Cabinet

20 February 2020

Treasury Management Strategy and Investment Strategy

Recommendations

That:

1. Cabinet recommends to the County Council that the Treasury Management Strategy for 2020/21 (Appendix 1) be approved and that its provisions have effect from 1st April 2020.

2. Cabinet recommends to the County Council that the Investment Strategy for 2020/21 is approved.

3. Cabinet recommends that the County Council requires the Strategic Director of Resources to ensure that gross borrowing does not exceed the prudential level as specified in Appendix 1 Annex B, taking into account current commitments, existing plans, and the proposals in the budget report.

4. Cabinet recommends that the County Council delegate authority to the Strategic Director of Resources to undertake all the activities listed in Appendix 1 Annex H of this report.

5. Cabinet recommends that the County Council requires the Strategic Director of Resources to implement the Minimum Revenue Provision Policy as specified in Appendix 1 Annex I.

6. Cabinet recommends that the County Council requires the Strategic Director of Resources to enact an early payment of pension fund contributions subject to the conditions set out at Section 7.24 of the Treasury Management Strategy being met.

1.0 Introduction

1.1 The Council is required to set a Treasury Management Strategy each year and this report sets out the proposed strategy for 2020/21 at Appendix 1. The key messages around changes are summarised below.

2.0 Key Changes

Target Returns

2.1 The strategy emphasises the intention to access the best rates of return whilst maintaining acceptable levels of risk. The basis of the benchmark rate of return on assets will be changed from the 7 day LIBID rate to the 30 day LIBID rate. The longer dated benchmark reflects the intention to commit funds for on average longer periods of time to access higher returns.

Pension Pre-Payments

2.2 The strategy includes a proposal to pre-pay up front in full £84.5m of pension fund contributions for the 3-year period from 2020-2023 instead of paying in monthly instalments over the 3-year period in order to benefit from higher rates of return. This proposal does entail different risks and these are set out from Section 7.21 of the Treasury Management Strategy.

Investment Limits

2.3 Limits on the amount that can be invested in some funds have been introduced for more funds to improve transparency and to reduce concentration risk where too much cash is held with one institution or one type of fund. These are set out in Annex F of the Treasury Management Strategy.

Ethical Investing

2.4 The Treasury Management Strategy now includes a new reference to ethical investing and climate change at Appendix 1 Annex A Section 8.

Non Treasury Management Investments

2.5 A new separate document entitled "Investment Strategy" has been created in respect of investments that are for non-treasury management purposes. These could be held for serviced or commercial reasons as explained below:

- **Service Investments** – where an investment is primarily for the purpose of supporting the delivery of an organisational or service objective.

- **Commercial Investments** – where an investment is primarily for the purpose of generating an income stream or return to support the overall financial position of the local authority.

2.6 Service and commercial investments are distinct from treasury management in their nature. Local authorities are now required to report these investments in a more pro-active way as a result of some local authorities taking what are considered to be excessive investment risks and/or making investments without having adequate regard to risk and transparency. Appendix 2 sets out an Investment Strategy which encompasses investing for service reasons and commercial reasons.

2.7 The Investment Strategy includes reference to the new Commercial Strategy of the Council and references that the Council intends to consider new commercial approaches to the delivery of services and the generation of income. As opportunities are developed and considered, the Investment Strategy (and if necessary, the Treasury Management Strategy) will be updated as appropriate. In addition, appropriate metrics will be identified and implemented to set out performance expectations, and to ensure transparency around risk.

3. Environmental Implications

3.1 The new ethical investing and climate change policy within the treasury strategy makes reference to the intention to understand the extent to which the investments held may contribute towards climate change, understand exposure to risks driven by climate change, and to keep abreast of potential investment opportunities that have regard to climate change. However, the primary considerations will remain security, liquidity, and yield.

3.2 The Investment Strategy sets out that non treasury management investments have more scope to consider climate change impact as a decision making criteria, for example investments decisions may, depending on their main objective, consider the extent to which a proposal helps to prevent climate change, or the extent to which a proposal is resilient to the effects of climate change.

Background papers

1. None

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