

CARDIFF COUNCIL CYNGOR CAERDYDD

AUDIT COMMITTEE:

30 January 2018

DRAFT TREASURY MANAGEMENT STRATEGY 2018/19

REPORT OF CORPORATE DIRECTOR RESOURCES

AGENDA ITEM: 10.2

Reason for this Report

1. The Audit Committee Terms of Reference sets out their responsibility for undertaking scrutiny of the accounting, audit and commercial issues in relation to the Council's Treasury Management Strategy and practices.
2. This report has been prepared to provide Audit Committee Members with the draft Treasury Management Strategy for 2018/19.

Background

3. The proposed strategy for 2018/19 is required to be approved as part of the Budget Report to Council in February 2018. The strategy is attached for Committee to review at Appendix 1.

The Strategy

4. The strategy covers the following areas:-
 - Changes in the Treasury Management Code in 2017
 - The current treasury position.
 - Economic background and prospects for interest rates.
 - Capital Programme Plan and Capital Financing Requirement (CFR)
 - Borrowing, including:-
 - Policy
 - Annual Minimum Revenue Provision (MRP) Policy Statement
 - Council borrowing requirement and choice between internal and external borrowing and
 - Borrowing Strategy
 - Treasury management indicators and limits for 2018/19 to 2020/21
 - Treasury investment policy and strategy, including security and investments approved for use.
 - Non Treasury investments
 - Training.
5. It should be noted by the Committee that many of the indicators are dependant on the final Capital Programme which will only be determined at

Council in February 2018. However, there are unlikely to be significant changes in the proposed Capital Programme.

6. The main points to note in the strategy are:-

- It is a single integrated strategy for the Council as a whole rather than separate strategies for the Housing Revenue Account and the Council's General Fund. The Council maintains a single pool of debt
- The Strategy takes into account the 2017 update to the CIPFA Treasury Management Code and existing Welsh Government guidance on investments
- The medium term shows an increase in the Council's underlying need to borrow to meet additional capital expenditure commitments proposed to be approved including, additional borrowing to invest in the condition of assets, the Council's contribution to City Deal and also 21st Century Schools Band B.
- Retention of the approach to provision for debt repayment as previously considered by Audit Committee in November 2016
- The timing of borrowing decisions, associated risks and financial implications will be important in order to achieve a balance between using temporary cash balances held (internal borrowing) in the short term or external borrowing. The Strategy proposes that given the higher level of borrowing rates compared to investment rates, the Council continues to use internal borrowing in the short term, limited to 10% of the capital financing requirement
- HRA debt as measured by Capital Financing Requirement is within the agreed debt cap
- The priority for Treasury investments is security, liquidity then yield, with the Strategy retaining the potential use of a range of investment options to increase diversification where possible. Joint committee temporary cash will be managed within criteria and parameters set out in the strategy
- Interest rates on investments are likely to remain low, with borrowing costs forecast to rise
- Strong credit criteria are set for investments undertaken by the Council based on Fitch Credit Criteria
- The Markets in Financial Instruments Directive (MiFID II) was implemented from 3 January 2018. Where requested by counterparties to do so, the Council has opted up to be classed as a 'professional' client following the submission of qualitative and quantitative information on its treasury activities.
- The Strategy applies from the date of approval by Council
- The Council is progressing significant capital projects which could have significant Treasury Management Implications The impact on the Council as a result of these schemes and governance arrangements in place to deliver them will need to be closely monitored to ensure no adverse financial implications for the Council.

Reason for Report

7. To note the proposed Treasury Management Strategy for 2018/19 and provide any comments as necessary that can be factored into the final document.

Legal Implications

8. No direct legal implications arise from this report.

Financial Implications

9. The Treasury Management Strategy does have financial implications which will need to be consistent with and form part of the budget proposals for 2018/19 and Medium Term Financial Plan to be considered by Council in February 2018

RECOMMENDATIONS

10. Audit Committee to note the proposed Treasury Management Strategy for 2018/19 and provide comments as necessary with any amendments being considered for inclusion in the final Strategy which will be considered by Cabinet prior to approval by Council as part of the 2018/19 Budget Proposals Report.

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CORPORATE DIRECTOR RESOURCES
20 January 2018

The following appendices are attached
Appendix 1 – Draft Treasury Management Strategy 2018/19