CABINET

Date of Meeting	Tuesday 19th February 2019
Report Subject	Treasury Management Strategy 2019/20 & Treasury Management Policy Statement, Practices and Schedules 2019/20 – 2021/22
Cabinet Member	Leader of the Council and Cabinet Member for Finance
Report Author	Corporate Finance Manager
Type of Report	Strategic

EXECUTIVE SUMMARY

The report presents the draft Treasury Management Strategy 2019/20 for approval and recommendation to Council in conjunction with:

- Draft Treasury Management Policy Statement 2019/20 – 2021/22
- Draft Treasury Management Practices & Schedules 2019/20 – 2021/22

RECOMMENDATIONS	
1	Cabinet approves and recommends to Council the: • Draft Treasury Management Strategy 2019/20 • Draft Treasury Management Policy Statement 2019/20 – 2021/22 • Draft Treasury Management Practices & Schedules 2019/20 – 2021/22

REPORT DETAILS

1.00	EXPLAINING THE APPENDICIES
	BACKGROUND
1.01	The Local Government Act 2003 requires all local authorities to have due regard to both the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice (The CIPFA Code of Practice) and Welsh Government guidance on Local Authority Investments.
1.02	The Council has adopted The CIPFA Code of Practice which requires:- • The Council to create and maintain a Treasury Management Policy Statement which states the Council's policies, objectives and approach to risk management of its treasury management activities. • The Council to create and maintain suitable Treasury Management Practices (TMPs) and accompanying schedules, stating how those policies and objectives will be achieved and prescribing how those activities will be managed and controlled. • The Council to receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs. • Responsibility for Treasury Management to be clearly defined. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to the Corporate Finance Manager, who will act in accordance with the organisation's policy statement and TMPs and, CIPFA's *Standard of Professional Practice on Treasury Management*. • A body to be responsible for the scrutiny of Treasury Management Policy, Strategy and Practices. The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management function. The Audit Committee has previously agreed to include treasury management as a standing item on each quarterly agenda to receive an update.
1.03	The Welsh Government guidance on Local Authority investments requires that the Council prepares an Investment strategy before the start of each financial year which sets out the Council's policies for the prudent management of its investments, giving priority, firstly to the security of those investments (protecting the capital sum from loss), and secondly liquidity (keeping money readily available for expenditure). The generation of investment income is distinct from these prudential objectives, however provided that proper levels of security and liquidity are achieved, it may (but only then) be reasonable to seek the highest yield consistent with those priorities.

1.04	The guidance stipulates that the investment strategy must also include the following: • Specified Investments • Non-specified Investments • Credit Risk Assessment • Investment Consultants • Investment Training • Investment of money borrowed in advance of need.
1.05	In preparation for approving the 2019/20 Treasury Management Strategy training for all Members was held on 29th January 2019. The workshop presented by Arlingclose, the Council's Treasury Management advisors covered a detailed introduction to Treasury Management in Local Authorities, including the regulatory framework and the role of the elected Member in scrutinising the Treasury Management function. The training included an in depth presentation on investments and borrowing.
	<u>CONSIDERATIONS</u>
	2019/20 Treasury Management Policy Statement, Strategy and Practices
1.06	The previous Treasury Management Policy Statement was approved by Council in February 2016 and covered the 3 year period from 2016/17 to 2018/19. The updated Treasury Management Policy 2019-2022 is attached at Appendix 2. This document defines the Council's treasury management activities, sets out the Council's criteria to measure the effectiveness of treasury management activities and includes the Council's high level policies for borrowing and investments. Once approved the document will only be reported to Members during its lifetime in the event of any significant changes. The document has not changed significantly from the 2016/17 version.
1.07	Similarly the Treasury Management Practices (TMPs) and accompanying schedules to cover the 3 year period from 2016/17 to 2018/19 were approved in February 2016. The updated TMPs for 2019/20 are attached as Appendix 3. The TMPs and schedules state how treasury management policies and objectives will be achieved and give specific details of the systems and routines employed and the records to be maintained including:- • TMP 1 Treasury risk management • TMP 2 Performance measurement • TMP 3 Decision-making and analysis • TMP 4 Approved instruments, methods and techniques • TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements • TMP 6 Reporting requirements and management information arrangements • TMP 7 Budgeting, accounting and audit arrangements

	• TMP 8 Cash and cash flow management • TMP 9 Money laundering • TMP 10 Staff training and qualifications • TMP 11 Use of external service providers • TMP 12 Corporate governance Some minor changes have been made to bring the practices and schedules in line with the draft 2019/20 strategy.
	Treasury Management Strategy 2019/20
1.08	The 2019/20 Treasury Management Strategy is attached at Appendix 1 for review and discussion. The Strategy is updated and reported annually to Members in accordance with the CIPFA Code of Practice (2017 edition) and Welsh Government guidance. The Treasury Management Strategy details the approach that the Council will take for investing and borrowing over the next year, including the budgetary implications of the planned investment and borrowing strategy, and a number of treasury management indicators that the CIPFA Code requires.
1.09	The 2019/20 Strategy has not changed significantly from that of the 2018/19 Strategy. Matters that merit the attention of Members are summarised below:- • Section 2 – Economic context, provided by Arlingclose, the Council's treasury management advisor, and highlights that the major external influence on the strategy continues to be negotiating the UK's exit from the European Union and agreeing future trading arrangements. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since. However, the Bank expects that should the economy continue to evolve in line with its November forecast, further increases in Bank Rate will be required to return inflation to the 2% target. Arlingclose forecasts 2 more interest rate rises of 0.25% during 2019 to take official UK interest rates to 1.25%. • Section 4 – Local context. This section summarises the anticipated treasury position in 2019/20. Activity in 2019/20, as it has in previous years will focus more on borrowing and less on investing; as the Council's requirement to borrow is forecast to grow due to a planned increase in capital expenditure, and there is less surplus cash to invest as services plan to spend reserves. • Section 5 – Investment Strategy. This section is largely a continuation of the Council's 2018/19 strategy, the aim being to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. • Section 6 - Borrowing Strategy. Again, this section is largely a continuation of the 2018/19 strategy. The Council continues to forecast a significant long term borrowing requirement. The required amounts

	need to be confirmed before a commitment to long term borrowing is made and the use of short term borrowing will be used to assist during this period.
	<u>Changes to CIPFA's Codes of Practice - Treasury Management Code 2017 and Prudential Code for Capital Finance in Local Authorities 2017</u>
1.10	CIPFA published new editions of the Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance and the Prudential Code for Capital Finance in late December 2017 which complement each other.
1.11	The 2017 edition of the Prudential Code for Capital Finance has expanded objectives and includes a requirement for authorities to look at capital expenditure and investment plans in the light of overall organisational strategy and resources, and ensure that decisions are being made with sufficient regard to the long term financing implications and potential risks to the authority. The code introduces the requirement for a Capital Strategy, with the intention to give a high level overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of services along with an overview of how associated risk is managed and the implications for future financial sustainability. This means that the Capital Strategy is linked with the Treasury Management Strategy.
1.12	The Council already has a Capital Strategy and Asset Management Plan in place and considers that it prudently assesses the long-term context of capital expenditure and any non-treasury investment decisions, and their associated risks and rewards on future financial sustainability. An updated version of the Council's Capital Strategy, which will meet the requirements of the revised code, will be considered by Council in February, and a revised Asset Management Plan will be developed and reported to Cabinet in the summer. Appropriate risk management frameworks and reporting mechanisms will also need to be further developed and refined in consultation with Chief Officers and Members.
1.13	In the 2017 edition of the Treasury Management Code the definition of 'investments' has been widened to include all financial assets as well as non-financial assets held primarily for financial returns such as investment property. All investments will require appropriate investment management and risk management framework, including investments which are not managed as part of traditional treasury management. A new section within the Treasury Management Practices and Schedules has been added to cover investments made for reasons other than treasury management activity. Examples of these include loans supporting service outcomes, investment in subsidiaries and investment property portfolios. Officers have reviewed the Council's assets and have concluded that in general the Council's primary purpose in holding assets is not for financial gain. An exception to this are its farms and industrial units. This reflects the critical judgement the Council makes in its accounts that these are classified as investment properties.

	However, these assets are in effect legacy assets, and the Council has made an informed decision to reduce its agricultural estate and review the use of its industrial units. The spirit of the code is to focus on a more active portfolio of investment assets with a higher risk profile than the investment properties the Council owns. It is not considered certain that the Council requires the additional frameworks which the code requires, and therefore to expend resource creating them is not seen as an effective use of resources. This will be revisited in the context of the outcome of the review into industrial units.
1.14	As required by the Council's Financial Procedure Rules, the Strategy was reviewed by Audit Committee on 15th February 2019 and will also be reported to Council on 19th February 2019. Any issues raised by Audit Committee will be reported to this meeting.

2.00	**RESOURCE IMPLICATIONS**
2.01	Financial implications are addressed in the report and appendices; no other resource implications directly as a result of this report.

3.00	**CONSULTATIONS REQUIRED / CARRIED OUT**
3.01	Arlingclose Ltd, being the Council's treasury management advisors.

4.00	**RISK MANAGEMENT**
4.01	Risk Management directly addressed within appendices including identification of risks and measures to mitigate likelihood and impact of risks identified.

5.00	**APPENDICES**
5.01	1. Draft Treasury Management Strategy 2019/20 2. Draft Treasury Management Policy 2019/20 - 2021/22 3. Draft Treasury Management Practices and Schedules 2019/20 – 2021/22

6.00	**LIST OF ACCESSIBLE BACKGROUND DOCUMENTS**
6.01	**Contact Officer:** Liz Thomas – Technical Finance Manager **Telephone:** 01352 702289 **E-mail:** liz.thomas@flintshire.gov.uk

7.00	GLOSSARY OF TERMS
7.01	**Authorised Limit:** A statutory limit that sets the maximum level of external debt for the Council. **Balances and Reserves**: Accumulated sums that are held, either for specific future costs or commitments (known as earmarked) or generally held to meet unforeseen or emergency expenditure. **Bank Rate:** The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". **Basis Point:** A unit of measure used in finance to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent). In most cases, it refers to changes in interest rates and bond yields. For example, if interest rates rise by 25 basis points, it means that rates have risen by 0.25% percentage points. **Bond:** A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The price of a bond may vary during its life. **Capital Expenditure:** Expenditure on the acquisition, creation or enhancement of capital assets. **Capital Financing Requirement (CFR):** The Council's underlying need to borrow for capital purposes representing the cumulative capital expenditure of the local authority that has not been financed. **Certificates of Deposits (CD's**): A savings certificate entitling the bearer to receive interest. A CD bears a maturity date, a specified fixed interest rate and can be issued in any denomination. CDs are generally issued by commercial banks. The term of a CD generally ranges from one month to five years. **Cost of Carry:** The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%. **Consumer Price Index (CPI):** The UK's main measure of inflation (along with Retail Price Index or 'RPI') The Monetary Policy Committee of the Bank of England set the Bank Rate in order to try and keep CPI at or close to the target set by the Government. The calculation of CPI includes many items of normal household expenditure but excludes some items such as mortgage interest payments and Council Tax. **Credit Rating**: Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.

Corporate Bonds: Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

Counterparty List: List of approved financial institutions with which the Council can place investments.

Debt Management Office (DMO): The DMO is an Executive Agency of Her Majesty's Treasury and provides direct access for local authorities into a government deposit facility known as the Debt Management Account Deposit Facility (DMADF). All deposits are guaranteed by HM Government and therefore have the equivalent of a sovereign credit rating.

Federal Reserve: The US central bank, the equivalent of the Bank of England. (Often referred to as "the Fed").

Financial Instruments: Financial instruments are tradable assets of any kind. They can be cash, evidence of an ownership interest in an entity, or a contractual right to receive or deliver cash or another financial instrument.

Gilts: Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged'. They are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

LIBID: The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks).

LIBOR: The London Interbank Offered Rate (LIBOR) is the rate of interest that banks charge to lend money to each other. The British Bankers' Association (BBA) work with a small group of large banks to set the LIBOR rate each day. The wholesale markets allow banks who need money to borrow from those with surplus amounts. The banks with surplus amounts of money are keen to lend so that they can generate interest which it would not otherwise receive.

LOBO: Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility.

IFRS: International Financial Reporting Standards.

Maturity: The date when an investment or borrowing is repaid.

Maturity Structure / Profile: A table or graph showing the amount (or percentage) of debt or investments maturing over a time period.

Monetary Policy Committee (MPC): A committee of the Bank of England, which meets to decide the Bank Rate. Its primary target is to keep CPI inflation within 1% of a central target of 2%. Its secondary target is to support the Government in maintaining high and stable levels of growth and employment.

Money Market Funds (MMF): Pooled funds which invest in a range of short term assets providing high credit quality and high liquidity.

MiFID II (Markets in Financial Instruments Directive): EU legislation that regulates firms who provide services to clients linked to 'financial instruments'. As a result of MiFID II, from 3rd January 2018 local authorities will be treated as retail clients but can "opt up" to professional client status, providing that they meet certain qualitative and quantitative criteria.

Minimum Revenue Provision (MRP): An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Non Specified Investment: Investments which fall outside the WG Guidance for Specified investments (below).

Operational Boundary: This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Premiums and Discounts: In the context of local authority borrowing,
(a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and
(b) the discount is the gain arising when a loan is redeemed prior to its maturity date.

Prudential Code: Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

Prudential Indicators: Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators.

Public Works Loans Board (PWLB): The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Quantitative Easing (QE): QE is a form of monetary policy where a Central Bank creates new money electronically to buy financial assets, like government bonds. This cash injection lowers the cost of borrowing and boosts asset prices to support spending.

Revenue Expenditure: Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.

Retail Price Index (RPI): A monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent.

Term Deposits: Deposits of cash with terms attached relating to maturity and rate of return (Interest).

Specified Investments: Term used in the Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.

Supported Borrowing: Borrowing for which the costs are supported by the government or third party.

Supranational Bonds: Instruments issued by supranational organisations created by governments through international treaties (often called multilateral development banks). The bonds carry an AAA rating in their own right. Examples of supranational organisations are the European Investment Bank, the International Bank for Reconstruction and Development.

Treasury Bills (T-Bills): Treasury Bills are short term Government debt instruments and, just like temporary loans used by local authorities, are a means to manage cash flow. They are issued by the Debt Management Office and are an eligible sovereign instrument, meaning that they have an AAA-rating.

Treasury Management Code: CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.

Treasury Management Practices (TMP): Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.

Temporary Borrowing: Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.

Unsupported Borrowing: Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.

Yield: The measure of the return on an investment instrument.