

Agenda Item No: 9 **Report No:** 16/17
Report Title: Annual Treasury Management Strategy Statement and Investment Strategy 2017/2018 to 2019/2020
Report To: Audit and Standards Committee **Date:** 16 January 2017
Ward(s) Affected: All
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Purpose of Report:

To present the draft Treasury Management Strategy Statement and Investment Strategy 2017/2018 to 2019/2020.

Officers Recommendation:

1. To receive the draft Treasury Management Statement and Investment Strategy 2017/2018 to 2019/2020 and make comments to Cabinet as the Committee sees fit.
2. To note the contents of this report.

Reasons for Recommendations

- 1 The Council has adopted the CIPFA Code of Practice on Treasury Management. In accordance with the Code of Practice, the Cabinet approves an updated Annual Treasury Strategy Statement before the start of each financial year. This includes an Investment Strategy for the year ahead (which Government guidance notes should be adopted by full Council) as well as 'Prudential Indicators' which are required to be set in order to comply with the 'Prudential Code for Capital Finance in Local Authorities' (The Prudential Code).
- 2 It is appropriate for the Audit and Standards Committee to review and comment on the draft Strategy before it is approved by Cabinet as part of the overall budget cycle, rather than to carry out this function after the Strategy has been formally adopted.

Information

1 Purpose of the Strategy Statement

- 1.1 The draft Strategy Statement is attached at Appendix 1. It sets out the background to the Council's treasury management activity both in terms of the wider economy and the Council's own current and projected financial position. It sets out the approach which will be taken to borrowing and the investment of cash balances. It explains the risks which are inherent in treasury management and how these are to be mitigated. The Strategy Statement specifies the Prudential Indicators which the Council is to set in order to meet the requirements of the Prudential Code; contains an 'MRP Statement' which defines the approach that the Council will take to make prudent provision for debt redemption; and establishes the policy for the separate management of General Fund and Housing Revenue Account borrowing.
- 1.2 The content of the draft Strategy Statement follows the requirements of CIPFA's revised Code of Practice which was published in November 2011 and has been prepared with the support of Arlingclose, the Council's Treasury advisers.
- 1.3 It is important to note that values shown in the draft Strategy Statement (eg capital expenditure, use of reserves, capital financing requirement) are best estimates at the time of preparing the report, and may be revised when draft budget papers are finalised for consideration by Cabinet at its February meeting. Any revisions are expected to be immaterial, with no bearing on the Strategy proposed.
- 1.4 In 2016/2017 the Council has expanded its commercial property portfolio to generate revenue income streams. This investment of financial resources in property assets, is outside the remit of (though has an impact on) this Strategy which has a remit of treasury management activity only.

2 2017/2018 Strategy Statement in context

- 2.1 Given the risk and continued low returns from short-term unsecured bank investments, the Strategy enables the Council to continue diversification into more secure and/or higher yielding asset classes during 2017/2018. Diversification is of importance in the context of the Council's reserves and balances reducing as they are called on to support the Council's organisational change programme. With diminishing reserves, the impact of a single counterparty default would be greater.

3 Proposed Changes to Investment Strategy

- 3.1 The minimum credit rating for investments permissible under the current Strategy is long-term 'A-'. This was more cautious than Arlingclose's recommended minimum of long-term 'BBB+' for 2016/2017.

- 3.2 Arlingclose continue to advise a minimum credit rating criteria of long-term 'BBB+', one mark below the 'A-' rating and it is proposed to move to that level for 2017/2018, increasing investment opportunities.
- 3.3 The current Strategy limits the total of long-term investments (ie more than one year) to £2m. Arlingclose advise that clients should seek longer term-investment opportunities, where funds are known to be available, which brings the potential for higher returns. It is proposed, therefore, to increase the limit for the total of long-term investments (ie more than one year) to £3m from the current limit of £2m.
- 3.4 The current strategy precludes investments with corporate institutions or registered providers (housing associations) with a credit rating of A-. Arlingclose advise that investment with such counterparties is appropriate, and it is proposed to amend the Strategy accordingly.
- 3.5 Appendix C (page 21) of the Strategy sets out approved counterparty types and limits for 2017/2018 in detail. A limit of £2m per counterparty will apply, with the exception of investments with Government bodies (unlimited) and pooled funds, for example Money Market Funds, for which the individual limit will be £3m. With the exception of the change to the credit rating criteria referred to above, all counterparty types and investment durations remain unchanged from the current Strategy.
- 3.6 It should be noted that the presence of a counterparty type on the list at Appendix C does not necessarily mean that it will be used by the Council.

4 Borrowing Strategy

- 4.1 The current approach of 'internal borrowing' (ie using cash held as balances, reserves and working capital as an alternative to long-term borrowing) as a means of funding capital expenditure will continue in 2017/2018.
- 4.2 The Council will remain open to the possibility of debt rescheduling (ie replacing an existing loan with a new loan or loans, or repaying a loan without replacement) where this is expected to lead to an overall saving or reduction in risk.

5 Provision for debt repayment

- 5.1 Local authorities are required to make prudent provision for the repayment of debt, and set its Policy for doing so each year. With the Council increasingly looking to extend its commercial property portfolio, develop its land holdings and realise assets, the Policy has been amended to identify how associated debt will be treated. This is set out in Section 13 of the Strategy.

6 Prudential Indicators

A number of the Prudential Indicators relate to elements of the Capital Programme and General Fund and Housing Revenue Account budgets which are to be considered by Cabinet in February 2017 as a full 'budget package'. It is not possible

to include future values for these Prudential Indicators at this stage, and they are outside the scope of the Audit and Standards Committee's review. Appendix B to the Strategy document has, therefore, been excluded from these papers.

- 7 Financial Implications** - All relevant implications are referred to in the Draft Strategy Statement.
- 8 Legal Implications** - The legislative context is set out in the Draft Strategy Statement.
- 9 Risk Management Implications** - The risk management implications associated with this activity are explained in the Draft Strategy Statement.
- 10 Equality Screening** - The contents of this report is technical in nature, relating to the management of the Council's investments and borrowing. As such, Equality Screening was not required.

Appendix 1 – Draft Treasury Management Statement and Investment Strategy
2017/2018 to 2019/2020

Background Papers – Treasury Strategy Statement 2016/2017
<http://www.lewes.gov.uk/council/20987.asp>