



CORPORATE GOVERNANCE COMMITTEE – 18TH JANUARY 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY 2019/20

Purpose of the Report

1. The purpose of this report is to allow the Corporate Governance Committee the opportunity to review the treasury management strategy statement and annual investment strategy for 2019/20.

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 on 20th February 2019.
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 December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued a revised Treasury Management Code of Practice and a revised Prudential Code. The changes to the Codes reflect concern 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. There is a view that some of these investments have been made without authorities having the requisite skills to fully understand the investment.
5. The requirements of the new Code are 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.
6. The Code states that 'where, in addition to Treasury Management investment activity, organisations invest in other financial assets and property primarily for financial return, these investments should be proportional to the level of resources available to the organisation and the organisation should ensure that the same robust procedures for the consideration of risk and return are applied to those decisions'.

7. Recent guidance produced by the Secretary of State supports the code in requiring local authorities to prepare at least one investment strategy that will contain certain disclosures around risk, security, liquidity and yield when making these types of 'commercial' investments. The Council has had in place for some time its Corporate Asset Investment Fund (CAIF) Strategy which it first produced in 2014 prior to this guidance being produced. This has been updated annually since then, the most recent version being approved by the Cabinet in September 2018, and when read in conjunction with the Treasury Management Strategy and Statement; this fulfils the Council's obligations set out within this guidance.
8. The Council's Corporate Asset Investment Fund (CAIF) Strategy, as approved by the Cabinet in September 2018, sets out the approach the Council will follow when considering the acquisition of investments for the purposes of inclusion within the CAIF. It specifically documents the Council's requirements for ensuring effective due diligence is undertaken, risk appetite, independent and expert advice and scrutiny arrangements, and performance monitoring by the Corporate Asset Investment Fund Advisory Board, the Cabinet and the Scrutiny Commission as part of the regular monitoring of the MTFS.
9. These investments are made outside of the normal treasury management activity with the aims, as set out within the CAIF Strategy of:
 - Generating an income which will increase the Council's financial resilience and supports delivery of front line services
 - Supporting the aims of the Council's Strategic Plan, in particular delivery of the objective of affordable and quality homes through helping to unlock and accelerate developments;
 - Supporting growth in the County and meeting the aims of the Economic Growth Plan and the County-wide Local Industrial Strategy;
 - Managing risk by investing in diverse sectors and ensuring a more diverse range of properties are available to meet the aims of economic development.
10. A copy of the CAIF Strategy can be found on the Council's website at: <http://politics.leics.gov.uk/ieListDocuments.aspx?CId=135&MID=5183#AI56758>. The period covered by the Strategy has been aligned to the MTFS, but like the MTFS this will continue to be reviewed and refreshed on an annual basis and reported to the Cabinet and the Scrutiny Commission as appropriate. The CAIF Strategy will therefore be considered by the Cabinet and the County Council as part of the MTFS 2019-23 in February 2019.
11. The County Council has not borrowed to fund these investments. Any future decisions on availability and proportionality in respect of overall resources to fund the CAIF (and the Capital Programme, the Capital Strategy, which itself is derived from the Council's Strategic Plan and Asset Management Plans), is reviewed annually as part of the MTFS and the Treasury Management Strategy Statement and Annual Investment Strategy. These documents take into account the above statutory guidance issued by the Secretary of State under the Local Government Act 2003.

Treasury Management Strategy Statement and Annual Investment Strategy

12. The Annual Investment Strategy has been updated compared with last year for; the ability to invest in non-ring-fenced banks has been clarified and the lending limits to individual institutions have been increased.
13. From 1 January 2019, UK banks with retail deposits of more than £25bn will have to comply with new structural reform requirements. Structural reform, or ring-fencing, will separate banks' retail banking activities from their wholesale and investment banking activities. Ring-fencing is designed to reduce the likelihood that essential banking services used by ordinary depositors (current accounts, savings accounts and payments) are put at risk by a failure in another part of the business – such as investment banking. A ring-fenced bank must be a separate legal entity with its own board and as such they will be included or excluded from the approved counterparty list on their own merit.
14. By the very nature of their day to day activities non-ring fenced banks will carry a higher level of risk and because of this they are likely to pay a premium. Currently it is early days for ring fencing and there is not much differentiation in rates offered between entities from the same parent group. As the market matures it is expected there will be increased differentiation and there may be circumstances where the council will wish to lend to a non-ring fenced counterparty. Hence, proposed to include on approved counterparty list providing they have passed Link Asset Services financial assessment. For the Council to lend though, non-ring fenced banks will have to be the best option on a risk and reward basis.
15. Changes to the counterparty lending limits have been proposed to allow more flexibility in light of the overall level of cash balances held by the council £220m.
 - UK institutions (that meet the counter party list requirements) for a period of 12 months has been increased from £30m to £40m.
 - UK institutions (that meet the counter party list requirements) for a period of 6 months has been increased from £20m to £25m.
 - Overseas institutions (that meet the counter party list requirements) for a period of 12 months has been increased from £15m to £20m. However, the overall country limit will remain at £30m.

Resource Implications

16. 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. Increasing counterparty limits will mean some concentration risk but overall will allow more lending to better quality institutions.

Equality and Human Rights Implications

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

Recommendation

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

Background Papers

19. None

Circulation under the Local Issues Alert Procedure

20. None

Appendix

Treasury Management Strategy Statement and Annual Investment Strategy 2019/20

Officers to Contact

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