

**TREASURY MANAGEMENT STRATEGY STATEMENT 2018/19; ANNUAL REVENUE PROVISION POLICY STATEMENT; ANNUAL INVESTMENT STRATEGY; TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS; AND CAPITAL STRATEGY**  
**WDA/10/18**

**Recommendation**

That Members:

1. consider the report attached at Appendix 1;
2. approve the Treasury Management Strategy 2018/19; the Annual Revenue Provision Policy Statement; the Annual Investment Strategy; and the Treasury Management and Prudential Indicators as set out in the report at Appendix 1;
3. delegate to the Treasurer, within the total limit for each year, authority to effect movements between the separately agreed prudential indicator limits in accordance with option appraisal and best value for money for the Authority; and
4. delegate to the Treasurer, authority to effect movements between borrowing and other long term liabilities sums under the framework of the Prudential Code.

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**Report of the Treasurer**

**1. Purpose of the Report**

- 1.1 The Local Government Act 2003 (the Act) and the framework established by CIPFA through its Prudential Code requires the Authority to set Prudential and Treasury Indicators for each of the next three years to ensure the Authority's capital investment plans are affordable, prudent and sustainable. The Act also requires the Authority to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy that sets out its policies for managing its investments and the priority given to the security and liquidity of those investments. This report and its appendix enable the Authority to consider and approve each of these elements.

**2. Background**

- 2.1 In order to provide Members with an understanding of the Authority's Treasury Management and Borrowing positions, a document has been prepared, attached at Appendix 1 to this report; the 'Treasury Management Strategy Statement 2018-19, Annual Revenue Provision Policy Statement and Annual Investment Strategy'.

**3. Treasury Management Strategy, Annual Revenue Provision Policy Statement and Annual Investment Strategy**

- 3.1 Members' attention is draw to the detail set out in Appendix 1 to this report which sets out the background and proposed positions for the Authority to approve.
- 3.2 The Treasury Management Strategy covers:
- The current treasury position
  - Prospects for interest rates
  - Borrowing requirements and strategy

- Annual Revenue Provision policy statement
  - Debt rescheduling options
  - The annual investment strategy (Annex 2)
  - Treasury Management and Prudential Indicators (Annex 3)
- 3.3 Together, the above form the basis of the Authority's proposed Treasury Management Strategy, Annual Revenue Provision Policy Statement, Annual Investment Strategy and Treasury Management and Prudential Indicators.
- 3.4 The Authority has been reviewing revisions made by CIPFA to its revised guidance on the Prudential Code and separately the revised guidance on Treasury Management. The Code revisions are intended to bring about additional checks and balances where local authorities may be engaged in non-traditional borrowings for non-financial investments and there is additional focus on risk reward as well as maintaining a focus on security, liquidity and yield. There is some doubt as to when these new Codes will be applied from, but on review there are no new requirements on this Authority as under arrangements there are no plans to engage in the more risky kinds of borrowing and investment that are intended to be caught by the scope of the new codes.
- 3.5 The Appendix also includes, at Annex 6, a Capital Strategy. The Capital Strategy is a new requirement that local Authorities must fully implement by 2019-20. The strategy attached shows how the Authority's corporate objectives are supported by the assets it deploys, whether directly or under contracts which have been procured. It also shows how those assets are maintained and where they will be funded from going forward, as well as considering how the assets have been funded in the past.

#### **4. Risk Implications**

- 4.1 The Treasury Management approach set out in the report at Appendix 1 provides a prudent basis for managing the Authority's investments. The key to the investment strategy is to ensure that capital is preserved, and that the risk profile of investments is minimised. The approach means that the Authority will not be advised to consider investing in higher risk investments which could potentially place its capital at risk. The downside to this is that investment returns, while relatively healthy, remain somewhat conservative. To obtain larger returns would require putting elements of the investments at risk and this is not advised.

- 4.2 In terms of borrowings, the Authority has a profile of borrowings which provide a balance between shorter and medium to long term maturities, which means that the Authority is not called upon to repay all its external borrowings at one time which could have an impact on its immediate ability to manage its liquidity and cash-flow. The option of reviewing the debt and rescheduling for even lower cost borrowing is available to the Authority, but will only be taken up where the costs of any premium payments to be made on redemption and rescheduling of existing debt do not exceed the financial benefits of the otherwise lower cost borrowing.
- 4.3 The Authority does not directly manage its cash, this is carried out on the Authority's behalf by St Helens Council. The Council has advised that the Authority's 'cash' position and projected cash position is in a substantial overdrawn status. While on a day to day basis the overdraft is some £16M, after balances are taken into account this amount is somewhat lower at £13.5M. This is a large overdrawn position and the Authority is working with the Council, and the Authority's financial advisers so that this position is addressed. This rebalancing will be achieved through a combination of revising the Levy approach, so that the Levy and the Authority's expenditure are in balance, and also by considering the best way of funding the cash position in the lowest cost way over the next period.
- 4.4 Detailed discussions with the St Helens Council Treasury managers confirm that the Council is in a position where it is able to continue to support the Authority as it moves from a cash overdrawn position to a more balanced position. The Council's Treasury Managers have also confirmed that at present this is the least cost solution available to the Authority. They also advise, however, that should the Bank of England's monetary policy committee make announcements over the year of increases in interest rates, then depending on how the market reacts to that change, the Authority may be better off seeking short to medium term support elsewhere from the PWLB or from Market loans. St Helens Treasury managers will work more closely with Authority officers over the next year to ensure that the Authority's best interests are served by the advice they give on the strategy to adopt.
- 4.5 Currently, aside from the St Helens balances, the Authority is in an 'under-borrowing' position, which means it has not borrowed to finance capital to the extent that it may. If the Authority addresses the under-borrowing, by refinancing capital spending which was previously funded from revenue this will also contribute to addressing the overdrawn cash position.

- 4.6 By considering and approving the Strategy Statement, the Annual Revenue Provision Policy, the Annual Investment Strategy and the Treasury Management and Prudential Indicators the Authority will demonstrate its governance of the way these matters are managed.

## **5. HR Implications**

- 5.1 There are no HR implications associate with this report

## **6. Environmental Implications**

- 6.1 There are no environmental implications associated with this report

## **7. Financial Implications**

- 7.1 The report considers the Authority's investment and borrowing, ensuring that a prudent approach is taken to preserve the Authority's cash flow and liquidity while minimising risk. The report also considers the affordability of borrowing via the Treasury Management and Prudential Indicators.

## **8. Legal Implications**

- 8.1 Through considering and approving the content of Appendix 1 to the report Members will clearly demonstrate compliance with the statutory requirements regarding Treasury Management and Prudential Indicators.

## **9. Conclusion**

- 9.1 In order to demonstrate the Authority's governance arrangements in respect of Treasury Management, Members are asked to consider and approve the content of Appendix 1 to this report which sets for the Authority: a Treasury Management Strategy Statement for 2018-19, an Annual Revenue Provision Policy, an Annual Investment Strategy; the Treasury Management and Prudential Indicators, and the capital strategy.

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The background documents to this report are open to inspection in accordance with Section 100D of The Local Government Act 1972 - Nil.