

## Treasury Management Strategy and Treasury Policy

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**This report relates to a non-Key Decision**

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### The purpose of this report

1. To seek Member approval for a Treasury Management Policy, Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Policy for 2018/19 to facilitate effective financial management and planning.
2. This report outlines the Treasury Management Policy, Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Policy for 2018/19. Central Bedfordshire Council agrees its Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Policy annually and, as a minimum every three years, the Treasury Management Policy. This is in line with the CIPFA *Treasury Management in the Public Services: Code of Practice (2011 Edition)* and the CIPFA *Prudential Code for Capital Finance in Local Authorities (2011 Edition)*.

### RECOMMENDATIONS

The Executive is asked to recommend to Council that:

1. the Treasury Management Policy, Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Policy for 2018/19 be approved.

## **Overview and Scrutiny Comments/Recommendations**

3. This report was considered by the Corporate Resources Overview & Scrutiny Committee on 25 January 2018 and this Committee will be advised at the meeting of the Overview and Scrutiny Committee's comments and recommendations in respect of the proposed Treasury Management Policy, Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Policy.

## **Issues**

4. The Council's Treasury Management Strategy Statement (TMSS) is underpinned by the adoption of CIPFA's Code of Practice, which includes the requirement for determining a treasury strategy covering the likely financing and investment activity for the forthcoming financial year.
5. An updated Treasury Management Policy (TMP) is attached at Appendix A; this was revised in February 2015 and is subject to review every three years.
6. A revised Treasury Management Strategy Statement (TMSS) is attached at Appendix B with updated Prudential Indicators (PIs) at Appendix C and the Minimum Revenue Provision (MRP) Policy at Appendix D.
7. The Code requires the TMP, TMSS, PIs and MRP Policy for the year to be approved by Council, and these will be submitted for approval on 22 February 2018. Local arrangements require the Corporate Resources Overview & Scrutiny Committee to scrutinise the proposed revised strategy on an annual basis. Both the Policies and the Strategy documents are presented to the Executive for recommendation to Council.
8. The second Markets in Financial Instruments Directive (MiFID II) comes into force from 3 January 2018, which introduces a more stringent regulatory framework for the trading of securities in Europe. The Council meets the conditions to opt up to professional status and has done so in order to maintain its current MiFID status. Further details of this change are outlined on page 4 of Appendix B.

## **Treasury Management Policy**

9. It is the Council's responsibility to approve a Treasury Management Policy on a periodic basis. This Policy will be reviewed every three years or whenever legislative, regulatory or best practice changes materially impact the effectiveness of the current Policy. This year is the triennial review since the Treasury Management Policy Statement was adopted by Council in February 2015.
10. The Treasury Management Policy, which has not been altered since its last triennial review in February 2015, sets out the objectives and the regulatory requirements of the Council's treasury management function.
11. The principal objectives of this Treasury Management Policy are to provide a framework within which:
  - i) risks which might affect the Council's ability to fulfil its responsibilities or which might jeopardise its financial security, can be identified;
  - ii) borrowing costs can be minimised whilst ensuring the long term security and stability of the Council's financial position; and
  - iii) investment returns can be safely maximised and capital values maintained.

## **Treasury Management Strategy Statement**

12. CIPFA's *Treasury Management in the Public Services: Code of Practice (2011 Edition)* and their *Prudential Code for Capital Finance in Local Authorities (2011 Edition)* require local authorities to determine the TMSS on an annual basis.
13. No substantive changes have been made to the TMSS compared to the previous year other than extending the facility to make loans to companies in which the Council has a significant shareholding.
14. The TMSS is included in Appendix B, and comprises three main components:
  - i) the 'External Context', drafted by the Council's current external treasury advisers, Arlingclose Ltd. This is important as the rate at which the Council can borrow and the return it will obtain on cash balances are linked to the performance of the wider UK and global economy.
  - ii) a Borrowing Strategy, including the approved sources of long term and short term borrowing.

- iii) an Investment Strategy, including the type of institutions the Council is able to place its cash with and the limits with each type of institution.
15. The TMSS also includes other items that the Council is required by CIPFA and the Department for Communities and Local Government (CLG) to include as part of its strategy, including the Council's policy on the use of financial derivatives, interest charges between the HRA and the General Fund and borrowing in advance of need.

### **Prudential Indicators**

16. The CIPFA *Prudential Code for Capital Finance in Local Authorities (2011 Edition)* requires performance against specified key indicators to be measured and reported. The purpose of these indicators is to demonstrate prudence, affordability and sustainability.
17. Explanations of the Prudential Indicators are included in Appendix C. Key objectives of the indicators are to:
  - ensure borrowing is less than the Council's Capital Financing Requirement (CFR), demonstrating that all long term borrowing has been undertaken for capital purposes in line with the Prudential Code;
  - set the Council's authorised and operational limits for borrowing; and
  - show the percentage of the revenue budget required to be spent on financing borrowing.
18. In line with the best practice requirements outlined in the CIPFA Treasury Management Code of Practice, all PIs are monitored throughout the year and reported to Council at mid-year and at the end of the financial year.

### **Minimum Revenue Provision Policy**

19. Appendix D includes a statement of the Council's Minimum Revenue Provision (MRP) Policy which is how the Council calculates the annual amount set aside towards repaying any borrowing used in the past to finance capital expenditure. The Local Government Act 2003 requires the Council to have regard to the Department for Communities and Local Government's Guidance on Minimum Revenue Provision (the CLG Guidance), most recently issued in 2012.
20. Whilst no changes have been made to the Council's existing MRP policy, it is understood that the CLG will be revising its Guidance on MRP after having consulted with local authorities and the proposed changes, expected to be implemented in full for the 2018/19 financial year, are outlined at Appendix D.

## **Reason for decisions**

21. The reason for the decisions is to retain an effective treasury management framework for the Council.

## **Council Priorities**

22. The effective management of the combined activities of debt and investments and the associated risks contribute to the Council's financial resources and is a cornerstone to the delivery of the Council's priorities.

## **Corporate Implications**

### **Legal Implications**

23. The Council's treasury management activities are regulated by statute, professional codes and official guidance. The Local Government Act 2003 (the Act) provides the powers to borrow and invest as well as providing controls and limits. Under the Act, Communities and Local Government has issued Guidance on Local Government Investments (revised March 2010) to structure and regulate the Council's investment activities. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 – Statutory Instrument (SI) 3146 (plus subsequent amendments), develops the controls and powers within the Act. The SI requires the Council to undertake any borrowing activity with regard to the CIPFA *Prudential Code for Capital Finance in Local Authorities (2011 Edition)*. The SI also requires the Council to operate the overall treasury function with regard to the CIPFA *Treasury Management in the Public Services: Code of Practice (2011 Edition)* (the Code of Practice).

### **Financial Implications**

24. The Council's Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) are derived from the Medium Term Financial Plan (MTFP). The TMSS and PIs are explained within the appendices to this report.
25. Treasury management is defined by the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Treasury Management in the Public Services: Code of Practice (2011 Edition)* 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.'

### **Equalities Implications**

26. There are no equalities implications to this report.

## **Conclusion and next Steps**

27. Overall responsibility for treasury management remains with the Council.
28. The purpose of the proposed TMSS is to ensure that an effective treasury management framework is in place for 2018/19. The strategy proposed is prudent in relation to the Council's borrowing activities, based on market interest rate forecasts, and its investment activities. Investment and cash balances will be managed with priority being given to security and liquidity before yield. The borrowing strategy for the Council's debt portfolio will see increasing use of temporary (short term) debt which currently offers low financing costs with the risk that unexpected increases in interest rates would create financial pressures. The recommended Draft Capital Programme that was considered by Executive on 9 January 2018 sets out more information on the revenue implications of interest rates should they be in excess of current assumptions.
29. The Treasury Management Policy, Treasury Management Strategy Statement, Prudential Indicators and Minimum Revenue Provision Policy for 2018/19 as outlined in this report will be reported to Council for approval in line with statutory requirements.

## **Appendices**

- Appendix A – Treasury Management Policy
- Appendix B – Treasury Management Strategy Statement
- Appendix C – Prudential Indicators
- Appendix D – Minimum Revenue Provision Policy

## **Background papers**

None.