Report to the Council

Committee: **Cabinet** **Date: 18 February 2016**

Subject: **Treasury Management Strategy Statement and Investment Policy 2016/17 – 2018/19**

Portfolio Holder: **Councillor S Stavrou (Finance)**

Recommending:

(1) That, after amendment where necessary, the Council approves and adopts the following:

> **(a) the Treasury Management Strategy Statement and Annual Investment Strategy 2016/17 to 2018/19;**
>
> **(b) the Minimum Revenue Provision (MRP) Strategy;**
>
> **(c) the Treasury Management Prudential Indicators for 2016/17 to 2018/19;**
>
> **(d) the average interest earned for the year on the Council's investments as the rate of interest to be applied to any inter-fund balances; and**
>
> **(e) the Treasury Management Policy Statement.**

<u>Introduction</u>

1. The Council's Treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2011). There is a requirement for the Council to approve its Treasury Management and Investment Strategies, Prudential Indicators, and the Minimum Revenue Provision Strategy before the start of each financial year.

2. The Strategy was prepared in line with advice from our treasury advisors Arlingclose. The attached report at Appendix 1 shows the Treasury Management Strategy Statement and Annual Investment Strategy for the period 2016/17 to 2018/19.

3. There has been a major change to the Strategy from that approved in February 2015; namely, that the Cash Limits on pages 5 and 8 have been reduced in response to advice. However, Members should be aware of the following:

<u>Minimum Revenue Provision</u>

4. Each year the Council has to approve at Full Council its statement on the Minimum Revenue Provision (MRP). In previous years the Council has been debt free and therefore, we did not have to provide MRP in our accounts. However, the

Council took on debt of £185.5million for the self-financing of the Housing Revenue Account and this would normally require the local authority to charge MRP to the General Fund. The Department of Communities & Local Government (DCLG) have produced regulations to mitigate this impact, whereby the Council can ignore the borrowing incurred in relation to the Housing Self-financing initiative when calculating MRP and therefore, (for MRP purposes only) the Council is classed as debt free and do not have to make provision for MRP. However, the Council may undertake additional borrowing before or after additional capital spending. This will likely require a Minimum Revenue Provision in the year following, 2017/18.

Inter-fund Balances

5. The Council has inter-fund borrowed for many years between the General Fund and Housing Revenue Account and the interest charge made between the funds has been based on the average interest earned on investment for the year. Under draft regulations issued by CIPFA, it is now proposed that the interest rate applicable to any inter-fund borrowing should be approved by Full Council before the start of the financial year. As the Council has been undertaking inter-fund borrowing for many years, it is proposed to continue to use the average interest earned for the year on investments as the rate for any inter-fund borrowing.

Policy Statement

6. The Treasury Management Policy Statement is a high level statement setting out how the Council Treasury function will be undertaken. The Policy Statement was last updated as part of the 2015/16 Treasury Strategy. The Policy is attached at Appendix G for the Council to consider, but no amendments are currently proposed.

Current Investments

7. The Council’s investments are all denominated in UK sterling and the treasury officers receive regular information from our treasury advisors on the latest position on the use of Counterparties.

8. The latest information supplied is as follows:

(a) UK Banks and Building Societies:

- A maximum maturity limit of between 35 days and 13 months is now applicable;

- A maximum maturity limit of 13 months to Bank of Scotland, Lloyds TSB, HSBC Bank plc;

- A maximum maturity limit of 6 months to Santander UK,Nationwide Building Society and Standard Chartered;

- A maximum maturity limit of 100 days applies to Barclays plc; and

- A maximum maturity limit of 35 days applies to RBS and NatWest.

(b) European Banks:

- A maximum maturity limit of 100 days applies to Credit Suisse and ING Bank; and

- A maximum maturity limit of 13 months applies to Nordea, Rabobank, Nederlandse Gemeenten and Handelsbanken.

(c) Non European Banks:

- A maximum maturity limit of 6 months applies to Australian, 13 months to Canadian and US and other banks that are on our list.

(d) Money Market Funds:

- A maximum exposure limit of £5m of our total investment per MMF.

9. The Council currently has an investment portfolio of £54.6million; this will vary from day to day, depending on the cash flow of the authority. A breakdown of this portfolio by Country and length of time remaining on investments are shown in the two tables below.

Country of counterparty	**£m**
United Kingdom	54.6
Channel Islands	0.0
Canada and United States of America	0.0
Australia	0.0
Ireland	0.0
Sweden	0.0
Total	**54.6**

Current maturity profile of investments	**£m**
Overnight (Call / Money Market Fund)	13.6
Up to 7 days	0.0
7 days to 1 month	8.0
1 month to 3 months	17.0
3 months to 6 months	6.0
6 months to 9 months	0.0
9 months to 1 year	10.0
Greater than 1 year	0.0
Total	**54.6**

<u>The Views of the Audit & Governance Committee</u>

10. The Audit & Governance Committee considered the Treasury Management Strategy Statement and Investment Strategy at its meeting on 1 February 2016. The Committee noted the Council's arrangements for the management of risks associated with its Treasury Management activity, as set out within the proposed Treasury Management Strategy Statement and Investment Policy for the period 2016/17 to 2018/19. The Committee also felt that the Council was maintaining a

relatively low risk strategy, which had been a consistent theme for a number of years for the Council's Treasury Management function. In addition, the Committee recognised that the Council was currently aiming to:

(i) diversify from solely investing with banks;

(ii) maintain liquidity; and

(iii) improve the return from capital investments.

Conclusion

11. We recommend as set out at the commencement of this report.