

Treasury Update Lancaster City Council

Presented by:
Richard Dunlop| Director
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CIPFA Treasury Management Code of Practice

Treasury management is defined as:-

- The management of the organisation's:
 - (Borrowing)
 - Investments
 - Cash flows
 - Its banking
 - Money market and capital market transactions
- The **effective control of the risks** associated with those activities
- The **pursuit of optimum performance** consistent with those risks

Treasury investments – Placing cash under Security, Liquidity & Yield principles

Non-treasury investments – Those which give rise to a borrowing need (increase Capital Financing Requirement, CFR)

Simple principles

- Treasury is just the management of **cash**, not spending
- The Council is required to have a **balanced budget**
 - Expenditure covered by income
 - Suggests a neutral annual cash flow
 - Public monies need to be kept low risk
 - Shortfalls/surpluses go to the balance sheet
- **Capital expenditure**
 - Capital cash flows are outside revenue budget
 - May require borrowing to cover the outlay on capital expenditure
- **Impact of capital expenditure in budget**
 - Capital expenditure impact on revenue budget through interest costs and “depreciation” (termed Minimum Revenue Provision)
 - The revenue impact of capital spend needs to be affordable

Resources allocated **policy** (budget, capital programme, MTFPs)

Treasury management organises **cash** in relation to policy

Investment Rules and Regulations – Treasury/Capital

Title and Regulatory Origin	Scope/Key Requirements	Council Implementation
Local Government Act 2003 -	<ul style="list-style-type: none"> . Power to borrow . Power to invest . Government control of borrowing . Affordable Borrowing Limit (Prudential Indicator) . Capital regulations 	Authorised Limit (PI) approved by Council
Statutory Instrument (SI) 3146 Capital regulations	Capital Vs Revenue rules Introduces: <ul style="list-style-type: none"> .CIPFA Prudential Code, then .CIPFA TM Code of Practice 	
CIPFA Prudential Code (Revised 2017)	Capital Planning system Prudential Indicators	Approve all PIs Adopt CIPFA TM Code of Practice Treasury Strategy

Investment Rules and Regulations – Treasury/Capital

Regulatory Origin	Requirements	Council Implementation
CIPFA Treasury Management Code of Practice (Revised 2017)	<ul style="list-style-type: none"> · Annual TM Strategy (advance) · Mid Year Report · Annual TM Report (in arrears) · TMPs 	Approved through Council
Local Government (LG) Act 2003 - Investment Guidance (Revised 2018)	Annual Investment Strategy	Approved through Council
LG Public Involvement in Health Act 2007	Annual Minimum Revenue Provision (MRP) Policy (Revised 2018)	Approved through Council

Members have greater role in scrutiny of treasury management

Also need for additional training

Members role is to approve parameters of treasury activity

Leads to Council Reporting Responsibilities

- **The Treasury Strategy** report
- **In advance** of year:
 - Prudential Indicators
 - MRP Policy
 - TM Strategy
 - Investment Strategy (or more frequently)
- **Draws together:**
 - Capital plans (PIs)
 - How capital is paid for (MRP)
 - How cash is to be organised (Treasury Strategy)
 - Where/how to invest (Investment Strategy)
- **Members set parameters, officers execute strategy**
- **Plus mid-year and annual report**

Topical Changes

- Many new regulatory issues
 - CIPFA Prudential Code revision
 - CIPFA Treasury Management Code revision
 - MHCLG revisions
 - Minimum Revenue Provision
 - Investment Guidance
 - W.e.f. 1/4/18 IRFS Financial Assets
 - W.e.f 1/4/19 Leasing changes (?)
- Awaiting
 - Guidance to Prudential & Treasury codes
 - ITC IFRS16 & Accounting Code 2018/19 for IFRS9

Main Topical Issues

- Concerns from MHCLG over scale of non-treasury investments
- Leading to additional reporting
 - A Capital Strategy is mandatory (CIPFA Prudential Code)
 - MHCLG suggests:
 - > More reporting of non-treasury investments through additional indicators
 - > More clarity to Members on scale and outcomes of commercial activity
 - > Suggested restrictions on Minimum Revenue Provision (depreciation) policies
 - > **Proportionality**
- But:
 - CIPFA publications late for 2018/19 policies (so can defer capital strategy etc.)
 - MHCLG Guidance yet to be issued
 - MHCLG documents will still be guidance, not mandatory in all circumstances?

Key Treasury Changes

- Treasury management left broadly unchanged
 - Some Prudential Indicators removed
 - Awaiting changes on Treasury Indicators
 - Expansion of capital reporting (capital strategy)
- Main purpose of change
 - Localism Act and Commercial Agenda
 - > I.e. Non-Treasury Investments

Broadly – Non-treasury investment funded by borrowing – impact on Capital Financing Requirement (CFR)

Accounting Changes

- IFRS9 – Financial Assets (2018/19)
 1. Reclassification of financial assets
 - Available for Sale Category removed
 - Partially rebranded
 - Fair Value Through Profit and Loss
 - May cause difficulties for some councils
 - Regulatory override?
 2. Expected Credit Loss Model
- IFRS16 – Leasing
 - Operating leases brought on balance sheet 2019/10?

The Council's position - Indebtedness

	2015/16 (£'000)		2016/17 (£'000)	Change (£'000)	
		Capital Financing Requirement (CFR)			Like a household mortgage
Policy	214,319	Property, Plant & Equipment	219,946		£251.5m assets at current prices
	26,036	Investment Property	31,200		
	71	Intangible Assets	305		
	57	Assets Held for Sale	57		£50.4m appreciation £119.0m paid off £82.1m Remaining mortgage to pay
	(44,427)	Revaluation Reserve	(50,402)		
	(118,163)	Capital Adjustment Account	(119,034)		
77,893	CFR (as per Prudential Code)	82,072	4,179		
(127)	Finance Lease Liability	(39)			
77,766	Underlying Borrowing Requirement	82,033	4,267		
		External Borrowing			
Treasury	(1,130)	Short-Term	(1,080)		
	(65,288)	Long-Term	(64,208)		
	(66,418)	TOTAL External Borrowing (Principal)	(65,288)	1,130	
	11,348	Under Borrowing	16,745	5,397	

Core Funds

	2015/16 (£'000)		2016/17 (£'000)	Change (£'000)
		Reserves / Balances		
Policy	(4,500)	General Fund Balance	(4,725)	
	(1,691)	Housing Revenue Account Balance	(1,937)	
	(1,088)	Collection Fund Adjustment Account	(6,641)	
	(16,972)	Earmarked reserves / other balances	(17,219)	
	(14,545)	Provisions (exc. any accumulating absences)	(2,574)	
	(103)	Capital Grants Unapplied	(103)	
	(38,899)	Amount Available for Investment	(33,199)	5,700
		Investments		
Treasury	39,247	Short-Term	30,281	
	39,247	TOTAL Investments	30,281	(8,966)
	348	(Internal Investments)	(2,918)	(3,266)

Working Capital

2015/16 (£'000)		2016/17 (£'000)	Change (£'000)
	Working Capital		
38,325	Debtors	10,503	(27,822)
(47,888)	Creditors	(20,863)	27,025
(2,122)	Cash Overdrawn	(3,385)	
352	Stock / WIP	369	
(11,333)	NET Working Capital (Surplus)	(13,376)	(2,043)
	Other		
373	Balance LT Debtors	1	
38	Balance of LT Liabilities	-	
143	FIAA - Premiums, (Discounts) etc	143	
(917)	Deferred credits / receipts (non-capital)	(595)	
(363)	Other Long-Term Working Capital	(451)	(88)
(11,696)	TOTAL Working Capital (Surplus)	(13,827)	(2,131)

Looking Forward (No Borrowing)

2016/17 (£'000)		2017/18 (£'000)	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)
CAPITAL FINANCING REQUIREMENT						
82,072	CFR	83,940	85,820	84,430	83,480	80,790
-	PFI Liabilities	-	-	-	-	-
(39)	Finance Lease Liabilities	(4)	-	-	-	-
82,033	Underlying Borrowing Requirement	83,936	85,820	84,430	83,480	80,790
(65,288)	External Borrowing c/fwd					
-	Loan Maturities					
-	New Loans	-	-	-	-	-
(65,288)	External Borrowing	-	-	-	-	-
16,745	Under / (Over) Borrowing	83,936	85,820	84,430	83,480	80,790
20%	<i>Underborrowing as a % of Underlying Borrowing Requirement</i>	100%	100%	100%	100%	100%
4,725	General Fund Balance		-	-	-	-
1,937	Housing Revenue Account Balance (inc MRA)		-	-	-	-
6,641	Collection Fund Adjustment Account		-	-	-	-
17,219	Earmarked reserves / other balances	21,500	20,740	20,320	20,720	21,430
-	Capital Receipts Reserve	-	-	-	-	-
2,574	Provisions (exc. any accumulating absences)	500	500	500	500	500
103	Capital Grants Unapplied	-	-	-	-	-
33,199	Amount Available for Investment	22,000	21,240	20,820	21,220	21,930
30,281	External Investments	(39,236)	(41,880)	(40,910)	(39,560)	(36,160)
13,827	Working Capital (Deficit) / Surplus	22,700	22,700	22,700	22,700	22,700

Looking Forward (Borrowing)

2016/17 (£'000)		2017/18 (£'000)	2018/19 (£'000)	2019/20 (£'000)	2020/21 (£'000)	2021/22 (£'000)
CAPITAL FINANCING REQUIREMENT						
82,072	CFR	83,940	85,820	84,430	83,480	80,790
-	PFI Liabilities	-	-	-	-	-
(39)	Finance Lease Liabilities	(4)	-	-	-	-
82,033	Underlying Borrowing Requirement	83,936	85,820	84,430	83,480	80,790
(65,288)	External Borrowing c/fwd	(65,288)	(65,250)	(64,246)	(63,242)	(62,238)
-	Loan Maturities	1,004	1,004	1,004	1,004	1,004
-	New Loans	-	-	-	-	-
(65,288)	External Borrowing	(64,284)	(64,246)	(63,242)	(62,238)	(61,234)
16,745	Under / (Over) Borrowing	19,652	21,574	21,188	21,242	19,556
20%	<i>Underborrowing as a % of Underlying Borrowing Requirement</i>	23%	25%	25%	25%	24%
4,725	General Fund Balance		-	-	-	-
1,937	Housing Revenue Account Balance (inc MRA)		-	-	-	-
6,641	Collection Fund Adjustment Account		-	-	-	-
17,219	Earmarked reserves / other balances	21,500	20,740	20,320	20,720	21,430
-	Capital Receipts Reserve	-	-	-	-	-
2,574	Provisions (exc. any accumulating absences)	500	500	500	500	500
103	Capital Grants Unapplied	-	-	-	-	-
33,199	Amount Available for Investment	22,000	21,240	20,820	21,220	21,930
30,281	External Investments	25,048	22,366	22,332	22,678	25,074
13,827	Working Capital (Deficit) / Surplus	22,700	22,700	22,700	22,700	22,700

UK Interest Rate Forecast

Bank Rate														
	NOW	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	1.00%	1.25%	1.25%	1.25%
Capital Economics	0.50%	0.50%	0.75%	1.00%	1.25%	1.25%	1.50%	1.50%	1.75%	2.00%	2.00%	2.25%	2.25%	-
5yr PWLB Rate														
	NOW	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	1.92%	1.60%	1.60%	1.70%	1.80%	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%
Capital Economics	1.92%	1.70%	1.90%	2.10%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.65%	2.65%	2.90%	-
10yr PWLB Rate														
	NOW	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	2.43%	2.20%	2.30%	2.40%	2.40%	2.50%	2.60%	2.60%	2.70%	2.70%	2.80%	2.90%	2.90%	3.00%
Capital Economics	2.43%	2.20%	2.40%	2.60%	2.80%	2.80%	2.80%	2.80%	2.80%	2.80%	3.05%	3.05%	3.30%	-
25yr PWLB Rate														
	NOW	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	2.83%	2.90%	3.00%	3.00%	3.10%	3.10%	3.20%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%	3.60%
Capital Economics	2.83%	2.60%	2.90%	3.10%	3.30%	3.30%	3.30%	3.35%	3.35%	3.35%	3.60%	3.60%	3.80%	-
50yr PWLB Rate														
	NOW	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	2.53%	2.60%	2.70%	2.80%	2.90%	2.90%	3.00%	3.00%	3.10%	3.20%	3.30%	3.30%	3.40%	3.40%
Capital Economics	2.53%	2.50%	2.70%	2.90%	2.90%	2.90%	3.05%	3.05%	3.15%	3.15%	3.40%	3.40%	3.65%	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction effective as of the 1st November 2012

Key Strategic Issues

- **Capital spend limited to:**
 - Affordability
 - Prudence and
 - Sustainability
 - Borrowing follows approval of capital spend within capital programme
- **Consequences of capital spend:**
 - Debt interest
 - Depreciation (MRP)
 - Running costs
 - Income
- **Will capital spend crowd out revenue spend?**
 - Self financing schemes/revenue intensive/greater efficiencies etc.
- **Commercialism Agenda**
 - Localism Act
 - Not without risk
 - Balance risk Vs return
 - May be high risk

Key Local Issues

- **Capital liability increases limited**
 - No significant drain of cash
- **Consequences of capital spend:**
 - Revised MHCLG MRP Guidance amended, little impact to the Council
- **Investment levels expected to be lower but material**
 - No significant change in policy needed
 - Revised MHCLG Guidance will have limited impact.
- **Commercialism Agenda**
 - Little impact
- **Interest rate environment**
 - End of bull bond market?
 - Interest rates continue at historical lows, though increasing
- **Counterparty Risk environment**
 - Improving
 - Bank regulation and stress testing

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