

AUDIT, GOVERNANCE AND STANDARDS COMMITTEE

16 January 2017

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

No

Treasury Management Strategy 2017/18 – Revised Report

Final Decision-Maker	Council
Lead Director	Mark Green, Director of Finance & Business Improvement
Lead Officer and Report Author	John Owen, Finance Manager Ellie Dunnet, Chief Accountant
Classification	Public
Wards affected	None

This report makes the following recommendations to this Committee:

1. That the Audit, Governance and Standards Committee recommends the adoption of the Treasury Management Strategy for 2017/18 attached at **Appendix A** to this report, subject to potential amendments arising following the approval of the capital programme for 2017/18 onwards by the Policy & Resources Committee on 18 January 2017.

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
Audit, Governance and Standards Committee	16 Jan 2017
Council	1 March 2017

Treasury Management Strategy 2017/18

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report sets out the Draft Treasury Management Strategy for 2017/18 for consideration by the Audit, Governance & Standards Committee and subsequently, recommendation to Council for adoption. The strategy statement and associated documents are attached at appendices A-C to this report.
 - 1.2 The Council has 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 2017/18 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 treasury management service 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. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 2.4 The council has adopted the Treasury Management in Public Services: Code of Practice 2011 Edition ('the Code') issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). 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."
- 2.5 There have not been any significant revisions to the strategy for 2017/18 from the 2016/17 strategy, which was reviewed by this Committee and

agreed by Council in March 2016 then monitored by his Committee mid-year. However, the following changes should be noted:

- The maximum principal sums to be invested for a period exceeding 364 days has been reduced to £5m from £8m. This is consistent with the borrowing strategy to utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate;
- The council will endeavour to further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments are considered;
- Changes to the capital financing requirement are proposed in light of updated capital plans. The proposed limit on prudential borrowing has been revised accordingly, as set out in paragraph 2.9;
- The expected level of interest income to be generated through investment returns has been revised downwards in light of the current economic outlook and interest rate forecasts.

2.6 The strategy statement 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.

2.7 **Appendix B** details the proposed list of investment counterparties based on current ratings against the selection criteria set out in the strategy.

2.8 The Policy & Resources Committee will consider a capital programme for the period 2017/18 to 2021/22 at its meeting on 18th January 2017. This programme proposes a significant increase in prudential borrowing to support the housing development and regeneration objectives of the Council. Should any changes to this programme be agreed at this meeting then the prudential borrowing limits set out in the attached strategy will require amendment before consideration by Council.

2.9 The following table shows the maximum and expected prudential borrowing required to fund the draft capital programme. The maximum borrowing limit excludes any internal borrowing:

	2017/18 £	2018/19 £	2019/20 £
Capital Programme	13,045,870	16,432,000	14,695,000
Other Funding Streams (incl. New Homes Bonus)	(12,016,000)	(3,859,000)	(3,735,000)
Maximum Prudential Borrowing	1,029,870	12,573,000	10,960,000
Estimated Internal Borrowing	(1,029,870)	(3,570,130)	0
Expected Borrowing	0	9,002,870	10,960,000

2.10 The prudential indicators for the proposed strategy are set out within **Appendix C** to this report.

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 2017/18 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 rated/unrated building societies that are within Arlingclose's suggested counterparty list. 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 this option the committee should note the potential change in the level of prudential borrowing if there are any changes to the council's proposed capital spending plans.

4.2 As stated above, the proposed strategy has been produced in line with current guidance from CIPFA and the Department for Communities and Local Government (DCLG).

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

5.1 No specific consultation has been undertaken in relation to this strategy, however this forms part of the council's medium term financial strategy for 2017/18 for which detailed consultation has been undertaken.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 The final decision on the strategy will be made by Council on 1 March 2017 when it considers the 2017/18 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.	Director of Finance and Business Improvement
Risk Management	Risk Management is included	Director of

	<p>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.</p>	Finance and Business Improvement
Financial	Financial implications are covered within the strategy itself.	Director of Finance and Business Improvement
Staffing	None identified.	Director of Finance and Business Improvement
Legal	Legal implications are set out in the body of the strategy.	Director of Finance and Business Improvement
Equality Impact Needs Assessment	None identified.	Director of Finance and Business Improvement
Environmental/Sustainable Development	None identified.	Director of Finance and Business Improvement
Community Safety	None identified.	Director of Finance and Business Improvement
Human Rights Act	None identified.	Director of Finance and Business Improvement
Procurement	None identified.	Director of Finance and Business Improvement
Asset Management	None identified.	Director of Finance and

		Business Improvement
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8. REPORT APPENDICES

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

- Appendix A: Treasury Management Strategy Statement
 - Appendix B: Proposed List of Investment Counterparties
 - Appendix C: Prudential Indicators
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9. BACKGROUND PAPERS

None