

Report to the Council

Committee: Cabinet **Date:** 21 February 2017
Subject: Treasury Management Strategy Statement 2017/18
Portfolio Holder: Councillor G Mohindra (Finance)

Recommending:

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

- (a) Treasury Management Strategy Statement 2017/18;**
 - (b) Minimum Revenue Provision (MRP) Strategy;**
 - (c) Treasury Management Prudential Indicators for 2017/18 to 2019/20;**
 - (d) The rate of interest to be applied to any inter-fund balances; and**
 - (e) The Treasury Management Policy Statement.**
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Introduction

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 Council to approve its treasury and investment strategy and prudential indicators each 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 2017/18.

3. There have been no major changes to the Strategy from the current Strategy approved in February 2016. However, Members should be aware of the following matters.

Minimum Revenue Provision

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. The Council took on debt of £185.5m in 2012 and this would normally require the local authority to charge MRP to the General Fund. CLG have produced regulations to mitigate this impact, whereby we can ignore the borrowing incurred in relation to the Housing Self-

financing when calculating MRP and therefore, (for MRP purposes only) we are 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 require a Minimum Revenue Provision in the year following, so if we borrow in 2017/18 MRP will be necessary in 2018/19.

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 2016/17 Treasury Strategy. The Policy is attached at Appendix G for Cabinet to consider, 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:

❖ **UK Banks and Building Societies:**

(1.) A maximum maturity limit of between 35 days and 13 months is now applicable;

(2.) A maximum maturity limit of 13 months to Bank of Scotland, Lloyds TSB, HSBC Bank plc;

(3.) A maximum maturity limit of 6 months to Santander UK, Nationwide Building Society, Coventry Building Society and Close Brothers;

(4.) A maximum maturity limit of 100 days applies to Barclays plc and most building societies;

(5.) A maximum maturity limit of 35 days applies to RBS and NatWest.

❖ **European Banks:**

(1.) A maximum maturity limit of 100 days applies to Credit Suisse, Danske Bank and ING Bank;

(2.) A maximum maturity of 6 months applies to Op Corporate Bank and Landesbank Hessen-Thuringen;

(3.) A maximum maturity limit of 13 months applies to Nordea, Rabobank and Handelsbanken.

❖ **Non European Banks:**

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

❖ **Money Market Funds:**

(1.) A maximum exposure limit of £5m of our total investment per MMF

9. As at 31 December the Council had an investment portfolio of £48.5m, 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	46.5
Sweden	2.0
Total	48.5

Current maturity profile of investments	£m
Overnight (Call / Money Market Fund)	15.5
Up to 7 days	1.0
7 days to 1 month	18.0
1 month to 3 months	14.0
3 months to 6 months	0.0
6 months to 9 months	0.0
9 months to 1 year	0.0
Greater than 1 year	0.0
Total	48.5

The View of the Audit & Governance Committee

10. The Audit & Governance Committee considered the Treasury Management Strategy Statement for 2017/18 at its meeting held on 6 February 2017. The Committee noted the Council's arrangements for the management of the risks associated with its Treasury Management activity.

11. The Committee also noted that the Council was a relatively risk adverse local authority, and no problems were currently foreseen with the degree of borrowing that was proposed to finance the Capital Programme in future years. It was the intention for future borrowing to only be undertaken on revenue generating schemes, which would ultimately strengthen both the balance sheet and revenue position of the Council, and this would offset the risk of future reductions in the Council's Revenue Support from Government.

12. Overall, the Committee was content with the Strategy as presented, as it represented a continuation of the prudent approach which had been a consistent theme for the Council's Treasury Management function for a number of years.

Conclusion

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