South Bucks District Council

Treasury Management Strategy

2017/2018

1. Background

1.1. The Council adopted the CIPFA code of practice on Treasury Management in June 2002, which includes the creation of a Treasury Management Strategy, which sets out the policies, and objectives of the Council's treasury management activities for the year ahead. The key requirements of the latest version of the Code are detailed below.

a) All councils must formally adopt the Code and four clauses, these are shown in Appendix 1A which also sets out the scheme of delegation and the treasury management role of the section 151 officer.

b) The strategy report will affirm that the effective management and control of risk are prime objectives of the Council's treasury management activities. This is consistent with the approach always adopted by this Council.

c) The Council's appetite for risk must be clearly identified within the strategy report and will affirm that priority is given to security of capital and liquidity when investing funds and explain how that will be carried out.

d) Responsibility for risk management and control lies within the organisation and cannot be delegated to any outside organisation. This is something the Council has always been very clear about, in that whilst it uses advisers and external sources of information, that it is the officers and Members of the authority who are accountable for policy and decisions.

e) Credit ratings should be used as a starting point when considering risk. Use should also be made of market data and information, the quality financial press, information on Government support for banks and credit ratings of that Government support.

f) Councils need a sound diversification policy with high quality counterparties and should consider setting country, sector and group limits.

g) Borrowing in advance of need is only to be permissible when there is a clear business case for doing so and only for the current capital programme. The Council has been debt free for a number of years. However, planned capital projects over the next few years will mean that the Council will need to borrow funds. This will enable major capital projects to be undertaken which would otherwise not be affordable.

h) The main annual treasury management reports must be approved by full Council.

i) There needs to be, at a minimum, a mid-year review of treasury management strategy and performance. This is intended to highlight any areas of concern that have arisen since the original strategy was approved. For South Bucks this requirement is met by the regular reports to the Resources Portfolio Holder.

j) Each council must delegate the role of scrutiny of treasury management strategy and policies to a specific named body. For South Bucks this is carried out by the Resources PAG.

k) Treasury Management performance and policy setting should be subjected to prior scrutiny. This is achieved via the regular discussions on Treasury Management at the RPAG.

l) Members should be provided with access to relevant training. The Council's treasury management advisers provided training most recently in September 2015 which outlined relevant legislation, the Code of Practice, Members' responsibilities and operational issues.

m) Those charged with governance are also personally responsible for ensuring they have the necessary skills and training.

n) Responsibility for these activities must be clearly defined within the organisation.

o) Officers involved in treasury management must be explicitly required to follow treasury management policies and procedures when making investment and borrowing decisions on behalf of the Council.

1.2. This strategy statement has been prepared in accordance with the Code. As in previous years the Council's Treasury Management Strategy will be approved annually by the full Council. In addition there will also be regular monitoring reports to the Resources PAG, one of which will be the annual report. In addition the Resources Portfolio Holder will be emailed each month with information showing where the Council's investment portfolio has been invested. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

1.3. The Council will adopt/reaffirm the following reporting arrangements in accordance with the requirements of the revised Code:-

Area of Responsibility	Reporting Arrangements	Frequency
Treasury Management Policy	Resources PAG /Cabinet/Council	Reviewed annually.
Treasury Management Strategy Annual Investment Strategy MRP policy	Resources PAG /Cabinet/Council	Annually before the start of the financial year
Treasury Management Strategy Annual Investment Strategy MRP policy – in year report	Resources PAG /Cabinet	Appropriate report to RPAG
Treasury Management Strategy Annual Investment Strategy MRP policy – updates or revisions at other times	Resources PAG /Cabinet/Council	As appropriate
Annual Treasury Outturn Report	Resources PAG /Cabinet	Annually by 30th September after the end of the year
Monitoring Reports	Resources PAG /Cabinet	Regularly

Investment Portfolio Detail	Resources Portfolio Holder	Monthly
Scrutiny of treasury management strategies & performance	Resources PAG	Ongoing but with particular focus when considering annual Strategy

1.4. The Local Government Act 2003 and supporting regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that the Council's capital investments plans are affordable, prudent and sustainable. These indicators are especially relevant now that the Council is proposing to undertake borrowing to finance a number of significant projects.

1.5. The Act requires the Council to set out its Treasury Strategy and to prepare an Annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

1.6. It is a statutory requirement under section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, section 32 requires a local authority to calculate its budget requirements for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- Loss of investment interest caused by the use of capital receipts to finance additional capital expenditure
- Any increases in running costs from new capital projects
- Any interest payable on loans

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

1.7. The Council employs Capita Asset Services, Treasury Solutions for treasury management information services. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon external service providers. The external treasury management service does not recommend specific strategies for authorities as they are not investment managers, but aim to ensure authorities take relevant matters into consideration and identify investment options to possibly consider. It is recognised that there is value in employing an external organisation in order to access specialist skills and resources. This was exemplified by the joint member briefing undertaken in September 2015. The Council contract with Capita Asset Services is a joint one with Chiltern District Council. The contract has been renewed with effect from 1 January 2017 to 31 December 2019.

2. Prospects for Interest Rates and Economic Background

2.1. Part of the service provided by the Council's treasury management advisers is to assist the Council to formulate a view on interest rates. The following table gives the Capita Asset Services central view on the bank rate and short term money rates.

	2017				2018		2019
	Q1	Q2	Q3	Q4	Q1	Q4	Q4
Bank Rate	0.25%	0.25%	0.25%	0.25%	0.25%	0.75%	0.75%
3 M LIBID	0.30%	0.30%	0.30%	0.30%	0.30%	0.40%	0.80%
6M LIBID	0.40%	0.40%	0.40%	0.40%	0.40%	0.50%	0.90%
12M LIBID	0.70%	0.70%	0.70%	0.70%	0.70%	0.90%	1.30%

2.2. From an economic perspective the key points that can influence the Investment Strategy are as follows:

- Political developments in the UK, especially over the terms of Brexit.
- The impact of the US election result on the US economy. If the Trump package of policies is implemented, there is likely to be an increase in inflationary pressures which could then mean that the pace of further Fed. Rate increases will be quicker and stronger than formerly expected.
- Although there is normally a high degree of correlation between the Fed. Rate and the UK Bank Rate, it is anticipated that the Fed. Rate will increase more quickly and more strongly than the UK Bank Rate.

2.3. The Bank of England has also indicated that when interest rates do start to rise it will be a slow and incremental process. It is therefore unlikely in the medium term that cash investment returns will increase significantly from current levels.

3. Achieving the Investment Target in 2017/18

3.1. As part of its medium term financial strategy the Council is seeking to maximise its investment income with acceptable levels of risk.

3.2. It is clear that continuing with short term cash investments will provide returns of at best 1.0% over the next year or so. To achieve higher levels of returns would involve:

- Investing for longer periods, i.e. 3 years or longer.
- Investing in non cash based instruments, i.e. property or corporate bond funds.

3.3. The following table illustrates the estimated investment interest for 2017/18.

	Credit Rating	Amount Loaned	Interest Rate	Matures	Interest 17/18	New Inv 17/18 (1%)
Bank of Scotland/Lloyds	A+	1,000,000	1.05%	May-17	1,208	8,333
Bank of Scotland/Lloyds	A+	1,000,000	1.05%	May-17	1,410	8,333
Bank of Scotland/Lloyd	A+	1,000,000	1.05%	Jun-17	1,812	7,500
Bank of Scotland/Lloyd	A+	1,000,000	1.05%	Aug-17	3,567	5,833

RBS/Natwest	BBB+	2,000,000	3 mth LIBOR	Feb-18	16,570	
RBS/Natwest	BBB+	3,000,000	1.31% then 3 mth LIBOR	Feb-20	39,300	
Santander	A	1,000,000	0.75%	Nov-17	4,664	3,333
Close Brothers	A	1,000,000	1.40%	Apr-17	499	9,167
Total		11,000,000			69,030	42,500
Short term		7,000,000	0.35%		24,500	
Gilts/Bonds etc		749,247			31,000	
Farnham Park Loan					35,400	
Total		18,749,247			159,930	42,500
Total interest forecast 2017/18						**202,430**

3.4. However, owing to the Council's capital spending plans it is unlikely that cash will be available for investment over longer time periods.

3.5. The following table illustrates the timescale for maturity of current investments.

Schedule of Maturing Investments

Year	Month	Amount	Cumulative
Instant MMF		7,000,000	7,000,000
2016/17	Jan	2,000,000	9,000,000
	Mar	3,000,000	12,000,000
2017/18	Apr	1,000,000	13,000,000
	May	2,000,000	15,000,000
	Jun	1,000,000	16,000,000
	Aug	1,000,000	17,000,000
	Nov	1,000,000	18,000,000
	Feb	2,000,000	20,000,000
2019/20	Feb	3,000,000	23,000,000
		23,000,000	

3.6. The strategy needs to consider risk and this includes avoiding placing too much of the total investments with a single fund or institution.

3.7. The table below shows the proposed counterparty investments matrix for investments in 2017/18.

	Duration	Maximum Amount	Fitch Rating	Comment
Money Market Funds	-	£5m	AAA	
UK Institutions	Up to 5 years	£5m	A- or better	
	Up to 3 years	£5m	BBB+ or better	
Non UK Institution	Up to 3	£2m	A- or better	Sovereignty

	years			rating AA or better
Gilts / Corporate Bonds / Bond Funds	Up to 5 years	£5m	A- or better	
Other Approved Investments (eg Property Funds)	-	£5m	-	

4. Borrowing Strategy

4.1 The Treasury Management Strategy for 2017/18 reflects a shift in strategy from South Bucks being a debt free Authority to an Authority which will undertake borrowing to enable some significant capital projects to be undertaken. Potentially in 2017/18 the Council could undertake borrowing of up to £11m. The change in strategy is described in more detail in the Council's Capital Strategy which is being updated as part of the overall 2017/18 budget setting process.

4.2 In order to undertake borrowing the Council must demonstrate its compliance with the Prudential Borrowing Code. The purpose of the Code is to establish the framework for local authority to ensure:

- Capital expenditure plans are affordable (Medium Term Financial Strategy and Capital Strategy)
- External borrowing and long term liabilities are prudent and sustainable (Medium Term Financial Strategy)
- Treasury management decisions are in accordance with good professional practise (Treasury Management Strategy)
- The local authority is accountable and its decisions clear and transparent (Code of Corporate Governance)

4.3 The capital expenditure plans set out in Appendix 1B provide details of the planned expenditure of the Council. 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 expenditure. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities.

4.4 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the additional sums borrowed. However, it is possible that there will be some short term timing differences where funds are borrowed in order to pay suppliers' invoices for capital projects. This may result in the Council holding cash surpluses until the project is complete, which will be invested until required for the payment of suppliers.

4.5 Borrowing will only be entered into once the larger capital projects have received approval from Members to commit following appropriate feasibility and preparation work. The Director of Resources will determine the optimum time to borrow taking into account current and forecast interest rates.

4.6 The Local Government Act 2003 sets out the new capital regulations and specifies that local authorities must comply with the Prudential Code produced by CIPFA. The Council has a duty to determine an affordable borrowing limit. It is recommend that Members approve an authorised borrowing limit of £20 million and an operational borrowing limit of £12.5 million, these together with other prudential indicators that the Council are required to set under the code are shown at Appendix 1B, and Appendix 1C covers the technical requirement in respect of calculating the minimum revenue provision.

5. Financial Summary & Risks

5.1. The budget for investment interest was set as £430,000 for 2016/17. Current estimated returns show that there is likely to be a shortfall against the current year's budget of approximately £140,000.

5.2. The estimated investment return for 2017/18 is £200,000, which reflects the latest forecasts for interest rates. Loss of £32,000 of investment income is equal to £1 council tax on a band D property.

5.3. The cost of borrowing is estimated at 2.5%. There is clearly some sensitivity around this if the interest rate should change. A 1% increase in borrowing rates would increase interest rate costs by £10,000 per £1m of borrowing.

5.4. As with any budgets based on forecasts of future interest rates there is a risk of variation due to factors outside of the Council's control. This risk will need to be taken into account in determining the level of revenue reserves held by the authority.

<u>Appendices</u>

1A – Annual Investment Strategy
1B – Prudential Indicators
1C – Minimum Revenue Provision