

 Executive 7 February 2018		Agenda Item No. 4
Title	Treasury Management Strategy 2018/19	
For further information about this report please contact	Jenny Clayton & Mike Snow	
Wards of the District directly affected	-	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006?	No	
Date and meeting when issue was last considered and relevant minute number	N/A	
Background Papers	Treasury Management Information via External Advisers, Brokers, External Investment Agents etc.	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes (888)
Equality Impact Assessment Undertaken	No – not relevant

Officer/Councillor Approval		
Officer Approval	Date	Name
Chief Executive/Deputy Chief Executive	22.01.18	Andy Jones
Head of Service	24.01.18	Mike Snow
CMT	17.01.18	
Section 151 Officer	24.01.18	Mike Snow
Monitoring Officer	09.01.18	Andy Jones
Finance	23.01.18	Vicki Forrester
Portfolio Holder(s)	24.01.18	Cllr. Peter Whiting
Consultation & Community Engagement		
None		
Final Decision?		Yes
<i>Suggested next steps (if not final decision please set out below)</i>		

1. **Summary**

- 1.1 This report details the strategy that the Council will follow in carrying out its treasury management activities in 2018/19.

2. **Recommendation**

- 2.1 The District Council approves the:
- Treasury Management Strategy
 - Investment Strategy
 - Minimum Revenue Provision Policy

3. **Reasons for the Recommendation**

- 3.1 The Council is required to have an approved Treasury Management Strategy, Annual Investment Strategy and Minimum Revenue Provision Policy within which its Treasury Management operations will be carried out.
- 3.2 No changes have been proposed to this strategy when compared to the 2017/18 Treasury Management Strategy.

4. **Policy Framework**

4.1 **Fit for the Future (FFF)**

"The Council's FFF Strategy is designed to deliver the Vision for the District of making it a Great Place to Live, Work and Visit. To that end amongst other things the FFF Strategy contains several Key projects.

"The FFF Strategy has 3 strands – People, Services and Money and each has an external and internal element to it. The table below illustrates the impact of this proposal if any in relation to the Council's FFF Strategy."

FFF Strands		
People	Services	Money
External		
Health, Homes, Communities	Green, Clean, Safe	Infrastructure, Enterprise, Employment
<u>Intended outcomes:</u> Improved health for all Housing needs for all met Impressive cultural and sports activities Cohesive and active communities	<u>Intended outcomes:</u> Area has well looked after public spaces All communities have access to decent open space Improved air quality Low levels of crime and ASB	<u>Intended outcomes:</u> Dynamic and diverse local economy Vibrant town centres Improved performance/ productivity of local economy Increased employment and income levels
Impacts of Proposal		
No direct impact	No direct impact	No direct impact
Internal		
Effective Staff	Maintain or Improve Services	Firm Financial Footing over the Longer Term
<u>Intended outcomes:</u>	<u>Intended outcomes:</u>	<u>Intended outcomes:</u>

All staff are properly trained All staff have the appropriate tools All staff are engaged, empowered and supported The right people are in the right job with the right skills and right behaviours	Focusing on our customers' needs Continuously improve our processes Increase the digital provision of services	Better return/use of our assets Full Cost accounting Continued cost management Maximise income earning opportunities Seek best value for money
Impacts of Proposal		
No impact	No impact	To continue to maximize the income earned on our investments whilst first ensuring security and appropriate levels of liquidity.

4.2 Supporting Strategies

Each strand of the FFF Strategy has several supporting strategies. The Treasury Management function is consistent with the relevant supporting strategies.

4.3 Changes to Existing Policies

The Treasury Management function is in accordance with existing policies.

4.3 Impact Assessments

There are no impacts of new or significant policy changes proposed in respect of equalities.

5. Budgetary Framework

- 5.1 The Treasury Management Strategy has a significant impact on the Council's budget through its objective of maximising investment income and minimising interest payable whilst ensuring the security and liquidity of financial resources.

The 2018/19 budget for investment income is as follows:

2018/19 Budget	£000
External Investment Income	781.9
Plus deferred capital receipts interest	23.4
Less HRA allocation	(343.9)
Net Interest to General Fund	461.4

6. Risks

- 6.1 Investing the Council's funds inevitably creates risk and the Treasury Management function effectively manages this risk through the application of the SLY principle. Security(S) ranks uppermost followed by Liquidity (L) and finally Yield(Y). It's accepted that longer duration investments increase the

security risk within the portfolio; however this is inevitable in order to achieve the optimal return and still comply with the SLY principle which is a cornerstone of treasury management within local authorities.

- 6.2 Section 10.6 provides more detail on how the risk is mitigated.
- 6.3 By engaging with our treasury management consultants, the Council is able to tolerate the risks to which it is exposed. Link Asset Services (Link), the Council's consultants, provide regular briefings, alerts and advice in respect of the Council's portfolio. Provision also allows for training so officers responsible for the Council's treasury management function are informed and competent.

7. Alternative Option(s) considered

- 7.1 The Local Government Act 2003 requires the Council to have regard to the CIPFA Treasury Management Code of Practice and to set prudential indicators to ensure the capital programme is affordable, prudent and sustainable. Prudential indicators can be found in Appendix A.
- 7.2 CIPFA Treasury Management Code of Practice requires the annual approval by Council of the Treasury Management Strategy, which will include the Investment Strategy and Minimum Revenue Provision Policy.
- 7.3 CIPFA have recently released Consultation on proposed changes to the Treasury Management Code of Practice and Prudential Code and at the time of drafting this report the revised Codes had not been released. When the new versions are made available, officers will complete a review and if any significant changes are required to this strategy a revised report will be brought to Full Council to approve.
- 7.4 The Annual Investment Strategy and Minimum Revenue Provision Policy must have regard to Secretary of State Guidance. At the time of writing this report the Department for Communities and Local Government had issued a consultation, which would amend the existing guidance. Whilst it is intended that the changes will apply from 2018/19, changes cannot be implemented until the revised guidance is formally released. As per comments in section 7.3, if the revised guidance requires a change to the Annual Investment Strategy and Minimum Revenue Provision Policy, officers will bring a revised report to Full Council.

8. Background

- 8.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 8.2 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 that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic,

any debt previously drawn may be restructured to meet Council risk or cost objectives.

8.3 CIPFA defines treasury management 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."

9. Treasury Management Strategy

9.1 Interest Rate Forecast

- 9.1.1 The major influence on the Council's investments is the Bank of England base rate. The Council has appointed Link as treasury advisors who have provided the following interest rate forecast:

Period	Bank Rate %
Jan 2017 - Nov 2018	0.50
Dec 2018 - Nov 2019	0.75
Dec 2019 - Aug 2020	1.00
Sept 2021 -	1.25

9.2 Borrowing Strategy

- 9.2.1 The Link forecast for the PWLB new borrowing rate is as follows:

Period (years)	PWLB Certainty Rate % (including certainty rate adjustment)		
	5 years	25 years	50 years
Mar 2018	1.6	2.9	2.6
Jun 2018	1.6	3.0	2.7
Sep 2018	1.7	3.0	2.8
Dec 2018	1.8	3.1	2.9
Mar 2019	1.8	3.1	2.9
Jun 2019	1.9	3.2	3.0
Sep 2019	1.9	3.2	3.0

- 9.2.2 The Council's current long term borrowing portfolio consists of £136.157m PWLB debt. These loans were taken out to finance the Housing Revenue Account (HRA) Self Financing settlement and the interest paid on this debt is entirely borne by the HRA and is provided for as part of the HRA Business Plan. The first of these loans is scheduled to be repaid on 28th March 2053 with the final loan being repaid on 28th March 2062. The Council's treasury advisors will monitor the HRA debt portfolio and identify any opportunities for debt restructuring, should these arise.

- 9.2.3 Due to high levels of cash balances, external borrowing to fund the leisure centre refurbishment projects has not yet taken place. We plan to borrow £10.196m as originally envisaged, on 1 April 2018. It is likely that this will consist of two annuity loans, the first for £3.678m for a period of 25 years and the second for £6.518m for 40 years, to match the expected life of the assets financed. Based on borrowing rates at the time of writing this will result in interest and principal repayments of £194.2k per annum for the 25 year loan and £263.5k per annum for the 40 year loan and a total repayment of £15.4m. When compared to the rates prevailing when the 2017/18 budget was set this will result in a reduction in borrowing costs over the full period of the loans of £879.6k.
- 9.2.4 The major source of long term borrowing for local authorities is the Public Works Loans Board (PWLB). However, it is possible the recently established Municipal Bond Agency will be offering loans to local authorities in the future. It is envisaged that the rates will be lower than those offered by the PWLB. This Authority may make use of this new source of borrowing as and when appropriate. The Council will also consider other sources of external finance if they provide a lower rate of interest than comparable PWLB loans.
- 9.2.5 The Council will continue to engage in short term borrowing (up to 364 days) if necessary in order to finance temporary cash deficits, however by managing the Council's cash flow effectively these will be kept to a minimum. In each case, wherever possible, the loan will be taken out for periods of less than 7 days in order to minimise the interest payable. To date in 2017/18 the Council has not incurred any short term borrowing and is not expected to do so in 2018/19 either.

9.3 MiFIDII

- 9.3.1 The Markets in Financial Instruments Directive was introduced due to the increasing complexity of financial products to strengthen consumer protection. On 3 January 2018, part two came into effect. Warwick District Council, in common with other Local Authorities, requested to opt up to 'professional' client status from a default position of 'retail' to allow it to continue to invest in line with the Treasury Management Strategy. If the Council had remained as a 'retail' client the same type and range of investment products to invest in would not have been available.

9.4 Capital Prudential Indicators for 2018/19 to 2020/21

- 9.4.1 The Council's capital expenditure plans are a key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.
- 9.4.2 The Council must have regard to the Prudential Code for Capital Finance in Local Authorities and there is an overriding requirement for capital spend to be prudent, affordable and sustainable. This is measured by adherence to prudential indicators as set by the Authority. Prudential indicators are approved as part of the budget resolution in February and are relevant for setting an integrated Treasury Management Strategy. They are also located in Appendix A.

9.4.3 Capital Expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts as part of the general fund budget report:

Capital expenditure £000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
General Fund	5,333	17,949	3,672	441	379
Housing Investment	11,358	6,628	5,216	5,216	5,216
Total	16,691	24,577	8,887	5,657	5,595

The table below summarises how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Financing of capital expenditure £000	2016/17 Actual	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital receipts	4,304	2,812	510	338	387
Capital grants	1,390	2,785	1,512	559	886
Capital reserves	8,053	6,275	5,605	4,697	4,635
Revenue	185	291	200	200	200
Subtotal	13,932	12,163	7,827	5,794	6,108
Net financing need for the year	2,759	12,414	1,061	(137)	(513)

The leisure centre refurbishment programme is the largest project in the capital programme with the bulk of spend in 2017/18. A treasury management decision was taken to defer taking out the external borrowing funding the majority of spend until 2018/19, this has been expanded on in section 9.2.3.

Tables may not sum due to rounding.

9.5 Benchmarking

9.5.1 Link co-ordinates a sub-regional treasury management Benchmarking service of which Warwick District Council is an active participant. The Council aim to achieve or exceed the weighted average rate of return of the Link model portfolio, which is published quarterly.

9.5.2 During 2017/18 year to date, the Council has outperformed the model portfolio.

9.6 Performance

9.6.1 Performance of the treasury function is reported twice yearly to the Finance and Audit Scrutiny Committee.

9.6.2 The Treasury Management Team will seek to achieve a return on its money market investments of 0.0625% over LIBID of a similar duration (LIBID refers to the average interest rate which major London banks are willing to borrow from each other).

9.7 External Contracts

9.7.1 The Council has exercised the option to extend our contract with Link, our treasury advisors, by two years, taking the current agreement to January 2020.

9.7.2 Banking services are provided by HSBC Bank Plc, with the current agreement running until February 2020. This agreement has an option to extend for a further five years.

10. Annual Investment Strategy

10.1 The Council will have regard to the DCLGs Guidance on Local Government Investments and the revised CIPFA Treasury Management in the Public Services Code of Practice.

10.2 The Council's investment priorities will be Security first, Liquidity second and thirdly Yield.

10.3 The Annual Investment Strategy specifies which investments the Council may use for prudential treasury management. Appendix B details the types of investment the Council may invest in, split under the headings of specified and non-specified investments in accordance with statutory guidance and also details the counterparty limits.

10.4 Specified investments are defined as those with a high credit rating. For bank deposits, this is a Fitch (or Moody's or S&P's equivalent) sovereign rating at least equal to that of the United Kingdom. At the time of writing this was AA long term and F1+ short term.

10.5 Use of non specified investments provides a useful tool for investing relatively small amounts of money for short periods of time and obtaining a competitive return on the investment. The restrictions, as detailed in Appendix C allow the management of the increased risk compared to specified investments.

10.6 Creditworthiness policy

This Council applies the creditworthiness service provided by Link. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, Watches and Outlooks with CDS spreads in a weighted scoring system to produce an end product which is a series of colour coded bands which indicate the relative creditworthiness of

counterparties. These are used by the Council to inform the duration of investments.

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system; it does not give undue preponderance to just one agency's ratings.

All credit ratings will be monitored routinely and will inform every investment decision. The Council is alerted to changes to ratings of all three agencies through its use of the service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads and other market data on a daily basis.

Reliance will not be placed solely on the use of this external service. In addition this Council will use market data and market information to help support its decision making process.

- 10.7 All investments in property, corporate bond and corporate equity funds will be supported by the advice of Link, our treasury advisors.
- 10.8 All investments will be in sterling. The Council's investment priorities are the security and liquidity of its investments. The Council's objective will be to maximise the return whilst safeguarding as much as possible the capital sum and avoiding cash flow problems. The Council will not engage in borrowing for purely investment purposes.
- 10.9 The Council will ensure that it maintains the lists of permitted investments and counterparty limits (Appendices B & C) and will revise and submit the criteria to Executive for approval when required.
- 10.10 The Council has both cash flow derived and core balances available for investment. Investment decisions will be made with regard to cash flow requirements, core cash balances and the outlook for short term interest rates.
- 10.11 The Council will continue to use Money Market Funds (MMFs), call bank accounts and the money markets to invest cash flow driven money until the time when it is required. Core investments will be invested in a combination of corporate equity funds and the financial markets, utilising advice from Link.
- 10.12 The Council has two corporate equity fund managers, Royal London Asset Management and Columbia Threadneedle, the performance of which will be kept under review. Although not currently anticipated, the Council may engage other fund managers to manage investments in similar or alternative investments; any appointment would be made in conjunction with Link and would be in adherence with the procurement rules.
11. Investments that are not part of treasury management activity
- 11.1 Where, in addition to treasury management investment activity, the Council invests in other financial assets and property primarily for financial return, these investments will be proportional to the level of resources available and

the Council will ensure the same robust procedures for the consideration of risk and return are applied to these decisions.

- 11.12 The Council recognises that investment in other financial assets and property may be taken for non-treasury management purposes, thus requiring careful investment management. Such activity includes loans supporting service outcomes and commercial investments, which are taken for mainly financial reasons.
- 11.13 The Council's framework to consider such non treasury management investments is developing. This will be reflected within the Council's forthcoming Capital Strategy. All such investment proposals will be considered on their own merits, and have regard to treasury management principles.
- 11.14 The Council will ensure the organisation's investments are covered in the capital programme, investment strategy or equivalent, and will set out, where relevant, the organisation's risk appetite and specific policies and arrangements for non-treasury investments. It will be recognised that the risk appetite for these activities may differ from that for treasury management.

Appendices

- A Prudential Indicators
- B Types of Investment
- C Counterparty Limits
- D Minimum Revenue Provision Policy
- E Capita Economic Background