

<b>Subject:</b>	Treasury Management Strategy & Treasury Management Practices (updates for 2018/19)	<b>Status:</b>	For Publication
<b>Report to:</b>	Cabinet Council	<b>Date:</b>	21 <sup>st</sup> February 2018 28 <sup>th</sup> February 2018
<b>Report of:</b>	Finance Manager	<b>Portfolio Holder:</b>	Resources and Customer Services
<b>Key Decision:</b>	<input type="checkbox"/> Forward Plan <input checked="" type="checkbox"/>	<b>General Exception</b>	<input type="checkbox"/> <b>Special Urgency</b> <input type="checkbox"/>
<b>Equality Impact Assessment:</b>	Required:	<del>Yes</del> /No	Attached: <del>Yes</del> /No
<b>Biodiversity Impact Assessment</b>	Required:	<del>Yes</del> /No	Attached: <del>Yes</del> /No
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<b>1.</b>	<b>RECOMMENDATION(S)</b>
1.1	Members are asked to approve the revised Treasury Management Strategy Statement and the Treasury Management Policy and Practices.
1.2	Members are asked to delegate any further minor changes to the Head of Finance in consultation with the Portfolio Holder for Resources and Customer Services.
1.3	Members are asked to authorise the Head of Finance to take advantage of any prepayment options offered, as noted in paragraph 5.9, in consultation with the Portfolio Holder for Resources and Customer Services.

## 2. PURPOSE OF REPORT

- 2.1 The purpose of the report is to obtain approval of the updated Treasury Management Strategy Statement (TMS) and Treasury Management Policy and Practices (TMP).

## 3. CORPORATE PRIORITIES

- 3.1 The matters discussed in this report impact directly on the following corporate priorities:
- **A clean and green Rossendale:** our priority is to keep Rossendale clean and green for all of Rossendale's residents and visitors, and to take available opportunities to recycle and use energy from renewable sources more efficiently.
  - **A connected and successful Rossendale that welcomes sustainable growth:** our priority is to ensure that we are well connected to our residents, key partners and stakeholders. We want to make the most of every pound we spend and we are always looking for new and innovative ways to make the resources we do have, work harder for us.
  - **A proud, healthy and vibrant Rossendale:** our priority is to ensure that we are creating and maintaining a healthy and vibrant place for people to live and visit.

## 4. RISK ASSESSMENT IMPLICATIONS

- 4.1 All the issues raised and the recommendation(s) in this report involve risk considerations as set out below:
- Failure to comply with legal statute, Codes of Practice and regulations of the Council.
  - Financial risks and credit risks exposure as a result of treasury management

decisions. The TMS lays the ground rules for balancing the desire to maximize interest earning capacity with the potential risks of investments in the financial sector, especially in the current economic climate.

## 5. BACKGROUND AND OPTIONS

5.1 This is an annual update of the **Treasury Management Strategy Statement (Appendix 1)** and the **Treasury Management Policy and Practices (Appendix 2)**, based upon the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management and Prudential Codes 2017.

**Appendix 3 is an Explanation of the Treasury Management and Prudential Codes 2017** and the changes that they have introduced, including the requirement for a Capital Strategy, which is being presented to Members as a separate item.

5.2 Treasury management is concerned with how organisations manage their cash resources and its scope covers borrowing, investment and hedging instruments and techniques. Risk is inherent in all treasury management activities and it is necessary to balance risk and return. In the public services it is generally considered that the priority is to protect capital rather than maximize return.

5.3 The suggested Treasury Management Strategy Statement for 2018/19 at Appendix 1 is written in conjunction with both the Revenue Budget for 2018/19 and the Capital Strategy and Capital Programme 2018/19 to 2020/21 which are also being placed before this committee, specifically in respect of the TMSS at Appendix 1:-

- Capital expenditure and resources at 2.1
- Predicted Capital Financing Requirement (CFR) at 2.2
- Prudential Indicators and Minimum Revenue Provision (MRP) repayments at Appendix 5.1
- Interest income expectations which are based upon the officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Link Asset Services at 4.4 and 5.2.

5.4 The interest rates quoted at paragraphs 4.4 and 5.2 of the Strategy reflect the average of samples gathered by Link Asset Services as at the 31<sup>st</sup> January 2018 from city and non-city forecasters, including HM Treasury. It should be noted that there is a large range in those forecasts, and the average is at best an educated estimate in today's financial climate. Whilst forecasters are comparatively confident about their estimates for the coming financial year, those for longer term are far less reliable.

In light of low interest base rates, Council officers have recently taken a more active strategy of exploring alternative investment options with the Council's related parties and subsidiaries. During 2017/18 this included a 3-year prepayment of the Council's anticipated pension costs in order to achieve over £00k of savings over the 3 years. Officers expect to continue to this strategy in the coming years.

5.5 The Treasury Management Strategy Statement covers:

- treasury controls and reporting mechanisms required to limit the treasury risk and activities of the Council
- the current and expected cash and reserve balances (2.3)
- the borrowing requirement and borrowing limits (3.1)
- prospects for interest rates (3.3)
- policy on borrowing in advance of need (3.5)
- the investment strategy and expected rates of return (4.4)
- Prudential Indicators and the MRP strategy (5.1)

- treasury management scheme of delegation (5.6) and the relevant roles and responsibilities of delegated officers (5.7)

5.6 As part of the Council's budget-setting work the estimates of future interest rates, capital resources and expenditure and capital financing costs (through the Minimum Revenue Provision) have been included in arriving at a balanced budget for 2018/19.

5.7 The Treasury Management Policy and Practices at Appendix 2 provide further operational detail on the plans within the Treasury Management Strategy Statement. For 2018/19 there have been only very minor amendments to the Treasury Management Policy and Practices to cover the works with related parties and subsidiaries and to keep it in line with updates in the TMSS above.

5.8 The Treasury Management Practices cover

- risk management arrangements and techniques
- performance measurement
- decision making and operational controls within the day to day administration of treasury and cash flow management
- measures to prevent money laundering
- training requirements for staff included within the delegation arrangements in the Treasury Management Strategy Statement
- further details on the use of external service providers

5.9 As mentioned at 5.4 above, at times of low interest rates from banks, one alternative use of resources open to the Head of Finance is the pre-payment of revenue creditors in order to achieve early payment discounts. These transactions are not treated as investments, therefore do not fall under the TMS or TMPs in the appendices attached. However, the same considerations of risk and reward should be considered prior to entering into any such agreement. The Head of Finance must be sure of the nature and obligation of the future transactions, their expected value and the credit worthiness of the supplier/counterparty involved.

The risks around this strategy include, amongst others:

- Overpayment of contributions cannot be returned.
- An unexpected increase in bank base rates.
- Agreeing the accounting treatment with external auditors.
- An unexpected reduction in cash balances.

Each individual opportunity would be assessed on its own merits and reported to members at the next available opportunity.

## 6. SECTION 151 OFFICER

6.1 Financial matters are dealt within the report.

## 7. MONITORING OFFICER

7.1 There are no material implications.

## 8. POLICY IMPLICATIONS AND CONSULTATION CARRIED OUT

8.1 Consultation has been with the Council's treasury management advisors, Link Asset Services.

8.2 The Council's treasury management advisors, Link Asset Services, have ensured that the documents attached meet the requirements of the current Chartered Institute of Public Finance and Accountancy's (CIPFA) revised Treasury Management Code of Practice and

revised Prudential Code 2017.

**9. CONCLUSION**

9.1 Recommend adoption of the updated Treasury Management Strategy Statement and Treasury Management Policy and Practices, which will ensure continued compliance with the Code and continue to contain the Councils exposure to financial risk.

Background Papers	
Document	Place of Inspection
Final Accounts working papers	Financial Services
Template TMSS and TMPs provided by Link Asset Services	Financial Services and Link website (client area)
Previously adopted 2017/18 TMS & TMP	Website: Full Council February 2017