

Title of meeting:	Governance and Audit and Standards Committee Cabinet City Council
Date of meeting:	3 March 2017 (Governance and Audit and Standards Committee) 9 March 2017 (Cabinet) 21 March (City Council)
Subject:	Treasury Management Policy 2017/18
Report by:	Chris Ward, Director of Finance and Information Services (Section 151 Officer)
Wards affected:	All
Key decision:	Yes
Full Council decision:	Yes

1. Executive Summary

Treasury Management Policy

The attached Treasury Management Policy sets out the Council's policies on borrowing, providing for the repayment of debt and investing for 2017/18. The Treasury Management Policy also sets a number of treasury management indicators that will establish the boundaries within which treasury management activities will be undertaken.

The Treasury Management Policy Statement contains a risk appetite statement similar to that adopted in 2016/17 that permits investments to be made in instruments that do not guarantee that the capital sum will not be diminished through movements in prices. In approving the Treasury Management Policy Statement members will be approving the risk appetite statement contained in paragraph 4.2 of the Treasury Management Policy Statement.

Policy For Providing For the Repayment of Debt

The Local Authorities (Capital Finance and Accounting) (Amendment) Regulations 2012 require the Council to adopt an Annual Minimum Revenue Provision (MRP) for Debt Repayment Statement. The recommended methodologies for calculating MRP are summarised in paragraph 8.3 of the Treasury Management Policy. It is proposed to change the methodology for calculating MRP for Government supported borrowing other than finance leases and service concessions including private finance Initiative schemes (see paragraph 8.4). It is also recommended that the over provision of MRP in previous years be released back to the General Fund by reducing MRP in future years (see paragraph 8.5).

Annual Investment Strategy

The Treasury Management Policy includes the Annual Investment Strategy which establishes the types of investment, investment counter parties and investment durations that the Council will operate within. The 2017/18 Annual Investment Strategy is similar to the 2016/17 Annual Investment Strategy as amended by the City Council on 11 October 2016 in most respects although there are some changes proposed for 2017/18.

The previous policy required all investments (apart from registered social landlords and building societies) to have two credit ratings. It is recommended that investments be permitted in enhanced money market funds with a single credit rating of at least AA. Industry practice is for enhanced money market funds to have a single credit rating, but such funds are well diversified. The previous policy required registered social landlords (RSLs) to have a single credit rating from one of the three main credit rating agencies. The Homes and Communities Agency (HCA) also issues financial viability ratings for all major RSLs. It is recommended that investments only be placed with RSLs that have a financial viability rating of at least V1.

It is recommended that investments be permitted in universities. Universities were not previously included in the Annual Investment Strategy. It is recommended that investments in universities have the same investment and duration limits as banks and corporate bonds.

The maximum investment in a single organisation in category 7 (building societies A- credit rating, other institutions A credit rating) in paragraph 11.16 has been increased by £2m from £13m in 2016/17 to £15m in 2017/18. The Council is currently finding it difficult to find institutions that meet its credit criteria and pay a good return. Increasing the maximum investments in a single organisation in category 7 will help to alleviate this. By way of comparison the maximum investment in a single institution in category 6 (building societies A credit rating, other institutions A+ credit rating) is £20m and the maximum investment in a single institution in category 8 (A- credit rating) is £10m. Increasing the maximum investment in a single organisation in category 7 from £13m to £15m would also be appropriate in terms of evening out the gap between categories 6 and 8.

When the City Council considered the Treasury Management Mid-Year Review it resolved that investments be permitted in counter parties that do not meet the Council's credit criteria if the investment is secured against assets that do meet the Council's investment criteria. Recommendations 3.1a(vii) and 3.1a(viii) specify the form of this type of lending and the acceptable types of collateral.

Banks and building societies currently meeting the Council's credit criteria are listed in Appendix G. There are too many corporate bond, RSLs and universities to include in the appendix.

2. Purpose of report

The purpose of this report is to obtain the Council's approval for 2017/18 to the Treasury Management Policy Statement (attached) which includes:

- Annual Minimum Revenue Provision for Debt Repayment Statement
- Annual Investment Strategy

3. Recommendations

3.1a that the following changes to the 2016/17 Treasury Management Policy Statement as amended by the Mid-Year Review be approved:

- (i) that the minimum revenue provision for the repayment of government supported borrowing other than finance leases and service concessions (including private finance initiative schemes) is changed from a straight 2% annual provision to a 50 year annuity provision with effect from 2016/17 (paragraph 8.4 of Treasury Management Policy Statement);**

- (ii) that the Director of Finance and Information Services (Section 151 Officer) be given delegated authority to release the over provision of MRP into the General Fund over a prudent period (paragraph 8.5 of Treasury Management Policy Statement);**
 - (iii) that investments be permitted in enhanced money market funds with a single credit rating of at least AA and that these funds be treated as category 6 (A+) investments to reflect the increased risk of relying on a single credit rating (as opposed to category 4 if two ratings had been obtained - paragraph 11.4 of Treasury Management Policy Statement)**
 - (iv) that investments are only placed with registered social landlords that have a financial viability rating of V1 from the Homes and Communities Agency (paragraph 11.5 of Treasury Management Policy Statement);**
 - (v) that investments in universities be permitted (paragraph 11.13 of Treasury Management Policy Statement);**
 - (vi) that the maximum investment in a single institution in category 7 be increased by £2m from £13m to £15m (paragraph 11.16 of the Treasury Management Policy Statement);**
 - (vii) that investments be permitted in covered bonds that are secured against local authority debt or covered bonds that have a credit rating that meets the Council's investment criteria even if the counter party itself does not meet the Council's credit criteria (paragraph 11.19 of Treasury Management Policy Statement);**
 - (viii) that investments in repos / reverse repos collateralised against index linked gilts, conventional gilts and UK treasury bills be permitted, and that should the counter party not meet our senior unsecured rating then a 102% collateralisation would be required (paragraph 11.20 of Treasury Management Policy Statement);**
- 3.1b that the treasury management indicators contained in Appendix D be approved;**

- 3.1c that the attached Treasury Management Policy Statement including the Treasury Management Strategy, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy for 2017/18, and encompassing the amendments contained in recommendation 3.1a and the treasury management indicators contained in Appendix D be approved;**
- 3.1d that the Director of Finance and Information Services (Section 151 Officer) and officers nominated by him be given delegated authority to (paragraph 3.2 of Treasury Management Policy Statement):**
- (i) invest surplus funds in accordance with the approved Annual Investment Strategy;**
 - (ii) borrow to finance short term cash deficits and capital payments from any reputable source within the authorised limit for external debt of £607m approved by the City Council on 14 February 2017;**
 - (iii) reschedule debt in order to even the maturity profile or to achieve revenue savings;**
 - (iv) to buy and sell foreign currency, and to purchase hedging instruments including forward purchases, forward options and foreign exchange rate swaps to mitigate the foreign exchange risks associated with some contracts that are either priced in foreign currencies or where the price is indexed against foreign currency exchange rates.**
- 3.1e that the Chief Executive, the Leader of the City Council and the Chair of the Governance and Audit and Standards Committee be informed of any variances from the Treasury Management Policy when they become apparent, and that the Leader of the City Council be consulted on remedial action (paragraph 17.1 of Treasury Management Policy Statement)**

3.2 that the Director of Finance and Information Services (Section 151 Officer) submits the following (paragraph 19.1 of Treasury Management Policy Statement):

- (i) an annual report on the Treasury Management outturn to the Cabinet and Council by 30 October of the succeeding financial year;**
- (ii) a Mid-Year Review Report to the Cabinet and Council;**
- (iii) the Annual Strategy Report to the Cabinet and Council in March 2018;**
- (iv) a quarter 3 treasury management monitoring report to the Governance and Audit and Standards Committee.**

4. Background

The Council's treasury management operations cover the following:

- Cash flow forecasting (both daily balances and longer term forecasting)
- Investing surplus funds in approved investments
- Borrowing to finance short term cash deficits and capital payments
- Management of debt (including rescheduling and ensuring an even maturity profile)
- Interest rate exposure management
- Hedging foreign exchange rate risks

The key risks associated with the Council's treasury management operations are:

- Credit risk - ie. that the Council is not repaid, with due interest in full, on the day repayment is due
- Liquidity risk - ie. that cash will not be available when it is needed, or that the ineffective management of liquidity creates additional, unbudgeted costs
- Interest rate risk - that the Council fails to get good value for its cash dealings (both when borrowing and investing) and the risk that interest costs incurred are in excess of those for which the Council has budgeted
- Exchange rate risk - the risk that fluctuations in foreign exchange rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately.

- Maturity (or refinancing risk) - this relates to the Council's borrowing or capital financing activities, and is the risk that the Council is unable to repay or replace its maturing funding arrangements on appropriate terms
- Procedures (or systems) risk - ie. that a treasury process, human or otherwise, will fail and planned actions are not carried out through fraud, error or corruption

The total borrowings of the Council at 1 April 2017 are estimated to be £576m. The Council's investments at 1 April 2017 are estimated to be £323m. The cost of the Council's borrowings and the income derived from the Council's investments are included within the Council's treasury management budget of £21.8m per annum. The Council's treasury management activities account for a significant proportion of the Council's overall budget. As a consequence the Council's Treasury Management Policy aims to manage risk while optimizing costs and returns. The Council will monitor and measure its treasury management position against the indicators contained in the Treasury Management Policy.

The City Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice. The Code of Practice requires the City Council to approve a Treasury Management Strategy before the start of the financial year.

In addition the Government has issued statutory guidance that requires the Council to approve an Annual Minimum Revenue Provision for Debt Repayment Statement and an Annual Investment Strategy before the start of the financial year.

The Treasury Management Strategy, the Annual Minimum Revenue Provision for Debt Repayment Statement and the Annual Investment Strategy are all contained within the attached Treasury Management Policy Statement.

5. Reasons for recommendations

The recommendations within the attached Treasury Management Policy Statement reflect the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice and have regard to statutory guidance issued by the Government. These are designed to:

- Enable the Council to borrow funds as part of managing its cash flow or to fund capital expenditure in a way that minimises risk and costs
- Provide for the repayment of borrowing

- Ensure that the Council's investments are secure
- Ensure that the Council maintains sufficient liquidity
- Maximise the yield on investments in a way that is commensurate with maintaining the security and liquidity of the investment portfolio

6. Equality impact assessment (EIA)

The contents of this report do not have any relevant equalities impact and therefore an equalities assessment is not required.

7. Legal Implications

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

8. Director of Finance and Information Services (Section 151 Officer)'s comments

All financial considerations are contained within the body of the report and the attached appendices

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Signed by Director of Finance and Information Services (Section 151 Officer)

Appendix: Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy 2017/18

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1 Information pertaining to the Treasury Management Strategy	Financial Services