

Audit Governance & Standards Committee

18th January 2016

Is the final decision on the recommendations in this report to be made at this meeting?

No

Treasury Management Strategy 2016/17

Final Decision-Maker	Council
Lead Director or Head of Service	Paul Riley, Head of Finance & Resources
Lead Officer and Report Author	John Owen, Finance Manager (Systems)
Classification	Non-Exempt
Wards affected	All Wards

This report makes the following recommendations to the this committee:

That the Audit, Governance and Standards Committee recommends to Council the adoption of the Treasury Management Strategy for 2016/17 at Appendix A, in accordance with CIPFA's Code of Practice on Treasury Management subject to the possible amendments set out in paragraph 2.7 and Appendix C of this report, following approval of the capital programme for 2016/17 onwards by Policy & Resources Committee on 27th January 2016.

This report relates to the following corporate priorities:

The Treasury Management Strategy impacts upon all corporate priorities through the resource it provides from the investment of the council's balances and the security and control it provides for decisions on borrowing and investment. These resources are incorporated in the council's budget

Timetable

Meeting	Date
Policy and Resources Committee	27 th January 2016
Council	2 nd March 2016

Treasury Management Strategy 2016/17

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The Audit, Governance & Standards Committee considers the draft Treasury Management Strategy Statement as set out in Appendix A and associated appendices to this report, for recommendation to Council
 - 1.2 The Council adopted CIPFA's Code on Treasury management (the Code) which requires an annual report on the strategy and plan to be pursued within the coming year to be made to full Council. This report considers the proposed strategy for 2016/17 onwards along with current guidance from CIPFA and the Department for Communities and Local Government (DCLG).
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2. INTRODUCTION AND BACKGROUND

- 2.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. The Treasury Management Strategy assists the Council in achieving this objective while maintaining value for money.
- 2.2 The first function of the Council's treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 2.3 The second main function of the Council's treasury management operation is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses.

CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

- 2.4 The strategy for 2016/17 has not altered significantly from the 2015/16 strategy, which was reviewed by this Committee and agreed by Council in March 2015 then monitored by his Committee mid-year.
- 2.5 The strategy is set out at **Appendix A** to this report. It is consistent with the requirements of the CIPFA and DCLG. It has been developed in line with currently approved spending and financing proposals.

- 2.6 The Policy & Resources Committee will consider a capital programme for the period 2016/17 to 2020/21 at its meeting on 27th January 2016. This programme proposes a significant increase in prudential borrowing to support the regeneration and commercial objectives of the Council. Should this programme be endorsed the prudential borrowing limits set out in the attached strategy will require amendment before consideration by Council.
- 2.7 The maximum prudential borrowing and other funding that will be proposed in the draft capital programme is as follows:

	2016/17 £	2017/18 £	2018/19 £
Prudential Borrowing	11,950,000	16,000,000	11,000,000
Other Funding Streams	10,027,400	4,077,000	2,865,000
Total Programme	21,977,400	20,077,000	13,865,000

- 2.8 Should the Policy and Resources Committee approve this change to the requirement for prudential borrowing then the current prudential indicators set out in the strategy attached at **Appendix B** will be amended. These are shown within **Appendix C**.

3. AVAILABLE OPTIONS

- 3.1 **Option 1:** The Committee could decide not to recommend the strategy to Council. The Council must adopt a strategy for 2016/17 and should the Committee decide not to recommend the attached strategy it would need to recommend an alternative to Council. The strategy is in line with the necessary codes and practice guides and takes a low risk approach favouring liquidity over return and as such is considered suitable for this Council.
- 3.2 **Option 2:** Subject to any legal obligations placed upon the Council, the Committee could amend the strategy prior to recommendation to Council. The Committee would need to provide Council with detailed reasons for the amendment and the risks and benefits that the proposed amendment provides in order for the Council to make a fully informed decision on the recommendation. Areas where amendments could be made include the following, which are detailed along with current reasons for not changing the current strategy.
- 3.2.1 Limits - the proposed strategy allows maximum investments with certain institutions of £8m. The current limit could be retained, increased or reduced. Given the difficulty in identifying opportunities to lend at suitable rates within the counterparty list, it is considered appropriate to incorporate sufficient flexibility by retaining the current limit for investments with the most secure organisations.

- 3.2.2 Counterparties - the proposed strategy allows non-specified investments with other local authorities and the top five building societies. The strategy could propose to utilise additional counterparties from the non-specified investments group. However, due to the fact that this would involve an increased level of risk to the security of the council's cash, this is not considered to represent a prudent course of action.
- 3.2.3 Alternative use of cash - the resources invested in expenditure could be utilised to deliver key priority outcomes. However the core cash held by the Council is either set aside for future expenditure, such as the capital programme, or held as a form of risk mitigation, such as the minimum level of revenue balances. To utilise these resources for alternative projects could compromise liquidity and put the Council at future risk should an unforeseen event occur.
- 3.2.4 External Fund Managers – by appointing external managers local authorities may possibly benefit from security of investments, diversification of investment instruments, liquidity management and the potential of enhanced returns. Managers do operate within the parameters set by local authorities but this involves varying degrees of risk. This option has been discounted on the basis of the risk which would make it difficult to ascertain a suitable sum to assign to an external manager.

3.3 **Option 3:** The Committee could agree the attached strategy and recommend it to Council. The attached strategy has been produced in line with current guidance from CIPFA and the Department for Communities and Local Government (DCLG) and has been reviewed by the Council's Treasury Management Advisors and their recommended amendments have been taken into account.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The recommended option is Option 3, to recommend to Council the strategy set out in Appendix A. In agreeing the proposed or any other recommendation the Committee should note the potential change in the level of prudential borrowing as set out in paragraph 2.7 and the amended indicators set out in paragraph 2.8.
 - 4.2 The amendments are expected maximum levels and the final decision of Policy and Resources could be a level of prudential borrowing somewhere in between the current £6m and the figures set out above. Any such changes would need to be made to the strategy prior to presentation to Council.
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5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The attached strategy is in line with current guidance and will be considered by Policy & resources Committee when that committee considers the future capital programme.
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6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 The final decision on the strategy will be made by Council on 2 March 2016 when it considers the 2016/17 budget and strategic plan update. All three strategies are interlinked and the Council meeting will be able to consider the cross strategy implications of each decision.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Treasury Management Strategy impacts upon all corporate priorities through the resource it provides from the investment of the council's balances and the security and control it provides for decisions on borrowing and investment. These resources are incorporated in the council's budget	Head of Finance & Resources
Risk Management	Risk Management is included within the Treasury Management Practices which the council adheres to. The main risks to the council are counterparty risk, liquidity risk and interest rate risk which are closely monitored on a regular basis using the council's treasury advisors and other market intelligence. If there is a possibility of a negative risk, the appropriate action is taken immediately through delegated authority.	Head of Finance & Resources
Financial	Financial implications are dealt with in the strategy	Head of Finance & Resources
Staffing	None	Head of Finance & Resources
Legal	Legal implications are set out in the body of the strategy.	Head of Finance & Resources
Equality Impact Needs	None	Head of Finance &

Assessment		Resources
Environmental/Sustainable Development	None	Head of Finance & Resources
Community Safety	None	Head of Finance & Resources
Human Rights Act	None	Head of Finance & Resources
Procurement	None	Head of Finance & Resources
Asset Management	None	Head of Finance & Resources

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Treasury Management Strategy 2016/17
- Appendix B: Prudential Indicators – Current Strategy
- Appendix C: Prudential Indicators – Proposed Strategy

9. BACKGROUND PAPERS

None