



COUNCIL

19TH OCTOBER 2017

AGENDA ITEM (12)

UPDATE TO TREASURY MANAGEMENT STRATEGY 2017/18

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| Accountable Member | Councillor Mark F Annett Leader of the Council |
| Accountable Officer | Jenny Poole Group Manager GO Shared Services 01285 623313 jenny.poole@cotswold.gov.uk |

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| Purpose of Report | To consider an update to the draft Treasury Management Strategy 2017/18 to enable the Council to add Publica Group (Support) Ltd to the list of Counterparties for investment purposes. Endorsement is also sought for Officers to apply for the Council to be recognised as a professional client (rather than a retail client) for treasury management transactions. |
| Recommendation(s) | (a) That the Council's Treasury Management Strategy and Annual Investment Strategy 2017/18 be updated to include Publica Group (Support) Ltd as an approved counterparty; (b) that investments with Publica Group (Support) Ltd are limited to a maximum of £500,000 and for periods no longer than one year; (c) that the Council authorises Officers to apply for the Council to be recognised as a professional client for treasury management transactional purposes. |
| Reason(s) for Recommendation(s) | The Local Government Act 2003 requires the Council to set out its Treasury Management Strategy and to prepare an Annual Investment Strategy. |

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| Ward(s) Affected | N/A |
| Key Decision | No |
| Recommendation to Council | Yes |

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| Financial Implications | Any lending to Publica Group (Support) Ltd will be in line with the European Commission Interest Rate Communication. The interest rate for 2017/18 will be 5%. The interest rate will be set annually within the Treasury Management Strategy. |
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| Legal and Human Rights Implications | None |
| Environmental and Sustainability Implications | None |
| Human Resource Implications | None |

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| Key Risks | Publica Group (Support) Ltd is a company limited by guarantee. The Council is an owner (Member) of the company together with Cheltenham Borough, Forest of Dean and West Oxfordshire District Councils. The Council has a significant interest in the company and therefore the risk of a default on an investment is minimal. |
| Equalities Impact Assessment | Not Required |

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| Related Decisions | Approval of delivery of Council services through Publica companies - Council, September 2016. Approval of Treasury Management Strategy 2017/18 - Council February 2017. |
| Background Documents | CIPFA Publication - Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (Updated Edition November 2011) ODPM Document - Guidance on Local Government Investments (Second Edition - 11 th March 2010) |
| Appendices | None |

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| Performance Management Follow Up | 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 reports. The annual strategy, half-year performance report and annual report are considered by the Audit Committee and approved by the Council. 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 the Audit Committee. |
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| Options for Joint Working | The contract for the Council's Treasury Management Advisers was jointly procured. |
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| Background Information | |
| 1. | <u>Publica Group (Support) Ltd</u> |
| 1.1 | The Council is required, on an annual basis, to approve a Treasury Management and Annual Investment Strategy prior to the commencement of the financial year. The Council approved the 2017/18 strategy on 21 st February 2017. |

1.2 Council approved the establishment of the companies to deliver services on its behalf on 27th September 2016. The first of the companies to become operational will be Publica Group (Support) Ltd. The company is expected to become operational on 1st November 2017. In order to be able to provide the company with start-up working capital, the Council needs to update its Treasury Management Strategy. It is proposed that Publica Group (Support) Ltd is added as an approved Counterparty to the Council's Treasury Management Strategy. Any investment with the company will be up to £500,000 and will be for a period of less than 365 days.

1.3 Financial modelling has indicated that Publica Group (Support) Ltd will require a short-term loan upon commencement of operational activity, as it will need to pay for the costs associated with establishing the company and purchase some assets and equipment from the partner Councils.

1.4 Once the company is operational, it is unlikely that Publica will need to utilise the loan facility from the Council on a regular basis.

1.5 In order to comply with State Aid regulations, the interest rate charged to Publica will be informed by the EU Commission's "Interest Rate Communication". The proposed interest rate for investments placed with Publica during 2017/18 is therefore 5%. The interest rate will vary according to prevailing economic conditions, but will be fixed for the forthcoming financial year according to the prevailing economic conditions at the time when the Council approves its annual Treasury Management Strategy.

2. Changes resulting from Markets in Financial Instruments Directive II

2.1 The way that local authorities can access financial services will change in January 2018, as a result of the second Markets in Financial Instruments Directive. Following a consultation last year, rules published in the summer confirm that local authorities can only continue to be classed as professional clients if they have an investment balance of at least £10m, staff with relevant experience and knowledge to make investment decisions and understand the risks involved. Local authorities not meeting the criteria will be reclassified as retail clients, which may mean reduced access to financial services or higher fees and greater administrative burden.

2.2 Local authorities are currently treated by regulated financial services firms as professional clients who can "opt down" to be treated as retail clients instead; but, from 3rd January 2018, local authorities will be treated as retail clients who can "opt up" to be professional clients, providing that they meet certain criteria.

2.3 Many firms, including those only serving institutional investors, are not currently authorised to serve retail clients, and some will not wish to incur the extra costs of becoming authorised. Local authorities may therefore lose access to certain products and providers.

2.4 This report recommends that the Council authorises Officers to apply for the Council to be recognised as a professional client under the MiFID II regulations.

2.5 The Council's Audit Committee has been consulted informally on the proposals within this report. The views received back from the Chairman of the Audit Committee and one other Committee Member are supportive of the proposals.

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