

Title of meeting:	Governance and Audit and Standards Committee Cabinet City Council
Date of meeting:	8 March 2019 (Governance and Audit and Standards Committee) 12 March 2019 (Cabinet) 19 March 2019 (City Council)
Subject:	Treasury Management Policy 2019/20
Report by:	Chris Ward, Director of Finance and Information Technology (Section 151 Officer)
Wards affected:	All
Key decision:	Yes
Full Council decision:	Yes

1. Executive Summary of the Treasury Management Policy Statement

Treasury Management Policy

The attached Treasury Management Policy sets out the Council's policies on borrowing and investing surplus cash for 2019/20.

The Treasury Management Policy for 2019/20 differs from previous years in order to reflect revised Government guidance on investments and the revised Prudential Code produced by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The revised Prudential Code requires the City Council to approve a Capital Strategy providing an overview of the Council's plans for capital expenditure, its borrowing and its investments. Some aspects of the Council's financial management that were previously approved as part of the Treasury Management Policy, including risk appetite and minimum revenue provision (MRP) for debt repayments, will now be considered by the Cabinet and City Council as part of the Capital Strategy.

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. These are contained in Appendix D.

Annual Investment Strategy

The Treasury Management Policy includes the strategy for the investment of surplus cash, known as the Annual Investment Strategy, which establishes the types of investment, investment counter parties and investment durations that the Council will operate within.

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

2. Purpose of report

The purpose of this report is to obtain the Council's approval of the updated Treasury Management Policy Statement (attached) which includes the Annual Investment Strategy.

3. Recommendations

- 3.1a that the treasury management indicators contained in Appendix D be approved;**
- 3.1b that the attached Treasury Management Policy Statement including the Treasury Management Strategy, and Annual Investment Strategy for 2019/20 be approved;**
- 3.1c that the following changes compared to the previous Annual Investment Strategy be noted:**
 - (i) That a new category of non-specified investments be added to permit investment in pooled investment vehicles including equity funds, property funds, supply chain finance funds and multi asset funds with a limit of £50m per fund**
 - (ii) That the maximum limit of an investment in a subsidiary company be increased from £20m to £30m**

- 3.1d the Director of Finance and Information Technology (Section 151 Officer) and officers nominated by him have 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 £737m approved by the City Council on 12 February 2019;**
 - (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)**

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.
- Inflation risk, ie. the chance that cash flows from an investment won't be worth as much in future because of changes in purchasing power due to inflation.
- 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 2019 are estimated to be £619m. The Council's investments at 1 April 2019 are estimated to be £326m. 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 £24.8m 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 optimising 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 Investment Strategy before the start of the financial year.

The Treasury Management Strategy, 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

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. These are contained in Appendix D (**Recommendation 3.1a**).

Recommendation 3.1(b) seeks the Council's approval to adopt the Treasury Management Policy Statement for 2019/20.

Recommendation 3.1(c)(i) seeks to allow a new category of non-specified investments to encompass pooled investment vehicles including equity funds, property funds, supply chain finance funds and multi asset funds. The Council is likely to have substantial cash balances in the medium term and these investment vehicles have the potential to generate returns in excess of inflation, and thus maintain the value of the principal invested in real terms. These investment vehicles often have entry and exit fees and are subject to cyclical changes in capital value. Therefore these investment vehicles are only suitable for cash which will be held at least into the medium term.

Recommendation 3.1(c)(ii) seeks to increase the maximum sum that can be invested in a subsidiary company from £20m to £30m to facilitate the establishment of a subsidiary company to develop housing in the greater Portsmouth area on a commercial basis.

Recommendation 3.1(d) seeks delegated authority for the Director of Finance and Information Technology (Section 151 Officer) and officers nominated by him to execute the Council's Treasury Management Policy.



Recommendation 3.1(e) seeks the Councils approval for the proposed actions to report any variances from the Treasury Management Policy.

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 Technology (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 Technology (Section 151 Officer)

Appendix: Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy 2019/20

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