



AUDIT COMMITTEE

30TH JANUARY 2018

AGENDA ITEM (9)

TREASURY MANAGEMENT STRATEGY STATEMENT AND CAPITAL STRATEGY 2018/19

Accountable Member	Leader of the Council
Accountable Officer	Jenny Poole Group Manager GO Shared Services 01285 623313 jenny.poole@cotswold.gov.uk
Purpose of Report	To consider the draft Treasury Management Strategy Statement and Capital Strategy 2018/19. To provide advice to the Group Manager GO Shared Services on options for diversification of the Council's investment portfolio to take effect from April 2018.
Recommendation(s)	<p>(a) That the Treasury Management Strategy Statement and Capital Strategy 2018/19 be considered and the views of the Committee reported to the Cabinet and the Council in February 2018;</p> <p>(b) that, in its role as the Council's Treasury Management Panel, the Committee considers options for diversifying the Council's investment portfolio with effect from April 2018.</p>
Reason(s) for Recommendation(s)	<p>The Local Government Act 2003 requires the Council to have regard to both the:</p> <ul style="list-style-type: none">• <i>Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice;</i> and the• <i>Department of Communities and Local Government issued Guidance on Local Authority Investments.</i> <p>The Treasury Management Strategy Statement fulfils the Council's legal obligations to both the CIPFA Code and the CLG Guidance.</p> <p>For 2018/19 the Council has a new requirement to publish a Capital Strategy. The Audit Committee is being consulted upon the draft Capital Strategy to inform the Cabinet's consideration of the Strategy during February 2018.</p> <p>(a) The Council has recently completed a procurement exercise to select its treasury management advisors for the next three years (with an option to extend for a further two years). The new advisors, Arlingclose, have reviewed the Council's investment portfolio and are recommending some changes to the mix of investments in order to increase investment returns whilst maintaining the security and liquidity of the investment portfolio. The aim of the diversification is to increase investment returns by switching from investment in cash deposits and Money Market Funds to investments in</p>

	products which contain a wider mix of assets such as equities, property, corporate bonds etc. The investment products selected will meet the requirements of the proposed 2018/19 Treasury Management Strategy Statement.
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Ward(s) Affected	None directly from this report, although decisions taken to support delivery of Capital Strategy may affect certain wards. The impact will be made clear in the appropriate decision making reports.
Key Decision	No
Recommendation to Council	Yes, via the Cabinet

Financial Implications	<p>The target for investment income from cash investments for 2018/19 is £351,300. This report sets out the Strategy which will be implemented to achieve this target.</p> <p>The financial implications of the Capital Strategy are set out within the Strategy.</p>
Legal and Human Rights Implications	None
Environmental and Sustainability Implications	None
Human Resource Implications	None
Key Risks	<p>There are risks of financial institutions failing given the current economic conditions. However, the risks are mitigated through application of the Council's Treasury Management Strategy Statement. The strategy sets out the minimum credit criteria that are required before the Council will invest with a counterparty, but it should be noted that these are not the sole criteria applied. For example, credit default swaps and information from the financial press will also be taken into account.</p> <p>There are risks of interest rates remaining low over the medium term which impact on the Council's ability to generate investment income. These risks are routinely considered in the Council's Treasury Management Strategy Statement, the Medium Term Financial Strategy and the associated Budget Strategy.</p> <p>The processes for identification and management of risks associated with the Capital Strategy are set out within the Strategy document.</p>
Equalities Impact Assessment	Not Required

Related Decisions	An update to the Council's Medium Term Financial Strategy 2018/19 to 2021/22 and the Budget for 2018/19 will be considered by the Cabinet on 15 th February 2018 and by the Council on 20 st February 2018.
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Background Documents	<p>CIPFA Publication - Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (Updated Edition November 2011)</p> <p>DCLG Document - Guidance on Local Government Investments (March 2010)</p> <p>CIPFA Prudential Code for Capital Finance in Local Authorities (Updated Edition December 2017)</p>
Appendices	<p>Appendix 'A' - Treasury Management Strategy Statement 2018/19</p> <p>Appendix 'B' - Capital Strategy 2018/19</p>

Performance Management Follow Up	<p>Investment performance is monitored on a quarterly basis and any variance over £10,000 is reported to the Overview and Scrutiny Committee and the Cabinet within the quarterly performance report.</p> <p>The Treasury Management Annual Strategy, Half-Year Performance Report and Annual Report are currently considered by the Audit Committee and approved by the Council. Recent changes to the Treasury Management Code permit the Council, where it has an approved Capital Strategy, to delegate decision-making on detailed treasury management policies to a Committee. As the detailed Treasury Management Code sectoral guidance notes and changes to the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments have yet to be published, no changes are proposed to the current treasury management governance arrangements for 2018/19, except that the Cabinet will consider the consultation response from the Audit Committee and make recommendations to the Council.</p> <p>Internal Audit will check compliance with the strategies during service reviews and will report any non-compliance identified as part of its monitoring reports to Audit Committee.</p>
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Options for Joint Working	<p>The contract for the Council's Treasury Management Advisers was jointly procured with West Oxfordshire District Council.</p>
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<p>Background Information</p> <p>1. Local authorities in England, Wales and Northern Ireland are legally obliged to "have regard" to the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code and the Prudential Code by relevant Capital Finance Regulations.</p> <p>2. Local authority investment decisions have been making headlines in recent months, with some elements of the national Press calling into question the role of local authorities investing in property and assets as a means to generate income. However, as funding has decreased, Councils have increasingly relied on new sources of income to plug the funding gaps. Councils investing in property and other assets is nothing new; many local authorities have historically held major assets including retail sites, farms and residential property. In recent years however, the emphasis on using these assets to generate a commercial yield has become much greater and this has involved out of area investment. The scaling up of investments by local councils has peaked the interests of the DCLG and CIPFA, resulting in recently-published changes to the Treasury Management Code and the Prudential Code.</p>

3. Following consultations in February and August 2017, CIPFA published its new 2017 editions of 'Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes and the Prudential Code for Capital Finance in Local Authorities' just before Christmas 2017. At the time of drafting this report, updated sector specific guidance notes have not been published, which include the updated Treasury Management Indicators for local authorities.

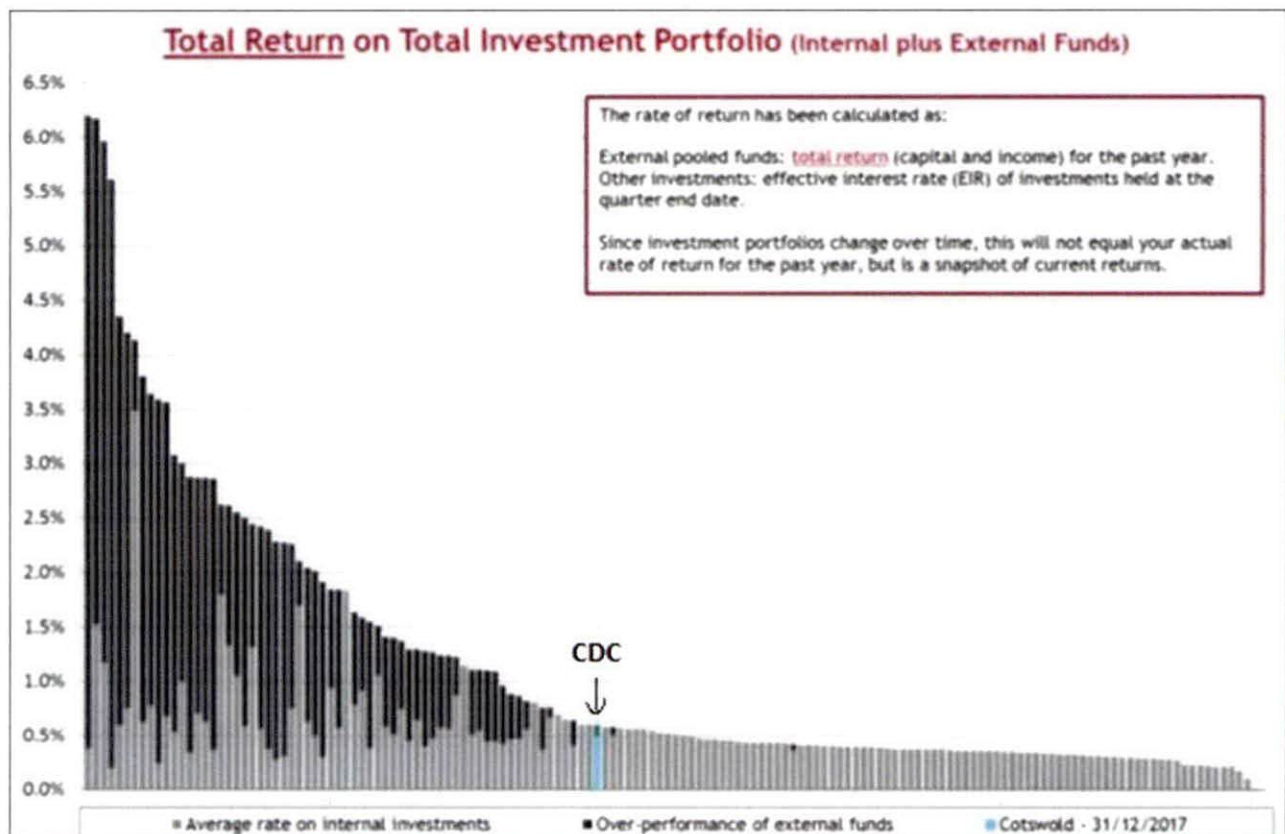
4. In response to these changes, the Council will consider the Treasury Management Strategy for 2018/19 based on the requirements of the 2011 Code, and in line with current governance practices. A Capital Strategy will also be considered by the Council. However, both Strategies may require further amendments once the Treasury Management Guidance Notes, which include the Treasury Management Indicators and the new DCLG Investment Guidance, becomes available.

5. The proposed Treasury Management Strategy Statement for 2018/19, with supporting information, is attached at **Appendix 'A'**.

6. The draft Strategy has been based on a template provided by the Council's Treasury Advisors, Arlingclose, which has been modified to this Council's circumstances.

7. The Annual Investment Strategy investment options have been selected to minimise the risk to the Council's investments whilst providing the scope and flexibility of investment options to enable the Council to maximise its investment returns.

8. Arlingclose have carried out a review of the performance of the Council's current investment portfolio. The review found the Council holds investment predominantly in highly secure, very liquid but low interest bearing investments, for example, cash deposits and money market funds. The illustrations below compare the Council's portfolio to English non-metropolitan district councils and other Arlingclose clients:-





Investment Benchmarking

31 December 2017

Cotswold
64 English Non-Met Districts Average
151 LGA Average

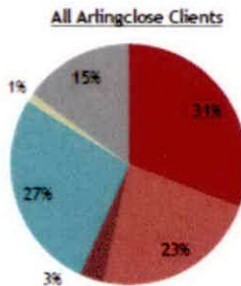
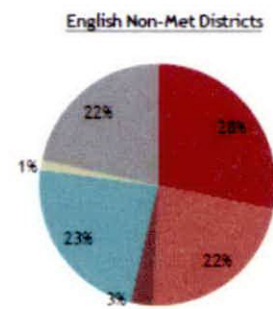
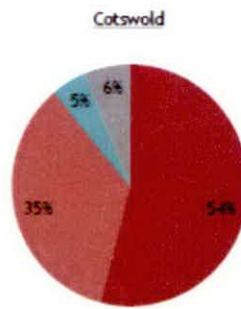
Internal Investments	£38.9m	£30.5m	£63.0m
External Funds	£2.6m	£9.9m	£10.2m
TOTAL INVESTMENTS	£41.4m	£40.5m	£73.1m

Security			
Average Credit Score	5.24	4.48	4.52
Average Credit Rating	A+	AA-	A+
Average Credit Score (time-weighted)	4.76	4.23	4.23
Average Credit Rating (time-weighted)	A+	AA-	AA-
Number of Counterparties / Funds	18	16	16
Proportion Exposed to Bail-in	95%	63%	61%

Liquidity			
Proportion Available within 7 days	58%	40%	41%
Proportion Available within 100 days	67%	64%	68%
Average Days to Maturity	112	92	41

Market Risks			
Average Days to Next Rate Reset	130	97	71
External Fund Volatility	0.5%	1.7%	2.1%

Yield			
Internal Investment Return	0.49%	0.54%	0.54%
External Funds - Income Return	1.18%	3.51%	3.38%
External Funds - Capital Gains/Losses	1.12%	0.51%	0.71%
External Funds - Total Return	2.29%	4.02%	4.09%
Total Investments - Income Return	0.53%	1.08%	0.92%
Total Investments - Total Return	0.60%	1.35%	1.14%



■ Bank Unsecured
■ MMF Unsecured
■ Bank Secured
■ Government
■ Corporate/PP
■ External Funds

Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA- = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.

10. The Council could diversify up to £10m of its investments in to pooled funds with the aim of improving its investment returns. Diversification of this level is not expected to impact on the Council's cash requirement to fund operations. The investments have a higher level of risk in comparison to cash deposits or investment in Money Market Funds, due to the asset mix within the fund (for example, equities, corporate bonds and commercial property) and should be considered as longer term investments. The value of the investment will fluctuate according to market conditions.

11. Representatives of Arlingclose will be present at the Meeting and will be able to discuss potential pooled funds with the Committee to inform Officer delegated decisions.

12. The changes to the Prudential Code have introduced a requirement for the Council to approve a Capital Strategy with effect from 2018/19. A working draft of the Council's Capital Strategy is attached at **Appendix 'B'**. The views of the Audit Committee will be reflected in the next iteration of the Capital Strategy which will be considered by the Cabinet for recommendation to the Council during February 2018.

(END)