MAIDSTONE BOROUGH COUNCIL

COUNCIL

1 MARCH 2017

REPORT OF THE AUDIT, GOVERNANCE AND STANDARDS COMMITTEE HELD ON 16 JANUARY 2017

TREASURY MANAGEMENT STRATEGY 2017/18

Issue for Decision

In accordance with CIPFA's Code of Practice on Treasury Management, the Council is asked to adopt the Treasury Management Strategy for 2017/18 and the Treasury Management and Prudential Indicators.

Recommendation Made

That the Treasury Management Strategy 2017/18 and the Treasury Management and Prudential Indicators, attached as Appendices A and B to this report, be adopted.

Reasons for Recommendation

The Council has adopted CIPFA's Code on Treasury Management which requires an annual report on the strategy and plan to be pursued within the coming year to be made to full Council.

The Council is required to operate a balanced budget which broadly means that cash raised during the year will meet cash expenditure. The Treasury Management Strategy assists the Council in achieving this objective while maintaining value for money.

The first function of the Council's Treasury Management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the Treasury Management operation is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CIPFA defines Treasury Management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

There have not been any significant revisions to the Strategy for 2017/18 from the 2016/17 Strategy, which was reviewed by the Audit, Governance and Standards Committee and agreed by Council in March 2016 then monitored by the Audit, Governance and Standards Committee mid-year. However, the following changes should be noted:

- The maximum principal sums to be invested for a period exceeding 364 days has been reduced to £5m from £8m. This is consistent with the borrowing strategy to utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate.

- The Council will endeavour to further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments are considered.

- Changes to the capital financing requirement are proposed in light of updated capital plans. The proposed limit on prudential borrowing has been revised accordingly, as set out in the table below.

- The expected level of interest income to be generated through investment returns has been revised downwards in light of the current economic outlook and interest rate forecasts.

The Strategy statement is set out as **Appendix A** to this report. It is consistent with the requirements of CIPFA and the Department for Communities and Local Government. It has been developed in line with currently approved spending and financing proposals.

The Policy and Resources Committee, at its meeting held on 18 January 2017, considered a capital programme for the period 2017/18 to 2021/22. This programme proposed a significant increase in prudential borrowing to support the housing development and regeneration objectives of the Council.

The following table shows the maximum and expected prudential borrowing required to fund the proposed capital programme. The maximum borrowing limit excludes any internal borrowing:

	2017/18 £	2018/19 £	2019/20 £
Capital Programme	13,045,870	16,432,000	14,695,000
Other Funding Streams (incl. New Homes Bonus)	(12,016,000)	(3,859,000)	(3,735,000)
Maximum Prudential Borrowing	1,029,870	12,573,000	10,960,000
Estimated Internal Borrowing	(1,029,870)	(3,570,130)	0
Expected Borrowing	0	9,002,870	10,960,000

The prudential indicators for the proposed Strategy are set out within **Appendix B** to this report.

The Audit, Governance and Standards Committee endorsed the Treasury Management Strategy 2017/18 and the Treasury Management and Prudential Indicators subject to (a) any potential amendments arising from the Policy and Resources Committee's consideration of the capital programme for 2017/18 and (b) the amendment of the table for Maturity Structure of Borrowing (as proposed by Arlingclose, the Council's Treasury Management Advisers), to reflect the availability of cheaper borrowing in the shorter term. No changes are required as a result of the Policy and Resources Committee's consideration of the capital programme for 2017/18.

Alternatives Considered and Why Not Recommended

Option 1: The Audit, Governance and Standards Committee could have decided not to recommend the Strategy to Council. However, the Council must adopt a Strategy for 2017/18. The Strategy is in line with the necessary codes and practice guides and takes a low risk approach favouring liquidity over return and as such is considered suitable for this Council. The Strategy has been produced in line with current guidance from CIPFA and the Department for Communities and Local Government and has been reviewed by the Council's Treasury Management Advisors and their recommended amendments have been taken into account.

Option 2: Subject to any legal obligations placed upon the Council, the Audit, Governance and Standards Committee could have amended the Strategy prior to submission to Council giving detailed reasons for the amendment and the risks and benefits that the proposed amendment provided in order for the Council to make a fully informed decision on the recommendation. Areas where amendments could be made include the following, which are detailed along with current reasons for not changing the Strategy.

<u>Limits</u>: The proposed Strategy allows maximum investments with certain institutions of £8m. The current limit could be retained, increased or reduced. Given the difficulty in identifying opportunities to lend at suitable rates within the counterparty list, it is considered appropriate to incorporate sufficient

flexibility by retaining the current limit for investments with the most secure organisations.

Counterparties: The proposed Strategy allows non-specified investments with other local authorities and the rated/unrated building societies that are within Arlingclose's suggested counterparty list. The Strategy could propose to utilise additional counterparties from the non-specified investments group. However, due to the fact that this would involve an increased level of risk to the security of the Council's cash, this is not considered to represent a prudent course of action.

Alternative use of cash: The resources invested in expenditure could be utilised to deliver key priority outcomes. However the core cash held by the Council is either set aside for future expenditure, such as the capital programme, or held as a form of risk mitigation, such as the minimum level of revenue balances. To utilise these resources for alternative projects could compromise liquidity and put the Council at future risk should an unforeseen event occur.

External Fund Managers: By appointing external managers local authorities may possibly benefit from security of investments, diversification of investment instruments, liquidity management and the potential of enhanced returns. Managers do operate within the parameters set by local authorities but this involves varying degrees of risk. This option has been discounted on the basis of the risk which would make it difficult to ascertain a suitable sum to assign to an external manager.

Appendices

The following documents are to be published with this report and form part of the report:

- Appendix A: Treasury Management Strategy Statement
- Appendix B: Prudential and Treasury Management Indicators

Background Papers

None