Report to the Council

Committee: **Cabinet** **Date: 22 February 2018**

Subject: **Treasury Management Strategy Statement 2018/19**

Portfolio Holder: **Councillor G Mohindra**

Recommending:

(1) That, after amendment where necessary, the Council approves and adopts the following:

(a) Treasury Management Strategy Statement 2018/19;

(b) Minimum Revenue Provision (MRP) Strategy;

(c) Treasury Management Prudential Indicators for 2018/19 to 2020/21;

(d) the rate of interest to be applied to any inter-fund balances; and

(e) Treasury Management Policy Statement.

<u>Introduction</u>

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). There is a requirement for Council to approve its treasury and investment strategy and prudential indicators each year.

2. The Strategy was prepared in line with advice from our treasury advisors Arlingclose. The attached report at Appendix 1 shows the Treasury Management Strategy Statement 2018/19.

3. There have been no major changes to the strategy from the current strategy approved in February 2017. However, Members should be aware of the following:

<u>Minimum Revenue Provision</u>

4. Each year the Council has to approve at Full Council its statement on the Minimum Revenue Provision (MRP). In previous years the Council has been debt free and therefore, we did not have to provide MRP in our accounts. The Council took on debt of £185.5m in 2012 and this would normally require a local authority to charge MRP to the General Fund. CLG have produced regulations to mitigate this impact, whereby we can ignore the borrowing incurred in relation to the Housing Self-financing when calculating MRP and therefore, (for MRP purposes only) we are classed as debt free and do not have to make provision for MRP. However, the

Council may undertake additional borrowing before or after additional capital spending. This will require MRP in the year following and it is currently anticipated that a charge of £350,000 will be required in 2018/19 (see Appendix D).

Inter-fund balances

5. The Council has inter-fund borrowed for many years between the General Fund and Housing Revenue Account and the interest charge made between the funds has been based on the average interest earned on investment for the year. Under regulations issued by CIPFA, it is now required that the interest rate applicable to any inter-fund borrowing should be approved by Full Council before the start of the financial year. As the Council has been undertaking inter-fund borrowing for many years, it is proposed to continue to use the average interest earned for the year on investments as the rate for any inter-fund borrowing.

Policy Statement

6. The Treasury Management Policy Statement is a high level statement setting out how the Council's Treasury function will be undertaken. The Policy Statement was last updated as part of the 2017/18 Treasury Strategy. The Policy is attached at Appendix G for Cabinet to consider, no amendments are currently proposed.

Current Investments

7. The Council's investments are all denominated in UK sterling and the treasury officers receive regular information from our treasury advisors on the latest position on the use of Counterparties.

8. The latest information supplied is as follows:

UK Banks and building societies:

(i) A maximum maturity limit of between 35 days and 6 months is now applicable;

(ii) A maximum maturity limit of 6 months to Santander UK, Bank of Scotland, Lloyds TSB, HSBC Bank plc, Nationwide Building Society, Coventry Building Society and Close Brothers;

(iii) A maximum maturity limit of 100 days applies to Barclays plc, Goldman Sachs, Standard Chartered and most building societies; and

(iv) A maximum maturity limit of 35 days applies to RBS and NatWest.

European Banks:

(i) A maximum maturity limit of 13 months applies to Nordea, Rabobank and Handelsbanken;

(ii) A maximum maturity of 6 months applies to Op Corporate Bank and Landesbank Hessen-Thuringen; and

(iii) A maximum maturity limit of 100 days applies to Credit Suisse, Danske Bank and ING Bank;

Non European Banks:

(i) A maximum maturity limit of 6 months applies to Australian and Canadian banks that are on our list.

Money Market Funds:

(i) A maximum exposure limit of £5m per MMF.

9. As at 31 December 2017, the Council had an investment portfolio of £29.9m, this will vary from day to day, depending on the cash flow of the authority. A breakdown of this portfolio by Country and length of time remaining on investments are shown in the two tables below.

Country of counterparty	**£m**
United Kingdom	24.9
Sweden	5.0
Total	**29.9**

Current maturity profile of investments	**£m**
Overnight (Call / Money Market Fund)	19.9
Up to 7 days	1.0
7 days to 1 month	3.0
1 month to 3 months	6.0
3 months to 6 months	0.0
6 months to 9 months	0.0
9 months to 1 year	0.0
Greater than 1 year	0.0
Total	**29.9**

10. Continued low interest rates, restrictions on counterparties and the short durations of investments have lowered the estimated interest income for 2017/18. Interest earnings for 2018/19 will reduce further as balances are invested in capital projects rather than short term deposits. No significant change in interest rates is anticipated over the medium term.

The View of the Audit & Governance Committee

11. The Audit & Governance Committee considered the Treasury Management Strategy Statement for 2018/19 at its meeting held on 5 February 2018. The Committee noted the Council's arrangements for the management of the risks associated with its Treasury Management activity.

12... Overall, the Committee was content with the Strategy as presented, as it represented a continuation of the prudent approach which had been a consistent theme for the Council's Treasury Management function for a number of years.

Conclusion

13. We recommend as set out at the commencement of this report.