Subject	**Treasury Management Strategy 2020/21**	**Status**	For Publication
Report to	Authority	**Date**	19 March 2020
Report of	Treasurer		
Equality Impact Assessment	Not Required	Attached	N/a
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1 Purpose of the Report

1.1 To comply with: the Local Government Act 2003 and supporting regulations, CIPFA's *Treasury Management in the Public Services: Code of Practice 2017 Edition*, and *Prudential Code for Capital Finance in Local Authorities 2017 Edition* and the Ministry for Housing, Communities and Local Government's (MHCLG) *Statutory Guidance on Local Government Investments 3rd Edition (2018)*.

2 Recommendations

2.1 Members are recommended to:

a. **Approve the 2020/21 Treasury Management and Annual Investment Strategy;**

b. **Approve the Treasury & Prudential Indicators for 2020/21; and**

c. **Approve the Minimum Revenue Provision statement as set out in this report.**

3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

The Treasury Management Strategy sets out the parameters in which the cash balance of the Fund will be managed with the aim to achieve optimum return commensurate with proper levels of security and liquidity as the key priorities. By producing this report, the Authority ensures compliance with the relevant legislation, CIPFA Codes of Practice and statutory guidance.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report have no direct implications for the identified risks outlined in the Corporate Risk Register but robust risk management is central to the development and implementation of the treasury management strategy.

5 Background and Options

5.1 Treasury management is the management of an Authority's cash flows, borrowing and investments, and the associated risks.

5.2 This report fulfils the Authority's legal obligation under the Local Government Act 2003 to "have regard to" the following guidance:

a. The CIPFA Prudential Code of Practice (2017);
b. The CIPFA Treasury Management in Public Services Code of Practive and Cross-Sectoral Guidance Notes (2017);
c. MHCLG Statutory Guidance on Local Authority Investments (2018); and
d. MHCLG Statutory Guidance on Minimum Revenue Provision (2018)

5.3 This Authority's sole purpose is as administering authority for the South Yorkshire Pension Fund and therefore all of the expenditure of the Authority is on behalf of the Fund and is recharged to or financed by the Fund. Consequently, not all of the objectives and requirements of the Prudential Code (e.g. in respect of borrowing and capital expenditure and financing) are directly applicable to the Authority.

5.4 However, the Authority has regard to all of the relevant guidance as required and sets out in this annual strategy all of the appropriate objectives, indicators and policy statements as applied to the operating context of the Authority.

5.5 The CIPFA TM Code adopts the following as its definition of treasury management activities:

"The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

5.6 The above definition is intended to apply to public service organisations. In our context as an administering authority for the SY Pension Fund, it is applied to our management of the cash balance of the Fund and the management of the Authority's operational cash flows (i.e. payment of benefits, receipt of contributions, payments to suppliers, etc.). Whereas the management of the Pension Fund itself is separately governed by the Investment Strategy in accordance with extant regulations.

Reporting Requirements

5.7 The Authority will receive reports on its Treasury Management activities including, as a minimum, an annual strategy for the forthcoming year (this report), an annual report after year end, and interim updates as part of the quarterly corporate performance reports (rather than the minimum six-monthly report required by the Code).

5.8 This annual strategy report is forward looking and includes:

a. the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators;
b. an investment strategy, (the parameters on how investments are to be managed); and
c. To the extent that they apply in this Authority, capital plans, prudential indicators and minimum revenue provision policy statement.

5.9 The responsibility for the implementation and regular monitoring of its treasury management policies and practices remains with the full Authority, and responsibility for the execution and administration of treasury management decisions is delegated to the Authority's Section 73 Officer, who will act in accordance with the organisation's policy statement and TMPs and, if he/she is a CIPFA member, CIPFA's Standard of Professional Practice on Treasury Management. In accordance with the Authority's financial regulations, responsibility for the day-to-day application of the strategy is delegated to the Head of Finance & Corporate Services, who is also the Deputy S.73 Officer.

Training

5.10 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training relevant to their needs and responsibilities. At this Authority, Members receive an annual induction which includes coverage of treasury management issues and have undertaken a programme of quarterly training seminars during the year with an emphasis on investments and the management of risk.

5.11 Officers involved in treasury management have their training needs regularly reviewed as part of the appraisal and review process.

Use of External Service Providers

5.12 The Authority uses Link Asset Services, Treasury Solution as its external treasury management advisers.

5.13 The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

5.14 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Authority will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

5.15 The Authority also uses Broker services from the following providers to assist in placing deals and deposits with banks and with local authorities as required:

a. City Deposits
b. BGC Partners

5.16 It is now proposed to add Imperial Treasury Services to the approved list of brokers that may be used. Imperial Treasury Services is a relatively new company formed in January 2019 that has been set up by individuals who previously worked for the other broker firms working with local government clients in particular. The company is an Appointed Representative of Frank Investments Limited, a firm authorised and regulated by the Financial Conduct Authority (''FCA'').

5.17 The company advises that it has over 700 clients within local government, housing associations, charities and banks & building societies. By adding Imperial to the list of approved brokers, this will help to increase the range and number of potential counterparties when seeking to place deposits and/or loans in order to achieve the most advantageous rates available. There is no cost to the Authority, nor is it under any obligation to use the broker's services.

Annual Investment Strategy

5.18 The Authority's strategy in relation to investments of the Fund's cash balances has the general objective to invest surplus cash prudently whilst managing risk effectively. The Authority's priorities in this respect are, in order of importance:

a. The security of capital; and
b. The liquidity of its investments.

5.19 The Authority will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

5.20 The Authority has defined the list of approved investment instruments as follows.

Specified Investments	Minimum short term credit rating	Maximum limit per institution	Max. maturity period	Notes
Term deposits with banks and building societies	F1	£40m - £50m	364 Days	The lending limit per institution is £40m but is permitted to be increased to £50m in exceptional circumstances when short term placing of excess funds pending market settlements is required.
Money Market Funds (CNAV / LVNAV)	AAA Fund Rating	£50m per Fund and up to 50% of total specified investments	Liquid	
Local authorities	UK Government	£25m	364 days	Loans to local authorities are not subject to bail-in and there is generally a lower risk of insolvency, although they are not zero risk.
DMADF – UK Government	UK Government	Unlimited	6 months as set by the Debt Management Office	Should this facility be used for sums over £50m, such use will be reported to the next Authority meeting.

Risk Assessment and Credit Ratings

5.21 Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

a. No new investments will be made;
b. Any existing investments that can be recalled or sold at no cost will be; and

c. Full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

5.22 The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above investment criteria.

5.23 A summary of the treasury investments held at the end of Quarter 3 is attached at Appendix A to this report.

Treasury and Prudential Indicators

5.24 The CIPFA Treasury Management and Prudential Codes require local authorities to set and monitor against specified indicators for prudence and sustainability. The indicators specified relate to capital expenditure and financing, external debt and affordability. The majority of these are not directly relevant in the Authority's context.

5.25 Capital Expenditure

5.26 Capital Expenditure is that which is incurred on assets that provide service potential for more than one year such as buildings, equipment and IT software. The Authority incurs very limited capital expenditure and this will always be on behalf of the Fund and financed by the Fund.

5.27 The Authority's estimated capital expenditure for the forthcoming financial year is Nil. In the following two financial years, 2021/22 and 2022/23, it is estimated that there may be capital expenditure of up to £750,000 in relation to the purchase and implementation of IT software systems (back-office systems and Pensions Administration system) and also in respect of long-term office accommodation requirements. The precise expenditure requirements and timing for these projects will only be determined following the outcome of procurement exercises and options appraisals.

5.28 Capital Financing Requirement

5.29 The capital financing requirement (CFR) reflects an authority's underlying need to finance capital expenditure by borrowing or other long term liability arrangements.

5.30 The Authority has a CFR of Nil. Capital expenditure is incurred on behalf of the Fund and is financed by the Fund so there has been no underlying need to borrow. The estimated CFR for the next three year period (2020/21 to 2022/23) is also Nil. Based on current plans, any capital expenditure undertaken in this period will be fully financed in the year in which it is incurred from available reserves. During 2019/20, a new capital projects earmarked reserve has been set up for this purpose.

5.31 External Debt

5.32 For the reasons outlined above, the Authority has no requirement to undertake external borrowing in its own right under the powers granted in the Local Government Act 2003.

5.33 Therefore the indicators for gross external debt and the capital financing requirement and actual external debt are not applicable.

5.34 Whilst there is no expectation of any external borrowing requirement, the Authority nevertheless sets and keeps under review the Authorised Limit and Operational Boundary indicators as required by the Prudential Code.

5.35 Both the authorised limit for its gross external debt and the operational boundary should be consistent with the Authority's plans for capital expenditure, financing and treasury management activities.

5.36 The limits for the Authority are therefore set as follows.

	2020/21	2021/22	2022/23
Authorised Limit	£750,000	£750,000	£750,000
Operational Boundary	£500,000	£500,000	£500,000

5.37 <u>Affordability</u>

5.38 The Prudential Code sets out the need for local authorities to ensure that the revenue implications of capital finance, including financing costs, are properly taken into account and in assessing affordability, authorities should consider the council tax implications of capital, borrowing and investment decisions. As all expenditure of this Authority is on behalf of and recharged to the Fund, there are no direct implications for taxpayers. However, we do have a responsibility to manage the resources for which we are responsible in such a way that our expenditure does not negatively impact on the overall performance of the Pension Fund. Therefore affordability is a key consideration when making decisions on capital expenditure and financing.

5.39 The indicator of the ratio of financing costs to net revenue stream is not applicable as there are no financing costs expected for the Authority in the forthcoming period and up to 2022/23.

Minimum Revenue Provision (MRP) Statement

5.40 The Authority is required to have regard to the statutory guidance on MRP issued by the Ministry of Housing, Communities and Local Government (MHCLG). MRP is a provision for the repayment of debt based on paying off the accumulated capital financing requirement through an annual charge to the revenue account. The statutory guidance requires that authorities make an MRP charge that is deemed to be prudent and to have their policy on MRP approved by the equivalent of Full Council in advance of each year.

5.41 There is no requirement to charge MRP where the capital financing requirement (CFR) is nil or negative at the end of the preceding financial year. For this Authority, a nil MRP charge is made because the CFR is nil.

5.42 There is no expectation currently that there will be any CFR generated in the next three years because, as outlined above, it is planned that any capital expenditure will be fully financed from reserves. Therefore it is anticipated that there will be no MRP charges required in the next three years.

5.43 Nevertheless, the Authority is required to set out its policy on MRP. Therefore, should the capital plans of the Authority change and lead to a CFR, the policy for the MRP charge will be to apply the ‘Asset Life Method – Equal Instalments’ set out as Option 3 in the MHCLG Statutory Guidance. Using this method, MRP is calculated based on the estimated useful life of the assets created. This provides for a reduction in the borrowing needs over approximately the useful life of the asset.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	As outlined in the report. The strategy is to seek the optimum return consistent with prioritising security & liquidity.
Human Resources	None apparent.
ICT	None apparent.
Legal	This report ensures compliance with the Local Government Act 2003 and supporting regulations.
Procurement	None apparent.

Neil Copley

Treasurer

Background Papers	
Document	**Place of Inspection**
None	