Agenda Item No: 10

Report Title: Annual Treasury Management Strategy Statement and Investment Strategy 2018/2019 to 2020/2021

Report To: Audit and Standards Committee **Date: 22 January 2018**

Ward(s) Affected: All

Report By: Alan Osborne, Deputy Chief Executive

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Purpose of Report:

To present the draft Treasury Management Strategy Statement and Investment Strategy 2018/2019 to 2020/2021.

Officers Recommendation:

1. To receive the draft Treasury Management Statement and Investment Strategy 2018/2019 to 2020/2021 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 and context 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 Code of Practice and has been prepared with the support of Arlingclose, the Council's Treasury advisers. In late December, CIPFA published new versions of its Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes (TM Code) and The Prudential Code for Capital Finance in Local Authorities (Prudential Code) in late December 2017. The publication of new Codes in December could be considered as unhelpful timing by CIPFA. However the new TM Code does not recommend any changes to the format or content of the Strategy Statement.

1.3 In its consultation on changes to the Code, CIPFA proposed changes to the treasury management Prudential Indicators. However, these are contained in the local authority sector-specific guidance notes, not the TM Code itself (which applies to the wider public sector). Updated local authority guidance notes will be published later in 2018.

1.4 Where a local authority produces a Capital Strategy (see below), the TM Code allows the Treasury Management Strategy Statement to be approved by a committee instead of full council. However, Government guidance across the UK requires full council to approve the Investment Strategy, so this will have little effect until Government guidance is changed.

1.5 The updated Prudential Code includes a new requirement for local authorities to produce a Capital Strategy, which is to be a summary document approved by full council (or equivalent) covering capital expenditure and financing, treasury management and non-treasury investments. There is no requirement in the Code for this to be an annual document, nor for it to be approved before the start of the financial year. CIPFA recognises that authorities may require a lead-in period to create a Capital Strategy and that this requirement may not be able to be fully implemented until 2019/2020.

1.6 In a separate consultation (which closed at the end of December 2017) on changes to the Guidance on Local Authority Investments applicable to authorities in England, the former Department for Communities and Local Government proposed certain items be included within the Capital Strategy. At the time of writing this report, the Government has not reported on the outcome of the consultation or made changes to the Guidance. In the light of this, the Council will not be asked to approve a Capital Strategy before the start of 2018/2019.

1.7 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.

1.8 The Council continues to enhance its commercial property portfolio and seek opportunities to develop existing land-holdings, generating additional revenue income streams. The capital programme also includes provision to make loans to Lewes Housing Investment Company and Aspiration Homes (which are wholly-owned and part-owned by the Council respectively). This investment of financial resources is outside the remit of (though has an impact on) this Strategy which has a remit of treasury management activity only.

2 2018/2019 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 2018/2019. Diversification is of importance in the context of the reduction in Council reserves and balances 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.

2.2 Although the Council will continue to utilise the cash held in our reserves to minimise the amount borrowed to fund capital expenditure (rather than invest that money), that is unlikely to be sufficient to meet all of our funding needs. Further borrowing, either short term or long-term, will be required.

3 Proposed Changes to Investment Strategy

3.1 The minimum credit rating for investments permissible under the current Strategy is long-term 'BBB+'. Arlingclose have changed their approach for 2018/2019 and now recommend a minimum credit rating of 'A-', one level higher. It is proposed to move to that level for 2018/2019.

3.2 The current Strategy limits the total of long-term investments (ie more than one year) to £3m. Arlingclose advise that clients should seek longer term-investment opportunities, which brings the potential for higher returns, where funds are known to be available. In view of the funds required to support the capital programme, it is proposed to reduce the limit for the total of long-term investments (ie more than one year) to £2m.

3.3 Appendix C (page 21) of the Strategy sets out approved counterparty types and limits for 2018/2019 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.

3.4 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 2018/2019. As this is likely to be insufficient to meet all of the capital programme funding needs, additional borrowing is expected to be required. The need to borrow can be met either by long-term fixed rates loans or short-term borrowing (which is likely to be available at lower rates of interest than long-term loans), or a combination of the two. Arlingclose will assist the Council in determining the most appropriate the option.

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 the Policy for doing so each year. A local authority is required to have regard to statutory guidance on the 'Minimum Revenue Provision' when setting its Policy.

5.2 Government consultation on changes to the statutory guidance closed at the end of December 2017 but the outcome is unknown at the time of writing this report. For this reason, the proposed Policy (set out in Section 13 of the Strategy) is unchanged from 2017/2018. Under the Policy, no provision for the repayment of debt will be made in respect of expenditure incurred for development or asset realisation purposes (eg associated with the North Street Development) or capital expenditure on commercial investment property.

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 2018 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 2018/2019 to 2020/2021

Background Papers – Treasury Strategy Statement 2017/2018