

## **TREASURY MANAGEMENT STRATEGY 2017/18 TO 2019/20**

Report of the: Director of Finance and Resources  
Contact: Lee Duffy  
Annexes/Appendices (attached): **Annexe 1 – Treasury Management Strategy**  
Other available papers (not attached): None Stated

### **REPORT SUMMARY**

**This report recommends the adoption of the updated Treasury Management Strategy 2017/18 to 2019/20.**

### **RECOMMENDATION (S)**

**That the Council adopt the updated Treasury Management Strategy 2017/18 to 2019/20.**

*Notes*

## **1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy**

- 1.1 The Council's Treasury Management Strategy supports the achievement of the Council's Medium Term Financial Strategy.

## **2 Background**

- 2.1 The Council holds investments averaging a balance of around £30m, but this fluctuates depending upon the level of reserves and cash flow surpluses. Depending on investment returns, the Council budgets to use around £200,000 of interest per annum to finance Council services or to maintain the value of provisions for future expenditure and commitments.
- 2.2 The Treasury Management Strategy sets out the management of risks associated with the treasury management service.
- 2.3 The Council is required to prepare a Financial Strategy for Treasury Management in line with CIPFA Prudential Code and Code of Practice on Treasury Management.
- 2.4 The Council recently secured borrowing to finance the purchase of two commercial properties costing c£19 million. In February 2017 Council agreed that borrowing could be increased to up to £80 million to fund further property acquisitions and agreed a number of Treasury Management indicators and limits associated with this decision.

- 2.5 The updated Treasury Management and Investment Strategies set out in the **Annexe** to this report are compliant with CIPFA Code of Practice on Treasury Management and were considered by the Strategy and Resources Committee at its meeting on 4 April 2017 taking into account the decision of Council in February.

### 3 Proposals

- 3.1 A large proportion of the Treasury Management Strategy remains the same as last year but this section aims to highlight any significant changes made on the previous year's Strategy.
- 3.2 The Prudential Indicators in Section 2 of the Strategy have been updated to reflect the latest figures approved by Council, with borrowing increasing to £80 million in 2017/18 and the level of investments expected to remain around £25 million until 2019/20.
- 3.3 Section 3 of the Strategy has been expanded when compared to last year as a result of the Council approving borrowing to finance the acquisition of commercial property. The CFR has increased as a result of this and in 2017/18 this reflects the £80 million approved borrowing agreed by Council in February 2017 less any MRP contributions made from revenue in that year.
- 3.4 Section 3 also includes a forecast for PWLB borrowing rates as the Council now has long term debt the prospects for interest rates on loans becomes more critical and should influence the Council's strategy on any future borrowing.
- 3.5 The Annual Investment Strategy in Section 4 has been amended from previous years with a request to increase counterparty limits to £5 million from £2.5 million. The reason for this is that since 2008 the credit ratings for eligible counterparties has reduced substantially and this has resulted in fewer institutions available for the Council to place investments. Independent advice was sought to allow for more effective investment of Council funds, and it was suggested that the Council should look to increase individual counterparty limits rather than allow investment with lower grade institutions.
- 3.6 In Section 5 the Strategy recommends a policy for the Council's treatment for MRP, with Asset Life Method being suggested it means that MRP over the period of the life of asset or loan (for property), e.g. £10m 50 year loan for acquisition of a property will make a charge to revenue of £200,000 per annum.
- 3.7 Section 6 provides an economic update from our independent financial advisors, Capita. This provides economic forecasts for UK and other world economies.
- 3.8 The Treasury Management practices set on in Section 7 have been updated to reflect the changes made in Section 4 of this Strategy.

- 3.9 Section 8 provides an updated list of approved countries for investment, new for 2017/18 are Finland, Hong Kong, USA, UAE, France, Qatar and Belgium.
- 3.10 During consideration of the matter by the Strategy and Resources Committee at its meeting on 4 April 2017, the following points were noted:
- the Financial Policy Panel would continue to receive presentations from the Council's Fund Managers but further training could be arranged as required;
  - the Council always worked to the best advice available at any given time in relation to interest rates and inflation. Investments were generally short term to take account of the volatility in the market;
  - the Council was very unlikely to invest in shares but this option was included in the Strategy to provide maximum flexibility in terms of available options. Officers would seek further approval if considering going down this route;
  - the Council was approaching the point at which it would need to consider how it would finance its capital programme in future;
  - The Municipal Bond Agency would be a new source of borrowing which the Council intended to make use of as and when appropriate as it was anticipated that its borrowing rates would be very competitive. Existing loans could not be transferred to this body.
- 3.11 Accordingly, subject to ratification by Council, the Strategy and Resources Committee approved:
- 3.11.1 The Capital Prudential Indicators and Limits for 2017/18 to 2019/20 contained within the Treasury Management Strategy Statement (Sections 2 and 5);
- 3.11.2 The Treasury Management Statement 2017/18 to 2019/20 and the Treasury Prudential Indicators contained within it (Section 3);
- 3.11.3 The Borrowing Strategy contained within the Treasury Management Statement (Section 3);
- 3.11.4 The Investment Strategy 2017/18 contained within the Treasury Management Strategy Statement (Section 4), including changes to counterparty limits;
- 3.11.5 The Minimum Revenue Provision (MRP) Policy Statement contained within the Treasury Management Strategy Statement (Section 5);
- 3.11.6 The treasury management practices as set out in Section 7 of the Treasury Management Statement; and

3.11.7 Recommended to Council the adoption of the updated Treasury Management Statement 2017/18 to 2019/20.

3.12 The updated Treasury Management Strategy is set out in the attached **Annexe** to this report.

#### **4 Financial and Manpower Implications**

4.1 Expenses on the Treasury Management Strategy and Policy will be managed within the budget provision of £42k for fund management fees and for treasury management advice for both borrowing and investing.

4.2 The treasury management arrangement will help secure the Council's investment (around £30m), assisting in generating budgeted returns to help fund services during the year whilst maintaining that investments are held with secure counterparties.

4.3 **Chief Finance Officers comments:** *Concur with information presented in report*

#### **5 Legal Implications (including implications for matters relating to equality)**

5.1 There are no specific implications for the purposes of this report.

5.2 **Monitoring Officer's comments:** *The legal requirements in respect of treasury management have been properly considered in the preparation of the Strategy.*

#### **6 Partnerships**

6.1 The Council works in partnership with the fund manager and the treasury consultants and a good working relationship is key.

#### **7 Conclusion and Recommendations**

7.1 In summary, the focus of the updated Treasury Management Strategy remains primarily on safeguarding sufficient of the Council's balances in secure and liquid investments to ensure overall stability.

7.2 The Strategy and Resources Committee considered and endorsed the Strategy (attached at **Annexe 1**) at its meeting on 4 April 2017.

**WARD(S) AFFECTED: (All Wards);**