Council
27 February 2019

TREASURY MANAGEMENT STRATEGY 2019-20

Councillor Mordue
Cabinet Member for Finance and Resources and

1 Purpose

1.1 This report is being presented as the Council is required to approve the Treasury Management Strategy Statement including the Treasury Management Policy Statement, the Minimum Revenue Provision Policy Statement, the Annual Investment Strategy and the Council Capital Strategy. These Statements and Strategy are attached in appendix A.

1.2 The Council previously agreed its Capital Programme at its meeting on 6th February as part of the budgetary approval process.

2 Recommendations/for decision

2.1 To consider and approve the Treasury Management Strategy Statement for 2019-20 as detailed in Appendix A and specifically:

2.2 To consider and approve the Annual Investment Strategy as detailed in Appendix A-4

2.3 To consider and approve the Minimum Revenue Provision policy statement as detailed in Appendix A-5

2.4 To consider and approve the Treasury Management Statement as detailed A-6

2.5 To consider and approve the Capital Strategy for 2019-20 as detailed in Appendix A-7

3 Background

3.1 The Appendix sets the Treasury Management Strategy Statement and outlines the background to the prudential indicators relating to the Council's capital expenditure plans, the capital financing requirement and affordability generally.

3.2 The proposed MRP Statement is also included in the Appendix A-5

3.3 The Strategy has been drawn up in association with the Council's treasury management advisors, Link Asset Services. The Strategy reflects up to date information and advice.

3.4 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

3.5 The Capital Programme was presented to Council on 6 February 2019. That report provided Council with a forecast of receipts and the position with regards to current and future major investment projects.

3.6 A total capital spend of £22.121m was approved for 2019/20.

3.7 A number of external and internal factors have a bearing on the available resources for the capital programme. Changes in anticipated resources effectively increase or reduce the level of resources available to fund new schemes and so impact directly on the Council decisions to invest or borrow resources.

3.8 A number of changes in respect of anticipated resources have been factored into the programme and include a) planned contributions from revenue b) use of reserves and also c)) Lottery, Grants & Section 106 which relates to external resources not related to asset sales.

3.9 Borrowing will be required to support the capital programme. The plan includes £9.28m of borrowing to support spend on Silverstone and Westcott Enterprise Zones and also Pembroke Road. The revenue costs of the borrowing are included in the agreed business plans. The level of borrowing will be managed in year and only actioned after cash balances have been utilised.

3.10 All decisions to borrow are made against a background of existing resource availability and minimising costs and maximising returns. Where possible decisions to borrow are avoided with the use of the Council's capital receipts being a preferred methodology to fund capital development. The reduced borrowing costs for 2019/20 are a direct result of decisions to borrow less against agreed plans.

3.11 The Council has a Commercial Property Strategy which includes a capital fund of £100m to be met from borrowing from the Public Works Loans Board, and a revenue budget of £100k from the New Homes Bonus (NHB) Fund. The objective of the scheme was to generate new streams of income to help offset the significant cuts in Government funding and to ensure sufficient finance is available to support the continued delivery of and investment in services to the local community. With the announcement of the new unitary Buckinghamshire Council a decision has been taken not to progress this strategy, recognising that the new Council will wish to have a view on acquisitions that it will eventually inherit.

3.12 In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. These revisions have particularly focused on non-treasury investments and especially on the purchase of property with a view to generating income.

3.13 The treasury management reports for 2019/20 take account of the CIPFA Code of Practice on Treasury Management 2017 and the CIPFA Prudential Code 2017.

3.14 The Prudential Code 2017 introduced a new requirement for local authorities to produce an annual capital strategy.

3.15 There are also proposals in relation to IFRS arising from the 2018/19 Accounting Code of Practice proposals for financial assets. Whilst for many this may not be a significant issue, key considerations will need to be considered. These are technical changes in relation to Expected Credit Loss Model and also equity related to the "commercialism" agenda, property funds, equity.

3.16 As a result of the change in accounting standards for 2018/19 under IFRS 9, this authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund.

3.17 IFRS 16 replaces IAS 17 Leases and its related interpretations. It will apply to the 2019/20 financial statements subject to the consultation process and CIPFA/LASAAC's decisions for adoption in the 2019/20 Code. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the authority.

3.18 At the time of writing the report, the Secretary of State has confirmed his decision to create a single Unitary District Council for Buckinghamshire which will come into existence in May 2020.

3.19 At this early stage, the financial implications of the announcement are yet to be fully understood. As thinking and understanding are progressed, the significant financial impacts will be reported to Members.

3.20 In addition to the unitary decision, there remain a number of other key uncertainties, e.g. financial impact Brexit and changes to the economy. Economic and interest rate forecasting remain difficult with so many external influences weighing on the UK.

3.21 Investment returns are likely to remain low during 2019/20 but appear to be on a gently rising trend over the next few years.

3.22 Borrowing interest rates have been volatile so far in 2018-19 and have increased modestly since the summer. The policy of avoiding new borrowing by running down spare cash balances has served AVDC well over the last few years and the intention is to continue to do this where balances allow.

4 2019/20 Treasury Management Strategy

4.1 The annual Treasury Management Strategy is attached as Appendix A and includes the Prudential Indicators that are used as part of the self governance framework.

4.2 This report provides supplementary background to the Strategy and summarises a number of issues of note to Members.

4.3 The Key messages are:

- Investments – the primary governing principle will remain security over return and the criteria for selecting counterparties reflect this.
- Borrowing – overall, this will remain fairly constant over the period covered by this report and the Council will remain under-borrowed against its borrowing requirement due to the higher cost of carrying debt.
- Governance – strategies are reviewed by the Audit Committee with continuous monitoring which includes Mid-Year and Year End reporting.

4.4 The Prudential Code for Capital Finance in Local Authorities (the Code) is a professional Code that sets out a framework for self-regulation of capital spending; in effect allowing councils to invest in capital projects which best meet their service delivery objectives as long as they are affordable, prudent and sustainable, subject to Government reserve powers to restrict borrowing for national economic reasons.

4.5 The key objectives of the Prudential Code developed by CIPFA are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable. The Code requires the Council to agree and monitor a number of prudential indicators. The indicators cover affordability, prudence, capital expenditure, debt levels and treasury management. These indicators will also form the basis of in-year monitoring and reporting.

4.6 The local authority shall ensure that all of its capital expenditure, investments and borrowing decisions are prudent and sustainable. In doing so it takes into account its arrangements for the repayment of debt (including through MRP) and consideration of risk on overall fiscal sustainability.

The limits and indicators that the Authority is required to determine by the code are:

Capital and Debt Indicators

Capital Expenditure - Represents the agreed Capital Programme and sets out the planned capital expenditure over the next three years.

Capital Financing Requirement – The amount the Authority needs to borrow in order to deliver its Capital Expenditure plans.

Affordability Index - This is the proportion of the Authority's income which is taken up by loan repayments and interest. The more the Authority borrows the less is available for delivering services.

Treasury Management Indicators

Exposure to Interest Rate Risk - The maximum proportion or borrowing which can be on either fixed or variable interest rates. By setting a maximum proportion a limit is placed on the amount by which the Authority's finances will be affected by movements in base rates.

Maturity Profile - The maximum length of time over which borrowing can be taken. Authorities can borrow for any length providing that they can afford to do so.

Authorised Limit - The combined maximum amount the Authority can take in borrowing to finance its capital expenditure plans and its day to day cash flow purposes

Operational Limit - The amount the Authority realistically expects to borrow and represents the figure that the Authority would not expect to exceed on a day to day basis

5 2019/20 Investment Management Strategy

5.1 The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return).

5.2 The Council's investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

5.3 A number of changes are proposed for the 2019-20 Investment Strategy.

- Changes to the counterparty limits for banks so that A rated banks are also available for deposits up to 1 year. Individual limits have also been increased so that A rated is £5m, AA rated is £7.5m and AAA rated is £10m.

- This can be justified as recent changes to the stress testing that banks have to go through has become far more stringent. To qualify as an A rated entity, banks need to be far more secure and have many more liquid assets than previously rated at AA or even AAA.

5.4 The Investment Strategy is included in Appendix A-4

6 Capital Strategy

6.1 The CIPFA revised 2017 Prudential and Treasury Management Codes require, for 2019-20, all local authorities to prepare an additional report setting out the Council's Capital Strategy.

6.2 To comply with statutory requirements, an expanded, but still abridged (because unitary) strategy is presented alongside the Treasury Management Strategy in January 2019.

6.3 The Capital Strategy is included in Appendix A-7

6.4 The purpose of the Capital Strategy is to drive the authority's capital investment ambition over a 20-30 year time frame, whilst also ensuring appropriate capital expenditure, capital financing and treasury management in the context of the sustainable, long term delivery of services.

6.5 However, the development of the Capital Strategy for AVDC is overshadowed by the unitary decision which only gives the Council the ability to plan for a single year. Thereafter, it will be a matter for the new Council to determine its own Capital Strategy and Financial plan given its own priorities and pressures.

6.6 A strategy has therefore been produced in order to comply with the Statutory requirement, but is deliberately 'lighter touch' by virtue of the length time it will exist.

7 Economic Background

7.1 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

7.2 The UK economy is also still reacting after the decision to leave the European Union and will continue to do so. Whilst, the pound fell during the summer period, it has started to slowly rise towards the end of the year (albeit from a low level). Exports have continued to rise, but as yet it is not clear the effect that the recent rise of 0.25% on interest rates will have on the economy generally.

7.3 The Council's treasury advisor, Link Asset Services, as part of their service provides a view on the future forecast rates for Base Rate and PWLB:

Link Asset Services Interest Rate View	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%	1.50%	1.50%	1.75%	1.75%	1.75%	2.00%
3 Month LIBID	0.80%	0.90%	1.00%	1.10%	1.20%	1.30%	1.40%	1.50%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%
6 Month LIBID	0.90%	1.00%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%
12 Month LIBID	1.10%	1.20%	1.30%	1.40%	1.50%	1.60%	1.70%	1.80%	1.90%	2.00%	2.10%	2.20%	2.30%	2.40%
5yr PWLB Rate	2.00%	2.10%	2.20%	2.20%	2.30%	2.30%	2.40%	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.80%
10yr PWLB Rate	2.50%	2.50%	2.60%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%
25yr PWLB Rate	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%	3.50%	3.50%	3.60%	3.60%
50yr PWLB Rate	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.30%	3.40%	3.40%

7.4 As expected, the Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank Rate at its meeting in August. The MPC also gave forward guidance that they expected to increase Bank rate only twice more by 0.25% by 2020 to end at 1.50%. The Link Asset Services forecast as above includes increases in Bank Rate of 0.25% in November 2019 and August 2020.

7.5 Economic and interest rate forecasting remains difficult with so many external influences weighing on the UK.

8 Property Funds

8.1 Last year the use of Property Funds was included within the strategy as an alternative long term deposit to the use of Fund Managers.

8.2 The use of Property Funds for investment was not engaged for 2018-19

9 Investments and Loan as at 31st December 2018

9.1 As at 31st December 2018, the Council had following portfolio of investment and loans.

Borrowing

Fixed Rate Funding: £17.694m. Average Rate: 4.114%.

Investments

Fixed Rate and Notice Account Investments:£44.694m.Average Rate: 0.803%.

10 Scrutiny

Finance and Services Scrutiny Committee received the Treasury Management Strategy prior to Council.

11 Reasons for Recommendation

Under the terms of the Statutory Code of Practice for Treasury Management, the Council is required to receive an annual strategy statement prior to the 1st April on its Treasury Management function. This report represents the fulfilment of that requirement.

12 Resource implications

12.1 The authority has previously operated an Interest Equalisation Reserve to smooth out fluctuations in interest rates. With returns on investment higher than budget, by the end of 2018/19, the interest equalisation reserve is estimated to be £2.053 million.

12.2 Cabinet have now agreed that the reserve can be utilised to support the transitional costs of the unitary decision.

12.3 Given that there are no expected changes in interest rates in the short term, this decision is deemed prudent with minimal risk.

12.4 The Medium Term Financial Plan recognises the Council's use of capital and other balances in delivering its plans and the impact that this will have on interest earnings.

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Background Documents	Capita Services Treasury Management Update CIPFA Prudential Code Statutory Code of Practice for Treasury Management