MUNICIPAL YEAR 2019/2020 - REPORT NO. 185

MEETING TITLE AND DATE:
Audit & Risk Management Committee:
16th January 2020

REPORT OF:
Director of Finance

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Agenda – Part:	**Item: 8**

Subject:
TREASURY MANAGEMENT STRATEGY STATEMENT 2020/21

Key Decision:

Wards: All

Cabinet Member consulted:
Cllr Maguire

1. EXECUTIVE SUMMARY

1.1. This report sets out the Council's proposed Treasury Management Strategy Statement (TMSS) for the period 2020/21 to 2024/25, and Annual Investment Strategy (AIS) for the year ended 31 March 2021, together with supporting information.

1.2. The CIPFA Code of Practice for Treasury Management in Public Services (the "TM Code") requires the Council to determine its Treasury Management Policy and Strategy for 2020/21 and the following 3 years.

1.3. The Local Government Act 2003 also requires Local Authorities to adopt Prudential Indicators and Minimum Revenue Provision Statements.

1.4. The TMSS and AIS form part of the Council's overall budget setting and financial framework and will be finalised and updated as work on the Council's 2020/21 budget is progressed in January and February 2020.

1.5. The Annual Treasury Management Strategy Statement sets out the Council's strategy for ensuring that:

- its capital investment plans are prudent, affordable and sustainable;
- the financing of the Council's capital programme and ensuring that cash flow is properly planned;
- cash balances are appropriately invested to generate optimum returns having regard to security and liquidity of capital.

1.6. The Council's cashflow management, use of banks, investments and borrowing is governed by the Treasury Management Strategy (TM Strategy)

1.7. The Investment strategy will continue to give priority to security and liquidity of investment capital over return. It will also be prudent and transparent.

1.8. The strategy assumes significant growing of external borrowing as part of the planned capital scheme, hence the Council introduce a 10 year capital programme with ongoing work on the forecast and the figures in this report

2. RECOMMENDATIONS

2.1 That the members of the Audit & Risk Management Committee review the Draft Treasury Management Strategy and consider the six areas below when formulating comments to Cabinet when it approves the Strategy in February:

a) Agree the Treasury Management Strategy Statement for 2020/21;

b) Note the Economic context & Interest rate forecast (Appendices A and B);

c) Agree the Prudential Indicators set out in Appendix D;

d) Agree the Minimum Revenue Provision Statement (Appendix E); and

e) Agree Counterparty List and Limits set out in Appendix F.

f) Note the plans to develop options for financing the capital programme over the next six to nine months, as per section 4 Next Steps.

3. BACKGROUND

3.1 The Council has adopted the CIPFA Treasury Management in Public Services Code of Practice (Treasury Management Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year.

3.2 The Council will continue to have regard for the MHCLG's guidance on Local Government Investments and the 2017 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectional Guidance Notes.

3.3 In addition, the Department for Communities and Local Government (DCLG) issued revised Guidance on Local Council Investments in March 2010 that requires the Council to approve an Investment Strategy before the start of each financial year.

3.4 The Treasury Management Strategy fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the Treasury Management Code and the DCLG Guidance.

3.5 The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy and to mitigate these risks.

3.6 The Council is currently required to receive and approve, as a minimum, three main reports each year. which incorporate a variety of policies, estimates and actuals.

I. A treasury management strategy statement (this report) – it covers:

- the capital spending plans (including prudential indicators);
- the treasury management strategy (how the investments and borrowings are to be organised, the parameters on how investments are to be managed) including treasury indicators; and
- an investment strategy report (detailing the Council's service

investments and commercial investments).

II. A mid year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

III. A treasury outturn report – This provides details of annual actual prudential and treasury indicators and annual actual treasury operations compared to the annual estimates within the strategy.

3.7 The Council uses Arlingclose Limited as its external treasury management advisors. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and officers will ensure that undue reliance is not placed upon the external service providers.

3.8 The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members' responsible for scrutiny. Training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

The Strategy for 2019/20 and the Current Borrowing & Investment Position and Performance

3.9 The Strategy for 2019/20 was approved by the full Council in February 2019 and set the following objectives: -

a) The minimum Fitch credit ratings for the Council's investment policy:

- Short Term: 'F1'
- Long Term: 'A-'

b) Investments stood at £39.05m as at 31st December 2019 with £21.75m placed in two Call accounts with HSBC and Handelsbanken and the remaining £17.5m invested in three money markets funds (MMFs).

3.10 The Council's forecast to borrow £246.5m for 2019/20 for new capital expenditure, as at 31st December 2019 £208m was borrowed but £141.8m borrowing matured during the period.

3.11 Out of the new borrowing of £208m, the Council borrowed £140m from PWLB at an average rate of 1.43% for 20 years term for its planned capital expenditure.

3.12 The below table show the position of the Council outstanding borrowing and investments for this financial year to 31 December 2019.

Instrument	Average Rate	Month End Balance	Interest Received / (Paid)
Cash Deposits	0.65%	£39.050m	£414k
Loans to Enfield Companies		£135m	£2.35m
Borrowings	3.16%	£911m	£ 15.597m

3.13 As at 31st December 2019 the Council had £911m of borrowing in total. This is split between £838m in Long Term Loans (92%) and £73m (8%) held in Short Term Loans with nine different local authorities.

3.14 The Council did not borrow more than or in advance of its needs purely to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

TREASURY MANAGEMENT STRATEGY FOR 2020/21

3.15 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

3.16 The Council will also achieve optimum return on its investments commensurate with proper levels of security and liquidity. The borrowing of monies purely to lend on and make a return is unlawful and the Council will not engage in such activity.

3.17 The Treasury Management Strategy Statement covers the three main areas:

a) Capital spending plans
- the capital expenditure and capital finance requirement (CFR);
- the prudential indicators (PI); and
- the minimum revenue provision (MRP) policy.

b) Treasury management considerations:
- economic and interest rates forecast;
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- the borrowing strategy;
- maturing structure of borrowing;
- policy on borrowing in advance of need; and
- debt rescheduling.

c) Managing cash balances:
- the current cash position and cash flow forecast;
- Prospects for investment returns
- creditworthiness policy;
- service/policy investments

Developing the Strategy for 2019/20

3.18 The Council, in conjunction with its treasury management advisor, Arlingclose, will use Fitch, Moodys and Standard and Poor's ratings to derive its credit criteria. The Council's treasury adviser alerted officers to changes in ratings of all agencies.

3.19 It is worth mentioning to the members that all the Council's Money Market Funds are Low Volatility Net Asset Value (LVNAV) funds, which used to be called Constant Net Asset Value. Under the European reforms the Constant Net Asset Value (CNAV) Funds are preserved for government funds only, and a new type of fund was introduced, named Low Volatility NAV (LVNAV) fund. LVNAV is intended to replicate some of the utility of CNAV funds, with greater sensitivity to market pricing, and extra controls built into the fund structure.

3.20 The money market funds (MMFs) the Council invested in have never exhibited any meaningful price volatility. We have been assured by the MMF managers and the Council's treasury advisor that stable price/NAV would still be maintained to avoid price volatility going forward.

3.21 The Annual Investment Strategy (AIS) at Section 4 provides more detail on how the Council's surplus cash investments are to be managed in 2020/21.

Capital Programme and Prudential Borrowing

3.22 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash from the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.

3.23 The table below summarises the Council's capital expenditure plans, both in terms of those agreed previously, and those forming part of the current budget cycle. The table sets out the Council's current capital financing expectations.

3.24 Comparing 2019/20 forecast to the 2018/19 TMSS, capital spend has slipped back in 2019/20 revised budget and there remains an element of further slippage in future years. The risks are that:

- continued slippage in new starts will push borrowing requirements to later years when interest rates are forecast to be higher than currently;
- slippage in the programme of capital receipts may increase the need to borrow in the medium-term.

Capital expenditure £m	2018/19 Actual	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
General Fund (Ex. Companies)	58.398	111.155	243.813	223.387	127.825	74.198
Companies	64.001	16.851	79.167	54.172	0.000	0.000
HRA	71.152	96.164	141.295	127.362	194.155	173.093
Total	**193.692**	**224.170**	**464.275**	**404.921**	**321.980**	**248.011**
Financed by:						
External Grants & Contributions	(43.200)	(26.533)	(48.899)	(46.857)	(66.151)	(22.170)
Revenue Contributions	0.000	0.000	(47.250)	(24.185)	(27.090)	(51.517)
Capital Receipts	(19.100)	(1.304)	(18.895)	(10.181)	(8.492)	(5.488)
Earmarked Reserves	(58.300)	(0.411)	(16.028)	(14.456)	(15.026)	(15.629)
Prudential Borrowing	**73.092**	**195.922**	**333.203**	**309.242**	**205.221**	**153.207**

3.25 As shown in table above, there is a need to borrow up to £1.2bn in total from 2019/2020 to 2023/24. For this financial year 2019/20, £140m has been borrowed for financing our capital expenditure as included in the 2019/20 capital programme and the current prudential indicators. If the Council is to borrow, the affordability of the capital programme has been included in assessing the cost of borrowing along with the loss of investment income from the use of capital resources held in cash.

3.26 The current long term borrowing rate from the Public Works Loan Board is 3.28% (maturity loans) for 25 years and 2.98% (Annuity loans) for 25 years. Were the Council to temporarily borrow the necessary resources from other local authority for 3 years or 5 years, it would save the equivalent of 1.53% or 1.23% respectively (for maturity loan type) of the amount borrowed the affordability of the capital programme has been calculated based upon the assumption that internal borrowing would occur initially, follow by PWLB borrowing and Short Term Borrowing based on the current low interest rate environment.

3.27 On 9 October 2019, HM Treasury increase the Public Works Loan Board (PWLB) rate by 100 basis points (1%), the new margin above gilts is now 180 basis points (1.8%) for certainty rate loans. This sharp increase to the PWLB borrowing rate was due to the pace at which councils had been borrowing from the facility during the summer for their capital projects, housing and regeneration schemes; £2.0bn was taken in August and £1.6bn in September.

3.28 This policy change has far reaching consequences for our current treasury management activity as the Council has a large funding requirement and we could experience a significant increase in interest costs. This increase in PWLB rate open up opportunities for banks and other financial institutions and it meant we would have to look for alternative borrowing arrangements.

3.29 Within the prudential indicators there are several key indicators to ensure that the Council operates its activities within well-defined limits. For example, the operational borrowing limit set by the Council, determines the external debt levels which are not normally expected to be exceeded, whereas the authorised borrowing limit represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs Council to approve any increase.

3.30 Officers also introduce a 10 year capital programme with great detail for greater transparency, to further assist risk management of the Council's determined projects to ensure prudent decisions are being made.

4 NEXT STEPS

4.1 The draft strategy is based on the ten-year capital programme which is still being finalised and is subject to ongoing due diligence. Therefore, the figures contained within the report have potential for further amendment.

4.2 The overall indicative borrowing levels set out in the Treasury Management Strategy demonstrate that the options for financing the capital projects need to be considered with great care. There are limiting factors to the borrowing capacity of the Council. The Prudential Code and local government regulation requires us to be judicious in our financial assumptions to ensure the affordability of the capital expenditure.

4.3 Over the next six to nine months, the Council will be reviewing the financing arrangements of the Capital Programme as it seeks to maximise the leveraging of its balance sheet, while minimising the risk it undertakes. There is a clear intent for this review to be reported to Council with the mid-year Treasury Management report. Financing options are considered in greater detail within the Treasury Management Strategy Statement.

5 ALTERNATIVE OPTIONS CONSIDERED

5.1 The Council is bound by legislation to have regard to the CIPFA requirements for treasury management. If the Council were to deviate from those requirements, there would need to be some good reason for doing so. It is not considered that there is any such reason, having regard to the need to ensure that the Council's capital investment plans are affordable, sustainable and prudent.

5.2 The strategies and policy statement put forward in the report are considered the best methods of achieving the CIPFA requirements. Whilst it may be possible to adopt variations of the strategies and policy statement, this would risk failing to achieve the goals of affordability, sustainability and prudence.

6 REASONS FOR RECOMMENDATIONS

6.1 It is consistent with the requirements of treasury management specified by CIPFA, to which the Council is required to have regard under the Local Government Act 2003 and regulations made under that Act, for the Council to produce three strategy statements to support the Prudential Indicators which ensure that the Council's capital investment plans are affordable, sustainable and prudent. The three documents that the Council should produce are:

- High level Capital Strategy
- Treasury Management Strategy, including prudential indicators
- Investment Strategy

7 COMMENTS OF AND OTHER DEPARTMENTS

7.1 Financial Implications

a. This report provides Treasury Management budget for 2020/21 and forecasts for 2021/22 and 2022/23 financial year. Also included is the 10 year capital expenditure for prudent and sustainability check.

b. The Council held outstanding investments of £39.05m as at 31st December 2019. This portfolio has receivable interest of £450k to date.

c. The Council has committed up to £150m of service investments in HGL, Energetic and Enfield Innovation from 2020/23 and also has a commitment of £383m for Meridian Water project for the same period.

7.2 Legal Implications

a. The council will be in breach of the CIPFA TM code if it does not approve the strategy before the start of the year.

b. The Local Government Act 2003 ('the 2003 Act') provides a framework for the capital finance of local authorities. It provides a power to borrow and imposes a duty on local authorities to determine an affordable borrowing limit. It provides a power to invest. Fundamental to the operation of the scheme is an understanding that authorities will have regard to proper accounting practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in carrying out capital finance functions.

c. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 ('the 2003 Regulations') require the Council to have regard to the CIPFA publication "Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes" ("the Treasury Management Code") in carrying out capital finance functions under the 2003 Act. If after having regard to the Treasury Management Code the Council wished not to follow it, there would need to be some good reason for such deviation.

d. It is a key principle of the Treasury Management Code that an authority should put in place "comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities". Treasury management activities cover the management of the Council's investments and cash flows, its banking, money market and capital market transactions, the effective control of risks associated with those activities and the pursuit of optimum performance consistent with those risks. It is consistent with the key principles expressed in the Treasury Management Code for the Council to adopt the strategies and policies proposed in the report.

e. The report proposes that the treasury management strategy will incorporate prudential indicators. The 2003 Regulations also requires the Council to have regard to the CIPFA publication "Prudential Code for Capital Finance in Local Authorities" ("the Prudential Code") when carrying out its duty under the Act to determine an affordable borrowing limit. The Prudential Code specifies a minimum level of prudential indicators required to ensure affordability, sustainability and prudence. The report properly brings forward these matters for determination by the Council. If after having regard to the Prudential Code the Council wished not to follow it, there would need to be some good reason for such deviation.

f. The Local Government Act 2000 and regulations made under the Act provide that adoption of a plan or strategy for control of a local authority's borrowing, investments or capital expenditure, or for determining the authority's minimum revenue provision, is a matter that should not be the sole responsibility of the authority's executive and, accordingly, it is appropriate for the Cabinet to agree these matters and for them to then be considered by Council.

g. The report sets out the recommendations of the Executive Director of Resources in relation to the Council's minimum revenue provision, treasury management strategy and its annual investment strategy. The Executive Director of Resources has responsibility for overseeing the proper administration of the Council's financial affairs, as required by section 151 of the Local Government Act 1972 and is the appropriate officer to advise in relation to these matters.

h. When considering its approach to the treasury management matters set out in the report, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector equality duty).

7.3 Property Implications

Not applicable

8 KEY RISKS

8.1 There is inevitably a degree of risk inherent in all treasury activity.

8.2 The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.

8.3 Treasury operations are undertaken by nominated officers within the parameters prescribed by the Treasury Management Policy Statement as approved by the Council.

8.4 The Council is ultimately responsible for risk management in relation to its treasury activities. However, in determining the risk and appropriate controls to put in place the Council has obtained independent advice from Arlingclose who specialise in Local Authority treasury issues.

9 IMPACT ON COUNCIL PRIORITIES

- Good homes in well-connected neighbourhoods
- Build our Economy to create a thriving place
- Sustain Strong and healthy Communities

9.1 The Treasury Strategy indirectly contributes to the Council's ability to address the values set out within the Council's priorities

10 PERFORMANCE MANAGEMENT IMPLICATIONS

10.1 The report provides clear evidence of sound financial management, efficient use of resources, promotion of income generation and adherence to Best Value and good performance management.

11 EQUALITIES IMPACT IMPLICATION

11.1 The Council is committed to Fairness for All to apply throughout all work and decisions made. The Council serves the whole borough fairly, tackling inequality through the provision of excellent services for all, targeted to meet the needs of each area. The Council will listen to and understand the needs of all its communities.

Background Papers

1. Treasury Management Strategy Statement 2018/19 (Approved by Council February 2019)
2. Section 3 Local Government Act 2003
3. Local Authorities (Capital Finance and Accounting) (England)

Regulations 2003, as amended

4. MHCLG Guidance on Minimum Revenue Provision (fourth edition) February 2018
5. MHCLG Capital Finance Guidance on Local Government Investments February 2018
6. CIPFA Prudential Code for Capital Finance in Local Authorities, 2017