

Treasury Management Sub-Committee



St Edmundsbury
BOROUGH COUNCIL

Title of Report:	Treasury Management Policy Statement and Investment Strategy 2018-2019 and Treasury Management Code of Practice	
Report No:	TMS/SE/18/002	
Report to and dates:	Treasury Management Sub-Committee	22 January 2018
	Performance and Audit Scrutiny Committee	31 January 2018
	Cabinet	6 February 2018
	Council	20 February 2018
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Purpose of report:	To seek approval of the Treasury Management Policy Statement and Investment Strategy 2018/19 (including Treasury related Prudential Indicators) and Treasury Management Code of Practice.	

Recommendation:	<p>The Treasury Management Sub-Committee is asked to (<i>via the Performance and Audit Scrutiny Committee</i>):</p> <p>(1) Make recommendations to Cabinet and Council regarding the <u>adoption</u> of updated (December 2017) Treasury Management in the Public Services Code of Practice and Cross-Sectional Guidance Notes.</p> <p>(2) Make recommendations to Cabinet and Council regarding the <u>approval</u> of the Treasury Management Policy Statement and Investment Strategy 2018-2019 (as set out in Appendix 1); and</p> <p>(3) Make recommendations to Cabinet and Council regarding the <u>approval</u> of the Treasury Management Code of Practice (as set out in Appendix 2).</p>
Key Decision: <i>(Check the appropriate box and delete all those that do not apply.)</i>	<p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input type="checkbox"/></p> <p>No, it is not a Key Decision - <input checked="" type="checkbox"/></p>
Consultation:	<ul style="list-style-type: none"> • Treasury management activities are currently undertaken in consultation with Sector (Capita), (the Councils appointed Treasury Management advisers) and also takes into account information obtained from investment brokers and other economic commentators. The committee provides for the scrutiny of treasury management strategies and performance, with changes in strategies and policies subject to approval by Cabinet and full Council.
Alternative option(s):	<ul style="list-style-type: none"> • Options for the management of Council investments are formally considered within the Annual Treasury Management and Investment Strategy.
Implications:	
<p>Are there any financial implications? If yes, please give details</p>	<p>Yes <input type="checkbox"/> No <input type="checkbox"/></p> <ul style="list-style-type: none"> • Total budgeted interest receipts from investments, included in the MTFS, for 2018/19 is 308k
<p>Are there any staffing implications? If yes, please give details</p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <ul style="list-style-type: none"> •
<p>Are there any ICT implications? If yes, please give details</p>	<p>Yes <input type="checkbox"/> No <input checked="" type="checkbox"/></p> <ul style="list-style-type: none"> •

<i>Are there any legal and/or policy implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> •	
<i>Are there any equality implications? If yes, please give details</i>		Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> •	
Risk/opportunity assessment:		<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	
Risk area	Inherent level of risk (before controls)	Controls	Residual risk (after controls)
	Low/Medium/ High*		Low/Medium/ High*
Fluctuations in interest rates or in projected cash flows having significant impact on budgeted investment income.	High	Spread of investments for periods of up to two years. Budget monitoring and quarterly performance reports. Use of interest equalisation reserve to smooth out year-on-year fluctuations.	Medium
Bank and building society failure resulting in loss of Council funds.	High	Use of Sector advice on counterparty credit ratings (based on Fitch, S&P and Moody ratings) and the setting of lending limits. Use of non-rated building societies based on asset base and additional credit checks.	Medium
Ward(s) affected:		All Ward	
Background papers: <i>(all background papers are to be published on the website and a link included)</i>		Annual Treasury Management and Investment Strategy 2017/18 (TMS.SE.17.002 and Appendix 1) Treasury Management Code of Practice 2017/18 (TMS.SE.17.002 - Appendix 2)	
Documents attached:		Appendix 1 – Treasury Management Policy Statement and Investment Strategy 2018-2019. Appendix 2 – Treasury Management Code of Practice 2018-2019.	

1. Key issues and reasons for recommendations

1.1 Treasury Management Policy Statement and Investment Strategy

- 1.1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management Code of Practice requires that, prior to the start of each financial year, the Council formally approve a Treasury Management Policy Statement and Investment Strategy which sets out its treasury management policy and strategy for the forthcoming year.
- 1.1.2 The purpose of this report is to present those strategy statements to the Treasury Management Sub-Committee for consideration.

1.2 Treasury Management Code of Practice

- 1.2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) recommend that all Councils adopt a Treasury Management Code of Practice based on the treasury management practices published by CIPFA and guidance issued in their Code of Practice.
- 1.2.2 Adherence to the principles of the CIPFA Code should ensure that Treasury Management activities within the Council are effectively managed and adequately controlled.

1.3 Major changes between the 2017/2018 Strategy and Code of Practice and the new 2018/2019 Strategy and Code of Practice

- 1.3.1 In December 2017 CIPFA issued an updated Treasury Management in the Public Services Code of Practice and Cross-Sectional Guidance Notes. Consequently the Council has updated its Strategy in line with these.
- 1.3.2 The main changes to the Strategy are as follows:
- the four clauses to be formally adopted have been updated
 - an additional section has been added for 'investments that are not part of treasury management activity'
- 1.3.3 The main changes to the Code of Practice are as follows:
- Introduction – updated to reference new CIPFA Treasury Management Code 2017
 - Definitions – updated to include 'investments' definition
 - Requirements for operation of the code – removed section as duplicated elsewhere in the Code of Practice or in Treasury Management Policy Statement and Investment Strategy
 - Treasury Management Policy Statement – removed section as duplicated in Treasury Management Policy Statement and Investment Strategy
 - Treasury management Practices
 - TMP 1 general statement – updated to reference due diligence
 - TMP 1 all the subsections have slightly updated wording
 - TMP 1 (5) Inflation Risk – has been renumbered previously TMP1 subsection (9)

- Previous Market Risk Management TMP has been replaced with TMP 1 (9) Price Risk Management and has updated wording
- TMP 4 – updated with sentence about use of derivatives and compliance with MiFID II
- TMP 6 – addition paragraph regarding regular monitoring reports
- Section added for ‘investments that are not part of treasury management activity’ – links to the new requirement for a Capital Strategy

2. Interest Rate Projections

2.1 The following table shows the revised interest rate projections from Link Asset Services (the Council’s advisors) based on the current economic climate.

	Previous Strategy	New Strategy
2018/19	0.70%	0.60%
2019/20	0.70%	0.90%
2020/21	0.75%	1.25%
2021/22		1.50%

3. Counterparty Ratings

3.1.1 The Council continues to use the Link (Capita) Colour Coded matrix in conjunction with information available from other industry sources to identify suitable counterparties for investments.

3.1.2 ***Lending Criteria - Rated Banks and Investment Scheme***

Link Colour Code Key	Maximum Duration / Investment Values
Purple	Max £13m for max of 2 years (subject to max 50% of portfolio)
Orange	£12m for max of 2 years (subject to max 40% of portfolio)
Red	£11m for max of 1 year (subject to max 50% of portfolio)
Green	£9m for max of 6 months (subject to max 30% of portfolio)
Blue (nationalised / substantially owned by the UK government)	£18m for max of 2 years

3.1.3 ***Lending Criteria – Rated Building Societies***

Link Colour Code Key	Maximum Duration / Investment Values
Red	£11m for max of 1 year (subject to max 35% of portfolio)
Green	£7m for max of 1 year (subject to max 30% of portfolio)

3.1.4 **Lending Criteria – Non Rated Building Societies(Asset Base Criteria)**

Asset Base	Maximum Duration / Investment Values
Asset base > £2,500m	£6m for max 6 months
Asset base > £1,000m	£5m for max 6 months

3.1.5 Please see the Treasury Management Policy Statement and Investment Strategy 2018/2019, (**Appendix 1**) and Treasury Management Code of Practice (**Appendix 2**) for full details.