Audit and Governance Committee
Meeting to be held on Monday, 25 September 2017

Electoral Division affected: None;

Treasury Management Activity 2017/18
(Appendix 'A' refers)

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Executive Summary

The report set out at Appendix 'A' is a review of the Council's treasury management activities in 2017/18 for the months April to July 2017. The activities are regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice and it considers best practice to review treasury management activities on a regular basis.

This review includes:

- A review of the economic conditions during the period
- Borrowing activity
- Investment activity
- Actual results measured against 2017/18 Prudential Indicators

The CIPFA 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom will adopt 'IFRS 9 - Financial Instruments' with an implementation date for local authorities of 1 April 2018.

Although accounts will not be prepared under the new standard until 2018/19, some of the changes may impact on the revenue account and therefore may need addressing in the forthcoming 2018/19 budget round.

Recommendation

The Committee is asked to:

(i) Note the treasury management activities for the period April to July 2017.
(ii) Note the changes to the Council's treasury management resource.
(iii) Approve the process for fund selection set out in this report including decisions for funds of up to £15m to be made by the Director of Financial Resources; and
(iv) Note the changes set out in the report relating to IFRS 9 that are to be implemented from 1 April 2018.

Lancashire County Council

Background

As part of the County Council's governance arrangements for its treasury management, the Audit and Governance Committee is charged with oversight of the Council's treasury management activities. To enable the Committee to fulfil this role, the Committee receives regular reports on treasury management issues and activities. Reports on treasury activity are discussed on a monthly basis with the Director of Financial Resources and the content of these reports are used as a basis for this report to the Committee.

Treasury Management Activity

The report set out at Appendix 'A' includes a review of the borrowing and lending activity from April to July 2017 and sets this activity against the economic background.

At the meeting of the Full Council in July 2017 it was approved that investment in property and equity funds of up to £50m in each category could be made. To reduce risk, it is not intended that all of the allocation in each category will be in one fund but that there will potentially be a number of funds with smaller amounts invested in each. There is a variety of different types of funds and therefore it is not thought beneficial to be too prescriptive on the criteria for selecting a fund, however the factors that will be considered will include:

- The overall size of the pooled fund
- The percentage that the Council's investment would represent of the total fund
- Years the company has been operating this or similar pools
- Past performance compared to a benchmark both in terms revenue and capital gains
- Percentage of the fund invested in UK, Europe, USA and other countries
- Liquidity restrictions
- For bond funds - credit ratings of the constituent investments
- For asset backed funds - the nature of the assets and risk assessment
- Whether the expenditure represents capital expenditure and the subsequent Minimum Revenue Provision (MRP) implications
- Foreign currency risk exposure

As part of the evaluation process, due diligence advice will be sought from the Council's external treasury management advisers Arlingclose. It is proposed that an investment of up to £15m in an individual fund can be undertaken by the Director of Financial Resources. For an investment in excess of £15m it is proposed that approval is sought from the Cabinet. Investments in the funds will be reported to Audit and Governance Committee as part of the Treasury Management activity reports throughout the year.

Treasury Management Resource

The Council's current resource to deliver its treasury management responsibilities focuses on daily cash-flow management; corporate bond investments; renewal of borrowing agreements, monitoring expenditure and income, and reporting against the requirements of the Prudential Code. These activities are carried out for funds relating to the Council, Lancashire police and fire services and schools with some of these activities also carried out for the Lancashire Pension Fund.

Treasury management advice is currently received from external treasury management advisers Arlingclose at a cost of £28,000 in 2017/18, and Local Pensions Partnership Investments Ltd (LPPI) at a cost of £80,000 per annum.

Contributions are received from Lancashire schools, fire and police services and the Lancashire Pension Fund towards these costs.

With the termination of contractual transition arrangements, LPPI are now unable to deliver the full range of services previously provided under the contract for treasury management services due to the constraints of their FCA regulated status and lack of expertise in areas such as capital financing.

Under the Council's urgency arrangements it has recently been agreed that an additional post of Director of Investment is established reporting to the Council's Director of Financial Resources. This is to provide entrepreneurial leadership and direct investment expertise to the Council's treasury management resource to meet the challenges involved in ensuring adequate returns on investments and minimising borrowing costs in support of the Council's financial position.

IFRS 9 - Financial Instruments

The CIPFA 2018/19 Code of Practice on Local Authority Accounting in the United Kingdom will adopt 'IFRS 9 - Financial Instruments'. This is to be implemented from 1 April 2018 and includes some changes to current practice.

The changes to IFRS 9 will mean that more investments will be classified as “fair value though profit and loss” (FVPL) where any changes in fair value will impact upon the revenue account and therefore potentially upon the usable reserves of the County Council at the end of each financial year. Additionally, the potential losses on investments are also to be charged to the revenue account in case actual losses are incurred in the future.

Although accounts will not be prepared under the new standard until 2018/19, as some of the changes may impact on the Council's reserves they will potentially need to be addressed in the forthcoming 2018/19 budget round. There are a number of issues of interpretation requiring greater clarity and further guidance from CIPFA on how IFRS 9 should be implemented. The guidance is expected to be issued in November 2017, against which the treasury management arrangements will be assessed and appropriate recommendations made as part of the budget setting process for 2018/19.

Consultations

Arlingclose Limited have provided treasury management advice.

Implications:

This item has the following implications, as indicated:

Risk management

The County Council's Treasury Management Strategy sets out a policy in respect of borrowing and lending activity that sets out the risks involved with planned treasury activities taking place during the year.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
Treasury Management Strategy	February 2017	Paul Dobson/ (01772) 534725
Treasury Management Strategy update	June 2017	Paul Dobson/ (01772) 534725
CIPFA Code of Practice	2011	Paul Dobson/ (01772) 534725

Reason for inclusion in Part II, if appropriate

N/A