

# Gloucester City Council

<b>Meeting:</b>	<b>Cabinet</b>	<b>Date:</b>	<b>7<sup>th</sup> March 2018</b>
	<b>Audit &amp; Governance Committee</b>		<b>12<sup>th</sup> March 2018</b>
	<b>Council</b>		<b>22<sup>nd</sup> March 2018</b>
<b>Subject:</b>	<b>Treasury Management Strategy 2018/19</b>		
<b>Report Of:</b>	<b>Cabinet Member for Performance and Resources</b>		
<b>Wards Affected:</b>	<b>All</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>Yes</b>
<b>Contact Officer:</b>	<b>Jon Topping, Head of Policy and Resources</b>		
	<b>Email: jon.topping@gloucester.gov.uk</b>	<b>Tel:</b>	<b>396242</b>
<b>Appendices:</b>	<b>1. Treasury Management Strategy 2018/19</b>		

## FOR GENERAL RELEASE

### 1.0 Purpose of Report

1.1 To formally recommend that Council approves the attached Treasury Management Strategy, the prudential indicators and note the Treasury activities.

### 2.0 Recommendations

2.1 Cabinet is asked to **RECOMMEND** to Council that the Treasury Management Strategy be approved.

2.2 Audit and Governance Committee is asked to **RECOMMEND** that the Treasury Management Strategy be approved.

2.3 Council is asked to **RESOLVE** that:

(1) The Treasury Management Strategy at Appendix 1 be approved;

(2) The authorised borrowing limit be approved at:-

a) 2018/19 £120m

b) 2019/20 £180m

c) 2020/21 £180m

(3) The prudential indicators set out in section two of the strategy be approved.

### 3.0 Background and Key Issues

- 3.1 The Council's Treasury position changed in-year as a result of the property deal at Kings Walk. The Council entered into a long term lease arrangement which has resulted in a liability on the balance sheet. In doing so it now receives rental income which more than matches the charge on the lease liability. Significant cash sums were also received to be held in reserve for future expenditure. These have resulted in an increase in the level of money available for Council investment purposes.
- 3.2 A portion of reserves have been invested in a property fund managed by CCLA Investment Management Ltd. CCLA is compliant with FSA and other Financial Regulations. This is a new form of investment for the City Council, made possible by the cash inflow, and generates a competitive rate of return within the Council's accepted risk parameters.
- 3.3 Following the introduction of the European Regulations MIFID 11, from January 3<sup>rd</sup> all local authorities have to elect up to professional status in order to continue to have access to the stock market and a variety of investment instruments. This involved undertaking rigorous financial testing in order to be granted Professional status. Had the council not taken the decision to opt up, a reduction to 'Client' status would have curtailed our investment opportunities. The following Counterparties have agreed the council's decision to opt up to 'professional' status from the 3<sup>rd</sup> January:-
- TP ICAP Plc Brokers
  - BGG Brokers LP (RP Martin)
  - Tradition Brokers
  - Skipton Building Society
  - CCLA Investment Management Ltd
- For all other counterparties that the council deals with, MIFID 11 was not a Requirement because of the types of investments held.
- 3.4 The 2018/19 treasury management strategy recommends to continue operating within an under-borrowing position. This position reflects that the Council uses internal resources, such as reserves, to fund the borrowing need rather than invest those funds for a return. This strategy is sensible, at this point in time, for two reasons. Firstly, the lost interest on those funds is significantly less than the costs of borrowing money for the capital programme. In addition, using the resources to reduce debt the Council will reduce exposure to investment counterparty risk. If an opportunity arises for commercial investment the under borrowing position will allow the Council the headroom to borrow funds for a purchase up to the under borrowing level.
- 3.5 There will be cash flow balances that will be invested for short periods within the year. Section 4 of the strategy outlines the Annual Investment Strategy; in particular it outlines the creditworthiness policy through the use of credit ratings.
- 3.6 The borrowing strategy is to utilise investments to reduce short term borrowing. Once investments have been applied it is anticipated that the

majority of new debt will be short term as the current market rates are attractive. Where the capital programme, or investment strategy, requires the creation of long-term investment need then some long term borrowing is likely to be undertaken to take advantage of low rates and mitigate the risk presented by having all borrowing on short-term deals.

- 3.7 The strategy allows flexibility for either debt rescheduling or new long term fixed rate borrowing while allowing the Council to benefit from lower interest rates on temporary borrowing at the current time.
- 3.8 The strategy also includes the minimum revenue provision (MRP) policy statement. This policy continues with the practice approved last year. MRP is the revenue charge to reduce debt by placing a charge on the General Fund each year. The preferred option is to provide for the borrowing need created over the approximate life of the asset purchased. This is achieved with an annuity calculation which provides a consistent overall annual borrowing charge with the level of principal (MRP) increasing each year, much like a repayment mortgage.
- 3.9 Central Government has recently introduced new guidance on investments. The guidance includes a statement that “Strategies presented to Council or equivalent before 1 April 2018 but relating to 2018-19 and future financial years do not need to include all of the additional disclosures required by this edition of the guidance should it not prove practical or cost effective to do so. If a local authority chooses not to include the new disclosures in its 2018-19 strategy, it must include the disclosures in full in the first Strategy presented to full Council after 1 April 2018”. In line with this requirement no significant changes have been made to this strategy but the disclosures will be introduced in full for the 2019/20 strategy.
- 3.10 The recently revised Prudential Guide introduces the concept of Proportionality which is to be implemented in full. This is defined as “Where, in addition to treasury management investment activity, organisations invest in other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organization and the organization should ensure that the same robust procedures for the consideration of risk and return are applied to these decisions”. This concept has implications for the Property Investment Strategy and will decisions relating to the strategy will be taken in this context. The affordable borrowing limits to be set include the £80m agreed for the Property Investment

#### **4.0 Asset Based Community Development (ABCD) Considerations**

- 4.1 This report notes the Treasury Strategy of the Council. There are no ABCD implications from this report.

#### **5.0 Alternative Options Considered**

- 5.1 The following option has been considered:

There is the potential to “lock in” borrowing for capital purposes on longer term rather than the current short term approach. This remains an option as long term borrowing rates are at historically low levels. However, the difference between the cost of the cost of short term loans should interest rates change but at the moment short terms rates are approximately 0.30% whereas long term rates are approximately 1.9% (25 years plus).

## **6.0 Reasons for Recommendations**

- 6.1 As outlined in the legal implications the recommendations require Council approval. The Treasury and Investment Strategies recommended provide the best platform for financing the long-term capital programme and managing daily cash flow whilst protecting Council funds.

## **7.0 Future Work and Conclusions**

- 7.1 The Treasury Management Strategy provides a logical basis to fund the Council's capital financing requirement and long-term Capital Programme. The Council will continue to monitor the under borrowed strategy and is prepared to adapt this strategy if there is changes within the markets.

## **8.0 Financial Implications**

- 8.1 The expenditure and income arising from treasury management activities are included within the Council Money Plan.

## **9.0 Legal Implications**

- 9.1 The Council is required to have a Treasury Management Strategy to meet the requirements of the Local Government Act 2003, the CIPFA Prudential Code, MHCLG Minimum Revenue Provision Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

## **10.0 Risk & Opportunity Management Implications**

- 10.1 There is a risk that short term and long term interest rates could increase and this will be monitored both in-house and by the Council Treasury Management Advisor, Link Asset Services. In this event the risk will be managed through the opportunities either to reschedule debt or new long term fixed rate borrowing in place of short term borrowing.
- 10.2 The risk of deposits not being returned by the counterparty is minimised by only investing short term cash flow monies with counterparties on the approved lending list. All counterparties on this list meet minimum credit rating criteria, ensuring the risk is kept extremely low although not eliminated.

**11.0 People Impact Assessment (PIA) and Safeguarding:**

11.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

**12.0 Other Corporate Implications**Community Safety

12.1 None

Sustainability

12.2 None

Staffing & Trade Union

12.3 None

**Background Documents:**

Local Government Act 2003  
CIPFA Treasury Management Code  
CIPFA Prudential Code  
MHCLG MRP Guidance