

Treasury Management Strategy Statement and Investment Strategy 2018/19 – Mid-year review

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Purpose of the Report

1. To present the Council's 2018/19 mid-year treasury management performance and seek support of Members for updates to the Treasury Management Strategy for the remainder of the financial year.

Recommendation(s)

2. The Audit Committee are asked to note the actual and forecast treasury performance, and endorse the updated Treasury Management Strategy (strategy attached with amendments highlighted) for recommendation to Council.

Introduction

3. The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services Code of Practice which requires the Council to approve an annual Treasury Management Strategy and report treasury performance mid-year and at the year end.
4. The Treasury Management Strategy Statement (TMSS) for 2018/19 was approved at a meeting of the full Council on 22 February 2018. The Council has 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 risk are therefore central to the treasury management strategy.
5. Following consultation in 2017, CIPFA published new versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and the Treasury Management Code of Practice but has yet to publish the local authority specific Guidance Notes to the latter. The MHCLG published its revised Investment Guidance which came into effect from April 2018.
6. The updated Prudential Code includes a new requirement for local authorities to provide a Capital Strategy, which is to be a summary document approved by full council covering capital expenditure and financing, treasury management and non-treasury investments. The Council will be producing its Capital Strategy for 2019/20 for approval by full Council in February.

Background

7. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.
8. CIPFA has defined Treasury Management as:

“the management of the organisation’s 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.”

9. ‘Investments’ in the definition above 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 therefore include investments which are not managed as part of normal treasury management or under treasury management delegations.
10. The Council has delegated responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee, and for the execution and administration of treasury management decisions to the S151 Officer who will act in accordance with the organisation’s policy statement and Treasury Management Practices (TMPs), and CIPFA’s standard of Professional Practice on Treasury Management.
11. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Specific risks are identified in the Council’s approved Treasury Management Practices. The risks include:
 - Liquidity Risk (Adequate cash resources)
 - Market or Interest Rate Risk (Fluctuations in the value of investments and borrowing).
 - Inflation Risks (Exposure to inflation)
 - Credit and Counterparty Risk (Security of Investments)
 - Refinancing Risks (Impact of debt maturing in future years).
 - Legal & Regulatory Risk (Compliance with statutory and regulatory requirements).
12. The Local Government Act 2003 requires the Council to ‘have regard to’ the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council’s capital investment plans are affordable, prudent and sustainable. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual 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.
13. When the strategy for 2018/19 was written it took into account the Council’s current treasury position and drew upon the forecasts for interest rates provided by the Council’s treasury advisers, leading to the proposed Prudential Indicators included. This has been amended with the most recent forecast provided by the Council’s treasury advisers.
14. The Strategy is attached at Appendix 1 and is split into the following main areas:
 - Background
 - Credit Outlook and Interest Rate Forecast
 - Balance Sheet and Treasury Position
 - Borrowing Requirement and Strategy
 - Investment Strategy
 - Policy on use of financial Derivatives
 - Balanced Budget Requirement
 - 2018/19 MRP Statement
 - Monitoring and Reporting on Treasury Management
 - Other Items

Regulatory Updates

15. As referred above, in 2017 CIPFA consulted on proposed changes, and in December 2017 published updated editions of the:
 - The Prudential Code for Capital Finance in Local Authorities (Prudential Code)
 - Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes (Treasury Management Code)
16. A summary of the major changes are provided below.
 - a. **Capital Strategy** – The Prudential Code includes a requirement to produce a Capital Strategy which provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, and a long-term context of capital expenditure and investment decisions and their associated risks and rewards along with an overview of how risk is managed for future financial sustainability.
 - b. **Prudence and Prudential Indicators** – The requirement on prioritising security and liquidity has been revised: “Authorities should consider a balance between security, liquidity and yield which reflects their own risk appetite but which prioritises security and liquidity over yield.” The range of Prudential Indicators has been updated including deletions and a recommendation of potential indicators to include in the Capital Strategy.
 - c. **Treasury Management Practices (TMPs)** – TMPs set out the operational procedures and ‘rules’ followed by its treasury management staff in managing day to day decisions in respect of the council’s banking, investment and borrowing arrangements. The updated Codes bring recommended wording change for TMPs.
 - d. **Management Practices for Non-Treasury Investments** – New requirement for management practices (similar to TMPs) to be developed and implemented for non-treasury investments (such as commercial investment properties) – providing clearly documented procedures for our approach to commercial investment such as the scope of due diligence to be completed. In practice this is covered in our existing governance arrangements but these will be reviewed to provide further assurance.
 - e. **Definition of investments** –, the definition of ‘investments’ has been widened to include not only financial assets (e.g. cash placed in Money Market Funds) but also non-financial assets held primarily for financial returns such as investment property.
17. A report on the code changes was presented to Audit committee in June 2018 along with an action plan detailing the required actions, key dates and officer responsibility.
18. MHCLG also issued updated Statutory Guidance on Minimum Revenue Provision in February 2018, as previously reported to Audit Committee. This included a number of changes and clarifications regarding the approach to and calculations of a prudent provision for repayment of capital borrowing. This included specific guidance in respect of investment properties and we have added specific content into an updated MRP Policy Statement that is recommended for approval. This is included in Appendix 1C to this report.

Financial Implications

19. There are no additional financial implications in reviewing the attached treasury management strategy.

Background Papers: *Treasury Management Strategy 2018/19 (Full Council February 2018)*
Practical Implications of the Revised Prudential Code, Treasury Management Code, Local Authority Investments and Minimum Revenue Provision (Audit Committee June 2018)