.

7 OTHER OPTIONS CONSIDERED

7.1 The Chief Financial Officer, having consulted the Cabinet Member for Finance and Efficiency, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are the table below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

8 CONSULTATION

8.1 Consultation has been carried out with the Cabinet Member for Finance & Efficiency, Section 151 Finance Officer and Monitoring Officer.

8.2 Consultation was carried out via e-mail.

9 RISK MANAGEMENT

9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

9.2 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management consultants Arlingclose.

9.3 The 2017 edition of the CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Corporate Audit Committee carries out this scrutiny.

9.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

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Background papers	*2018/19 Treasury Management & Investment Strategy.*
Please contact the report author if you need to access this report in an alternative format	