

Decision Maker: Resources Portfolio Holder
Council

Date: For pre-decision scrutiny by Executive and Resources PDS Committee
on 1st February 2018
Council 26th February 2018

Decision Type: Non-Urgent Executive Key

Title: TREASURY MANAGEMENT - ANNUAL INVESTMENT
STRATEGY 2018/19

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Chief Officer: Director of Finance

Ward: All

1. Reason for report

1.1. This report presents the Treasury Management Strategy and the Annual Investment Strategy for 2018/19, which are required by the CIPFA Code of Practice for Treasury Management in the Public Services (revised in 2009 and updated in 2011 and 2017) to be approved by the Council. The report also includes prudential indicators and the MRP (Minimum Revenue Provision) Policy Statement, both of which require the approval of the Council. For clarification, the Council is required by statute to agree and publish prudential indicators, primarily to confirm that the Council's capital expenditure plans are affordable and sustainable. As Members will be aware, Bromley does not borrow to finance its capital expenditure and, as a result, many of the indicators do not have any real relevance for the Council. The 2017/18 strategy, agreed by Council in March 2017, was updated in June and December 2017 as detailed in para 3.2.5, and no further changes are proposed at this time.

2. RECOMMENDATION(S)

2.1. The Resources Portfolio Holder is requested to:

- a) note the report, and
- b) recommend that Council agrees to adopt the Treasury Management Statement and the Annual Investment Strategy for 2018/19 (Appendix 1 on pages 7-31 of this report), including the prudential indicators (summarised on page 31) and the Minimum Revenue Provision (MRP) policy statement (page 11).

2.2. Council is requested to:

- a) note the report, and**
- b) agree to adopt the Treasury Management Statement and the Annual Investment Strategy for 2018/19 (Appendix 1 on pages 7-31 of this report), including the prudential indicators (summarised on page 31) and the Minimum Revenue Provision (MRP) policy statement (page 11).**

Corporate Policy

1. Policy Status: Existing policy. To maintain appropriate levels of risk, particularly security and liquidity, whilst seeking to achieve the highest rate of return on investments.
 2. BBB Priority: Excellent Council
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Financial

1. Cost of proposal: N/A
 2. Ongoing costs: N/A
 3. Budget head/performance centre: Interest on balances
 4. Total current budget for this head: £2,891k (net) in 2017/18, £800k surplus currently projected, draft budget for 2018/19 £3,491k
 5. Source of funding: Net investment income
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Staff

1. Number of staff (current and additional): 0.25 fte
 2. If from existing staff resources, number of staff hours: 9 hours per week
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Legal

1. Legal Requirement: Non-statutory - Government guidance.
 2. Call-in: Call-in is applicable
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): N/A
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.
2. Summary of Ward Councillors comments:

3. COMMENTARY

3.1. General

- 3.1.1. Under the requirements of the CIPFA Code of Practice on Treasury Management, the Council is required, as a minimum, to approve an annual treasury strategy in advance of the year, a mid-year review report and an annual report following the year comparing actual activity to the strategy. In practice, the Director of Finance has reported quarterly on treasury management activity for many years, as well as reporting the annual strategy before the year and the annual report after the year-end.
- 3.1.2. The part-year review for 2017/18 was reported to this PDS Committee in November and was approved by Council in December. This report presents the annual strategy (Appendix 1), including the MRP Policy Statement (page 11) and prudential indicators (summarised on page 31) for 2018/19 to 2020/21. Details of treasury management activity during the quarter ended 31st December 2017 are included in a report elsewhere on the agenda.

3.2. Treasury Management Strategy Statement and Annual Investment Strategy 2018/19

- 3.2.1. Appendix 1 sets out the Treasury Management Strategy Statement and Annual Investment Strategy for 2018/19. This combines the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services (revised in 2009 and updated in 2011 and 2017) and the Prudential Code. The Strategy includes throughout details of proposed prudential indicators, which are summarised in Annex 3 (page 31) and will be submitted for approval to the February Council meeting. Many of the indicators are academic as far as the Council is concerned, as they seek to control debt and borrowing (generally not applicable for Bromley), but they are a statutory requirement.
- 3.2.2. Members will be aware that, since the Icelandic bank crisis in October 2008, the Council has approved a number of changes to the eligibility criteria and maximum exposure limits (both monetary and time) for banks and building societies. The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one of which meets the Council's criteria while the other does not, the institution will fall outside the lending criteria. The Council also applies a minimum sovereign rating of AA- to investment counterparties.
- 3.2.3. While the Council effectively determines its own eligible counterparties and limits, it also uses Link Treasury Solutions (formerly Capita) as an advisor in investment matters. Link use a sophisticated modelling approach that combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes indicate Link's recommendations on the maximum duration for investments. The Council will use its own eligibility criteria for all investment decisions, but will also be mindful of Link's advice and information and will not use any counterparty not considered by Link to be a reasonable risk. In line with the requirements of the CIPFA Treasury Management Code of Practice, the Council will always ensure the security of the principal sum and the Council's liquidity position before the interest rate.
- 3.2.4. As is highlighted in the Treasury Performance report elsewhere on the agenda, a number of UK banks have been the subject of credit ratings downgrades in recent years, which has resulted in reductions to the number of eligible counterparties and to monetary and duration limits on the Council's lending list. It should be emphasised that the downgrades were, in most cases, relatively minor and were not an indication of a likely bank default, but,

nevertheless, they were enough to impact on the Council's lending list. As a result, the total of investments placed with money market funds has increased significantly in recent years, although this has reduced following Council approval to invest in pooled vehicles and increased limits for the part-nationalised banks, Lloyds and RBS (following the government's sale of the last Lloyds shares in May 2017, Council approved a temporary increase in the limit with Lloyds in June 2017 until existing investments mature during 2018/19, and the limit reduces to £30m).

3.2.5. The treasury management strategy is kept under constant review and, at its meeting on 26th June 2017, Council approved the following changes:

- Inclusion of a secured loan that helps deliver the Council's housing objectives;
- An increase to the limit for pooled investment schemes to £80m;
- A reduction to the counterparty rating criteria for Housing Associations to A-;
- A temporary increase in the counterparty limit with Lloyds bank.

In addition, at its meeting on 11th December 2017, Council approved a further increase in the limit for pooled investment schemes to £100m. No further changes are proposed in this report.

3.2.6. Details of eligible types of investment and counterparties are set out in the Annual Investment Strategy (Annex 2 of Appendix 1, pages 27 to 30).

3.3. Regulatory Framework, Risk and Performance

3.3.1. The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing that may be undertaken (although no restrictions have been made to date);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act, the CLG has issued Investment Guidance to structure and regulate the Council's investment activities;
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007, the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

3.3.2. The Council has complied with all of the above relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular, its adoption and implementation of both the Prudential Code and the Code of

Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable and its treasury practices demonstrate a low risk approach.

4. POLICY IMPLICATIONS

4.1 In line with government guidance, the Council’s policy is to seek to achieve the highest rate of return on investments whilst maintaining appropriate levels of risk, particularly security and liquidity.

5. FINANCIAL IMPLICATIONS

5.1 At the time of setting the 2017/18 budget, there was still no sign of interest rates improving following the reduction to the Bank of England base rate and coupled with the ability of banks to borrow from the Bank of England at very low rates through its Term Funding Scheme, so an average rate of 0.9% was prudently assumed for interest on new fixed term deposits. In addition to this, further Investment Fund and Growth Fund expenditure, and the Highways Investment capital scheme were expected to reduce the funds available for investment, and a reduction of £600k was included in the 2017/18 budget.

5.2 Although the Council has seen a significant reduction in the rates offered for new fixed-term deposits as well as overnight money market funds, a surplus of £800k is currently projected for the year, mainly due to the continued high level of balances available for investment, as well as the further investment in pooled funds, and high level of interest earned on the pooled funds, housing association deposits and Project Beckenham loan.

5.3 With regard to 2018/19, the draft budget has been increased to £3,491k, an increase of £600k to reflect the increased level of interest earnings from alternative investments as set out above, which is in part offset by an expected reduction in balances available for investment as a result of the utilisation of capital receipts and grants/contributions as well as earmarked revenue reserves.

Non-Applicable Sections:	Legal, Personnel & Procurement Implications, Impact on Vulnerable Adults and Children
Background Documents: (Access via Contact Officer)	CIPFA Code of Practice on Treasury Management CIPFA Prudential Code for Capital Finance in Local Authorities CLG Guidance on Investments External advice from Link Treasury Solutions