

SOUTH HOLLAND DISTRICT COUNCIL

Report of: Christine Marshall - Executive Director Commercialisation and Section 151 Officer

To: Governance and Audit Committee – 14 December 2017

(Author: Sean Howsam – Finance Manager Treasury (Compass Point Business Services (CPBS)))

Subject: Mid Term Treasury Report 2017/18

Purpose: To provide an update on the Treasury Management position of the Council as at 30 September 2017.

Recommendations:

- 1 That Governance and Audit Committee note this report, the economic update from Link Asset Services at **Appendix A** and the treasury activity as detailed in **Appendix B** and make any comments for consideration by Council at their meeting on 17 January 2018.
- 2 That Governance and Audit Committee refer to Council the additional wording to the Minimum Revenue Provision Policy contained in the Treasury Management Strategy 2017/18 as detailed in **paragraph 1.1 below**, for approval at their meeting on 17 January 2018.

1.0 **BACKGROUND**

Treasury management is defined 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.”

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of the treasury management service 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 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, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

The Treasury Management function is administered by Compass Point Business Services on behalf of the Council.

The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management 2011 was adopted by this Council on 8 March 2012 which means that the following principles and actions should be in place:-

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report (this report) and an Annual Report (stewardship report) covering activities during the previous year;
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions; and
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Governance and Audit Committee.

Attached at **Appendix A** is an economic update from Link Asset Services and **Appendix B** the 2017/18 Treasury Management Strategy Statement and Annual Investment Strategy update for scrutiny to enable Governance and Audit to make any comments for consideration by Council at their meeting on 17 January 2018.

The mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the 2017/18 financial year to 30 September 2017;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2017/18;
- A review of the Council's borrowing strategy for 2017/18;
- A review of any debt rescheduling undertaken during 2017/18;
- A review of compliance with Treasury and Prudential Limits for 2017/18.

1.1 SUMMARY OF KEY CHANGES AND ISSUES

The main changes and issues for members consideration are set out below.

There is additional wording being recommended to the Minimum Revenue Provision (MRP) Policy contained in the Treasury Management Strategy 2017/18 due to an omission. It is recommended that the following paragraph be added to section 2.3 of the Treasury Management Strategy 2017/18:

“Any equity investment made in Welland Homes and South Holland Local Housing Company which is classed as capital expenditure will increase the Council's Capital Financing Requirement (CFR). The Council will earmark the proceeds from any sale of equity interest to reduce the CFR and therefore will not apply MRP on such equity investments.”

The Council's Treasury Advisors, Capita Asset Services were acquired by Link Group on 6 November 2017 and subsequently changed their name to Link Asset Services. There are no changes to the contractual arrangements. The Council continues to use Link Asset Services colour coding methodology to select suitable counterparties.

The Bank of England base rate increased to 0.50% on 2 November 2017. Further details on the economic outlook are included in **Appendix A** (Update from Link Asset Services).

The Chartered Institute of Public Finance and Accountancy has recently been conducting a review of the Treasury Management Code of Practice and Cross Sectoral Guidance Notes. The Department for Communities for Local Government (DCLG) has also been consulting on proposed changes to the Prudential Framework of Capital Finance. Following the review there will be an impact on Local Authority Investment Guidance and Minimum Revenue Provision (MRP) guidance which is currently out to consultation.

A particular focus of this exercise is how to deal with local authority investments which are not treasury type investments e.g. by investing in purchasing property in order to generate income for the authority at a much higher level than can be attained by treasury investments. One recommendation is that local authorities should produce a new report to members to give a high level summary of the overall capital strategy and to enable members to see how the cash resources of the authority have been apportioned between treasury and non-treasury investments.

This may require changes to the 2018/19 Policy documents (Treasury Management Strategy Statement, Annual Investment Strategy and the Council's MRP Policy) which are currently being drafted for 2018/19 for submission to Governance and Audit on 16 January 2018. There may also be a requirement to add information to the Council's Capital strategy.

The EU has now set a deadline of 3 January 2018 for the introduction of regulations under Markets in Financial Instruments Directive (MIFID II). These regulations will govern the relationship that financial institutions conducting lending and borrowing transactions will have with local authorities from that date. This will have little effect on this authority apart from having to fill in forms sent by each institution dealing with this authority and for each type of investment instrument we use apart from cash deposits with banks and building societies.

2.0 **OPTIONS**

2.1 As the report is an update report there are no alternative options presented.

3.0 **REASONS FOR RECOMMENDATION**

3.1 To comply with the CIPFA Code of Practice on Treasury Management 2011.

3.2 To enable the Council to not charge Minimum Revenue Provision on equity investments made in Welland Homes or South Holland Local Housing Company.

4.0 **EXPECTED BENEFITS**

4.1 The report provides Members with a summary of the economy, the effect it has had on financial markets and the treasury activity during 2017/18. The report requires scrutiny prior to the minutes being submitted to Council for approval.

5.0 **IMPLICATIONS**

5.1 **Constitution & Legal**

5.1.1 This Council is required to produce a mid-term treasury report to comply with the CIPFA Code of Practice on Treasury Management 2011. The report has no implications which would affect the constitution and does not therefore warrant a further change in the constitution.

5.1.2 Plans and strategies for control of the Council's borrowing, investments, capital expenditure and minimum revenue provision form part of the Council's policy framework and are therefore a non-executive (Council) function under the Council's Constitution.

5.2 **Financial**

5.2.1 This mid-term report provides a review of the treasury activity for the first six months of the 2017/18 financial year.

5.2.2 The Council held £41.537m of investments as at 30 September 2017 (£35.588m as at 31 March 2017) and the investment portfolio yield for the first six months of the year is 0.56% against a benchmark of 0.18% (average 3 month LIBID).

5.2.3 The Council's budgeted investment return for 2017/18 is £149,900 and performance for the year to date is £111,745 which includes £19,690 in respect of the loan to Welland Homes. Expectation is that the outturn for investment interest will be approximately £220,000.

5.2.4 During 2016/17 the Council had an interim investment policy in place which limited the maximum duration for investments to one month. This limit was removed when the 2017/18 Treasury Management Strategy Statement and Annual Investment Strategy was approved by Council in February 2017. It is estimated that this change has resulted in additional investment income of approximately £50,000.

5.3 **Risk Management**

5.3.1 The Council's priority is the security of its investments.

5.4 **Stakeholders / Consultation / Timescales**

5.4.1 The report is being submitted for pre decision scrutiny prior to the minutes of this meeting being submitted to Council.

5.4.2 Link Asset Services have been consulted in relation to the compilation of this report.

6.0 **WARDS/COMMUNITIES AFFECTED**

6.1 None.

7.0 **ACRONYMS**

7.1 CPBS – Compass Point Business Services

7.2 CIPFA – Chartered Institute of Public Finance and Accountancy

7.3 MRP – Minimum Revenue Provision

7.4 CFR – Capital Financing Requirement

7.5 DCLG – Department for Communities and Local Government

7.6 MiFID II - Markets in Financial Instruments Directive

Background papers:-

- a) SHDC Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2017/18.
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Lead Contact Officer

Name and Post Sean Howsam – Finance Manager Treasury (CPBS)
Telephone Number: 01507 613248
Email: sean.howsam@cpbs.com

Key Decision: No

Exempt Decision: No

This report refers to a Mandatory Service

Appendices attached to this report:

Appendix A – Economic Update (from Link Asset Services)

Appendix B - Treasury Management Strategy Statement & Annual Investment Strategy Update 2017/18.