



CORPORATE GOVERNANCE COMMITTEE – 29TH JANUARY 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2018/19

Purpose of the Report

1. To allow the Corporate Governance Committee the opportunity to review the treasury management strategy statement and annual investment strategy for 2018/19, which will follow as a supplementary to this report.

Background

2. The treasury management strategy statement and annual investment strategy form part of the Medium Term Financial Strategy and will be considered by the Council at its meeting of 21st February 2018.
3. Any comments that are made by the Corporate Governance Committee will be included in the report to the Council on this matter.
4. In recent months there have been a number of consultations into certain treasury management issues and in December 2017 the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised Treasury Management Code of Practice and a revised Prudential Code. There are some areas of these Codes which are open to interpretation and on which further guidance is expected, and CIPFA itself has openly recognised that the timing of the issuing of the new Codes (being so close to the dates that most Local Authorities will be approving their Treasury Management Strategy Statement and Annual Investment Strategy), combined with the lack of guidance in certain areas, means that implementation of the new Codes may be very difficult for the 2018/19 financial year.
5. Leicestershire has waited as long as possible to write its Strategies, in the hope that the outstanding issues with the Codes would be resolved and implementation of them would be possible for 2018/19, but it is now clear that this will not be possible. As a result the 2018/19 Treasury Management Strategy Statement and Annual Investment Statement are based on the previous codes, and the Strategies are in-line with those produced in previous years.
6. The major changes to the Codes reflect discomfort within Central Government about a trend towards authorities making investments in assets which are not required for service reasons, in an attempt to generate additional resources to

assist the revenue budget. Most (but not all) of these investments have been in commercial property and many have been funded by external borrowing. Taking a loan at 2½% and generating an income yield of 5% is clearly cashflow (and revenue budget) enhancing, but there is a view that some of these investments have been made without authorities having the requisite skills to fully understand the investment. The new Code attempts to ensure that members are fully informed of the details of these types of investments, and in particular that they have a better understanding of the associated risks.

7. Leicestershire's Annual Investment Strategy is very similar to that agreed last year. The ability to invest in pooled private debt funds (which this committee considered in November 2017 and was subsequently approved by the Cabinet) is included in the list of authorised investments, and there are changes to reflect the structural reform of Money Market Funds that is due to happen in July 2018. It is not yet clear how these structural reforms will impact the running of Money Market Funds, and how they will choose to reclassify themselves. The intention of these changes to the types of Money Market Funds included within the list is to allow flexibility for the treasury management activities to react to the changes in a manner that is consistent with the current low-risk approach adopted by the Council. It is entirely possible that the current type of Money Market Fund utilised by the Council (Constant Net Asset Value) will cease to exist, or will offer returns that are so low as to make them of little use, but it is intended that the type of Money Market Fund utilised will remain at the very low end of the risk spectrum.

Resource Implications

8. The interest earned on revenue balances and the interest paid on external debt (which are directly correlated to the Treasury Management Strategy Statement and Annual Investment Strategy) will impact onto the resources available to the Council.

Equality and Human Rights Implications

9. There are no discernible equality and human rights implications.

Recommendation

9. The Committee is asked to comment on this report.

Background Papers

None.

Circulation under the Local Issues Alert Procedure

None

List of Appendices

Appendix A – Treasury Management Strategy Statement and Annual Investment Strategy 2018/19 (to follow)

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