

# [Replacement] **Appendix K to Paper MCa/17/41**

JOINT AUDIT AND STANDARDS COMMITTEE 15 JANUARY 2018

DRAFT MINUTE – JOINT TREASURY MANAGEMENT STRATEGY 2018/19

Sue Palmer, Senior Financial Services Officer, introduced Paper JAC/17/15 presenting the proposed Treasury Management Strategy Statement (which included the Annual Investment Strategy) for scrutiny by the Joint Committee before being presented to Council.

She gave a brief summary of Appendices A – I (attached to Paper JAC/17/15) together with an update regarding the new editions of the Treasury Management Code and Prudential Code 2017. Consideration is currently being given to the changes from the 2011 Code for incorporation into future Treasury Management Strategies and monitoring reports.

The key changes to both codes relate to the following four items:-

## **Definition of treasury management**

The term 'investments' now covers both financial and non-financial assets which the Councils hold for financial return, including such assets as property portfolios, which are not managed as part of normal treasury management or under treasury management delegations.

## **Security of investments**

Councils must ensure priority is given to security and portfolio liquidity when investing treasury management funds through robust due diligence procedures for all external investments.

## **Capital strategy**

The first one will need to be produced in January 2019 for the financial year 2019/20, setting out capital expenditure and investment decisions and the associated risks and rewards together with how risk is managed for future financial sustainability.

## **Reference to be made to the rules under MIFID II (Markets in Financial Instruments Directive 2014/65/EU) effective from 1 January 2018**

The TM Strategy must include a statement that the Councils have met the conditions to opt up to professional status, which means that they will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

Formal Notice is awaited from the DCLG of the regulatory changes to Investment Guidance and Minimum Revenue Provision (MRP) following recent consultations which closed on 22 December. Members were advised that the Strategy before them did not therefore reflect the regulatory changes.

The officers then responded to Members' questions about various aspects of Paper JAC/17/15 and its Appendices including the following:-

- Page 36, Appendix C – Why is there a difference between the Councils' Non-treasury investments as at 31 October 2017?  
*This can be explained by the dates of completions – whereas there were some for BDC before that date, MSDC did not have any completions until after that date.*
- Page 36, Appendix C – Why is there a difference in the PWLB rates between the Councils?  
*This difference is explained by the MSDC loans being older and taken out at a higher rate (4.15%) whereas BDC loans are more recent, taken out when rates were lower (3%).*
- What safeguards exist to protect the Councils from fraudulent activity such as money laundering?  
*Members were referred to the Councils' Prevention of Crime Policy and to the vetting procedures carried out by our Treasury Management consultants, Arlingclose, who advise us on a regular basis.*
- Performance of Funding Circle?  
*As well as the lower than anticipated returns of which Members were aware, the hope that this investment would assist local businesses had not been realised, partly as a result of the changed criteria which Funding Circle is now operating.*
- Discrepancy between the 2018/19 Estimate for the MSDC General Fund of £16.792m and the Total Financing and Funding figure of £16.592? (Table on page 42 of Appendix F).  
*The difference of £200k is as a result of a late adjustment to the figures which should have been reflected in the Revenue Contributions and Reserves line and the Total – this will be corrected.*
- Appendix F – pages 43/44 – What proportion is the gross debt of the Authorised Limit each year?  
*The table will be adjusted to show this proportion.*
- Presentation of financial information?  
*Officers to liaise with Michael Burke who will provide examples for showing it in a more user-friendly way. Councillor Burke referred to a Kent council example which might prove helpful.*
- Page 20 – it was requested that officers look at changes to separate out the different purposes of borrowing.  
*This is likely to be required under the forthcoming disclosure changes so will be included next year. It was noted that there is no fixed term debt to finish in 2018/19 so average rates are likely to be similar to those shown for 2017/18.*
- What is the profile of when existing debt matures?  
*See page 40 – table in para 3.1. Majority of BDC debt is over 10-20 years, 10-30 years for MSDC.*

- Page 39 – Portfolio average credit score of 7 looks high?  
*This figure results from the combination of ratings in all organisations – we don't place funds with financial institutions lower than A rated. The target average score was 7 last year, and the actual figure is shown in the half yearly TM reports. The calculation will be provided to Members outside the meeting.*
- Is there any opportunity for re-financing higher interest loans?  
*This is kept under review by Arlingclose and with reference to the markets, but is generally not worthwhile because of penalties for early repayment.*

As a result of their scrutiny, Members were in agreement with the recommendations in Paper JAC/17/15, subject to the correction of the figures in relation to the Capital Financing figures for MSDC.

## **RECOMMENDED TO BABERGH AND MID SUFFOLK CABINETS AND COUNCILS**

- (1) That the following be approved:**
  - (a) The Treasury Management Strategy for 2018/19, including the Annual Investment Strategy set out in Appendix A to Paper JAC/17/15.**
  - (b) The Treasury Management Policy Statement set out in Appendix B to Paper JAC/17/15.**
  - (c) The Treasury Management Indicators set out in Appendix E to Paper JAC/17/15.**
  - (d) The Prudential Indicators and Minimum Revenue Provision Statement set out in Appendix F (subject to an amendment to correct the figures in the Capital Financing – General Fund for Mid Suffolk to reflect the error identified by the Committee) and Appendix G to Paper JAC/17/15.**
- (2) That the key factors and information relating to and affecting Treasury Management activities set out in Appendices C, D and H to Paper JAC/17/15 be noted.**