CITY COUNCIL - 6 MARCH 2017

REPORT OF THE DEPUTY LEADER AND PORTFOLIO HOLDER FOR RESOURCES AND NEIGHBOURHOOD REGENERATION

TREASURY MANAGEMENT 2017/18 STRATEGY

1 SUMMARY

1.1 This report seeks approval for a series of strategies relating to treasury management in 2017/18. The strategies were considered as part of a number of reports on the 2017/18 budget process. They were submitted for endorsement to Executive Board on 21 February 2017 and were also considered by Audit Committee, as part of its scrutiny role, on 24 February 2016.

1.2 A copy of the Executive Board report has been circulated separately. Full details of the strategies and other material referred to below are shown within that document. The specific strategies included are:

- the overall treasury management strategy for 2017/18 (Appendix 1, pages 1-12);
- the strategy for debt repayment (Minimum Revenue Provision) in 2017/18 (Appendix 4, page 18 - 19);
- the Housing Revenue Account Treasury Management Strategy for 2017/18 (within Appendix 1, pages 1 - 12);
- The investment strategy for 2017/18 (Appendix 1, pages 7 - 11)
- The borrowing strategy for 2017/18 (Appendix 1, pages 4 – 6)
- The Treasury Management Policy Statement (Appendix 5, pages 20 - 21)

1.3 Approval is also required for the Prudential Indicators and limits from 2015/16 to 2019/20 (Appendix 3, pages 15 - 17).

2 RECOMMENDATIONS

2.1 To approve the 2017/18 Treasury Management Strategy document, including the strategy for debt repayment and the investment strategy, as detailed in Appendix 1;

2.2 To approve the Prudential Indicators and limits from 2015/16 to 2019/20, as detailed in Appendix 3 (pages 15 - 17).

2.3 To adopt the current Treasury Management Policy Statement, as detailed in Appendix 5 (pages 20 – 21)

3 REASONS FOR RECOMMENDATIONS

3.1 Approval of a Treasury Management Strategy is a legal requirement.

3.2 A Treasury Management Strategy and Policy Statement will ensure compliance with the Code of Practice on Treasury Management in Public Services (the Code).

4 OTHER OPTIONS CONSIDERED IN MAKING RECOMMENDATIONS

4.1 The approval of a treasury management strategy, including prudential indicators, is a requirement of the adopted Code. The CLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, having consulted the portfolio holder, believes that the proposed strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications can be found in Appendix 7.

5 BACKGROUND (INCLUDING OUTCOMES OF CONSULTATION)

5.1 Treasury management is the management of the Council's cash flows, including borrowings and investments. It is regulated by CIPFA's Treasury Management Code of Practice.

5.2 Treasury Management is the subject of robust governance arrangements including legislation, government guidance, codes of practice and financial regulations. The approval of a strategy relating to treasury management, including a strategy for debt repayment and investment, is good practice and ensures that the City Council complies with the governance framework

5.3 Prudential Indicators for the forthcoming and following two financial years must be set before the beginning of that year. They may be revised at any time, following due process, with any changes to the current indicators being approved at a meeting of Full Council.

5.5 On 21 February 2017, Executive Board considered a report seeking endorsement of the proposed treasury management strategy for 2017/18. Scrutiny of the strategy was addressed by a meeting of the Audit Committee on 24 February 2017. Any changes to the proposed 2017/18 strategy as a result of those two meetings will be reported verbally.

6 FINANCE COMMENTS (INCLUDING IMPLICATIONS AND VALUE FOR MONEY)

6.1 Net treasury management expenditure comprises interest charges, interest receipts and a revenue provision for debt repayment. A proportion of the Council's debt relates to capital expenditure on council housing and from 1 April 2012 separate arrangements have been established for the HRA. The remaining costs are included within the treasury management section of the General Fund budget, although there remain a number of recharges between the General Fund and the HRA.
Table 1 summarises the estimate for 2017/18:

TABLE 1: TREASURY MANAGEMENT - REVENUE BUDGET POSITION	
DESCRIPTION	**BUDGET 2017/18 £m**
External interest Less: HRA interest Debt repayment provision	28.861 (12.145) 31.962
General Fund expenditure	**48.679**
Investment interest Other financing income	(0.075) (1.767)
NET GENERAL FUND POSITION	**46.837**

6.2 The Treasury Management forecast outturn for 2016/17 is reflected within the Corporate Budget report elsewhere on this agenda.

6.3 The budget for 2017/18 is based on the financial implications of the various proposed strategies, as detailed in Appendix 1. The estimate of £46.837m is included within the Medium Term Financial Plan (MTFP).

6.4 The councils MTFP reflects the capital schemes within the approved capital program and a number of schemes in development which will significantly increase this programme to reflect the potential investment in the City Centre.

6.5 The Council's level of net external debt is anticipated to be £945.903m including £225.719m of Private Finance Initiative (PFI) liabilities as at 31 March 2017. This is expected to increase to £1,017.2m including £215.8m PFI debt by 31 March 2018. The cost of interest payments on debt are expected to increase by 0.728m in 2017/18.

6.6 The 2017/18 strategy continues to be to fund the borrowing requirement from short term interest rates, balances and reserves whilst still allowing the Council to take advantage of longer term funding opportunities. The low interest rate funding environment is expected to continue for at least the next couple of years.
This strategy does increase the Council's exposure to changes in long term interest rates, however this exposure is considered manageable given that £578m of the Council's long term loan portfolio is at fixed rates and funded at less than 3.8% with a good spread of maturities.

The treasury management budget assumes the anticipated borrowing requirement will be financed by long term loans, together with an element of short term loans in 2017/18 to take the opportunity afforded by the low interest rates.
The strategy balances the risk that future interest rates will rise, reducing the benefit accrued from this policy. For example the initial costs are up to £0.225m lower per £10m borrowed short term at 0.25% (Bank Rate) vs 25 year PWLB debt at 2.50%; this balanced against the financial impact of for each 0.25% rise there is an extra £0.025m per annum in interest cost. Should £40m be taken using short term loans it is anticipated that around £0.9m be released and transferred into the Treasury Management Reserve for 'Interest equalisation' subject to the prevailing economic conditions at the time.

This would mean the forecast level of net variable interest rate exposure would be c.£190m including existing debts maturing in 17/18, the remaining 16/17 financing requirements and £24m LOBO loans with options in 17/18, however these are unlikely to be exercised.

This strategy will be kept under regular review and will use the support of our external treasury advisors, the latest economic and interest rate forecasts and funds will be maintained within the Treasury Management Reserve to protect the MTFP from unanticipated interest cost increases. Appendix 2 shows Arlingclose's Economic and Interest Rate Forecast.

7 LEGAL AND PROCUREMENT COMMENTS (INCLUDING RISK MANAGEMENT ISSUES, AND LEGAL, CRIME AND DISORDER ACT AND PROCUREMENT IMPLICATIONS)

7.1 Risk management plays a fundamental role in treasury activities, due to the value and nature of transactions involved. The management of specific treasury management risks is set out in the Manual of Treasury Management Practices and Procedures and a risk register is maintained for the treasury function

7.2 The key strategic risk relating to treasury management is SR17 'Failure to protect the Council's investments'. The current rating for this risk is 5.04 (Likelihood = unlikely, Impact = moderate). Full details of the Risk Management Action Plan are maintained and reviewed at least quarterly by Treasury Panel. This document will be submitted to Audit Committee for scrutiny as part of the Treasury Management Strategy Report

8 EQUALITY IMPACT ASSESSMENT (EIA)

8.1 An EIA is not needed as the report does not contain proposals for new or changing policies, services, or functions.

9 LIST OF BACKGROUND PAPERS OTHER THAN PUBLISHED WORKS OR THOSE DISCLOSING CONFIDENTIAL OR EXEMPT INFORMATION

9.1 None

10 PUBLISHED DOCUMENTS REFERRED TO IN COMPILING THIS REPORT

10.1 Executive Board report 21 February 2017 – Treasury Management 2017-18 Strategy.

10.2 Audit Committee report 24 February 2017 – Treasury Management 2017/18 Strategy.

COUNCILLOR GRAHAM CHAPMAN
DEPUTY LEADER OF THE COUNCIL AND PORTFOLIO HOLDER FOR RESOURCES AND NEIGHBOURHOOD REGENERATION