

## **TREASURY MANAGEMENT**

<u>Report of the:</u>	Director of Finance and Resources
<u>Contact:</u>	Lee Duffy, Head of Financial Services
<u>Urgent Decision?(yes/no)</u>	No
<u>If yes, reason urgent decision required:</u>	N/A
<u>Annexes/Appendices (attached):</u>	Treasury Management Strategy Statement
<u>Other available papers (not attached):</u>	Treasury Policy Statement Guidance Notes and Procedures

### **REPORT SUMMARY**

**This reports sets out the updated Treasury Management Strategy Statement 2016/17 to 2018/19.**

### **RECOMMENDATION (S)**

**That the Committee:**

**(1) Approves:**

- (a) the Capital Prudential Indicators and Limits for 2016/17 to 2018/19 contained within the Treasury Management Strategy Statement (Section 2);**
- (b) the Treasury Management Strategy 2016/17 to 2018/19 and the treasury Prudential Indicators contained within it (Section 3);**
- (c) the Investment Strategy 2016/17 contained within the Treasury Management Strategy Statement (Section 4);**
- (d) the treasury management practices as set out in Appendix 2 to the Treasury Management Strategy Statement; and**

**(2) Recommends to Council the adoption of the updated Treasury Management Strategy Statement 2016/17 to 2018/19.**

*Notes*

## **1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy**

- 1.1 The Council's Treasury Management Strategy supports the achievement of the Council's Medium Term Financial Strategy. The Council holds investments an average balance of around £20m, but fluctuates depending upon the level of reserves and cash flow surpluses. Depending on investment returns, the Council uses around £200,000 of interest per annum to finance Council services or to maintain the value of provisions for future expenditure and commitments.

## **2 Background**

- 2.1 The Treasury Management Strategy sets out the management of risks associated with the treasury management service.
- 2.2 The Council is required to prepare a Financial Strategy for Treasury Management in line with CIPFA Prudential Code and Code of Practice on Treasury Management.
- 2.3 A number of Treasury Management indicators and limits were approved by Council in February 2016.
- 2.4 The Treasury Management and Investment Strategies set out in the Annexe to this report are compliant with CIPFA Code of Practice on Treasury Management

## **3 Treasury Management Strategy 2016/17 to 2018/19**

- 3.1 The Treasury Management Strategy is set out in the attached Annexe to this report.
- 3.2 The focus of the new strategy remains primarily on safeguarding sufficient of the Council's balances in secure and liquid investments to ensure overall stability. However, it is recommended that on the overall balance of funds of c£20 million, £2.5 million could be diverted in the interest of securing higher return and providing a more substantial return for the Council's revenue account.
- 3.3 The new strategy allows for a number of options will be explored to generate returns in excess of current levels. These options include extending the investment portfolio through **longer term investments** and the **use of property funds**. For example an investment of £2.5 million with an annual yield of 5% will generate income of £125,000 which is six times the current average.
- 3.4 Included within the Strategy are the borrowing limits and borrowing and investment parameters required by the Prudential Code which were approved by Council on 11 February 2016.

#### **4 Treasury Management Arrangements**

- 4.1 Since November 2007 all external funds have been managed by one fund manager currently Aberdeen Asset Management. The majority of internal funds have been invested in two Money Market Funds, two interest bearing accounts and in several fixed term deposits.
- 4.2 An interim report on the performance of investments for 2015/16 was given to the Financial Policy Panel on 13 October 2015. A further report will be presented to this Committee in June 2016 detailing the overall performance of investments for the year.
- 4.3 The overall investment returns for 2015/16 are estimated at 0.77%. Both externally and internally managed investments are expected to be above the seven day London Interbank Bid (LIBID) benchmark.
- 4.4 The Council will continue to use Money Market Funds for investing short term funds. Current returns on these accounts are at similar levels to that being offered by interest bearing bank accounts, but these accounts also allow for amounts invested to be recalled or increased during the year with no notice required, improving the efficiency of the treasury management function and spreading the investment across a number of counterparties held within the fund. The individual performance of the internally invested funds in 2015/16 will be assessed against alternative funds as part of the end of the year performance review.

#### **5 Treasury Management Policy**

- 5.1 In accordance with the requirements of the Prudential Code and the revised CIPFA Code of Practice on Treasury Management, the Treasury Management Policy and Practices were updated and presented to this Committee in March 2015. There are no changes to update in the policy.

#### **6 Proposals**

- 6.1 The Committee is recommended to approve each of the key elements of these reports:
  - 6.1.1 The Prudential Indicators and Limits for 2016/17 to 2018/19 contained within the Treasury Management Strategy Statement (Section 2).
  - 6.1.2 The Treasury Management Strategy 2016/17 to 2018/19 and the treasury Prudential Indicators contained within the Treasury Management Strategy Statement (Section 3).
  - 6.1.3 The Annual Investment Strategy 2016/17 contained within the Treasury Management Strategy Statement (Section 4).
  - 6.1.4 The treasury management practices as set out in Appendix 2 to the Treasury Management Statement

## **7 Financial and Manpower Implications**

- 7.1 Expenses on the Treasury Management Strategy and Policy will be managed within the budget provision of £34k for fund management fees and for treasury management advice.
- 7.2 The treasury management arrangement will help secure the Council's investment (currently £24m) and assist in generating budgeted returns to help fund services during the year.

## **8 Legal Implications (including implications for matters relating to equality)**

- 8.1 There are no implications for the purpose of this report.
- 8.2 ***Monitoring Officer's comments:*** *None for the purposes of this report*

## **9 Partnerships**

- 9.1 The Council works in partnership with the fund manager and the treasury consultants. The extent of the working relationship with the fund manager will be reviewed as part of the tender process.

## **10 Risk Assessment and Conclusion**

- 10.1 The attached Annexe sets out the Financial Strategy for Treasury Management, which aims to ensure maximum return on investments for the Council within reasonable risk constraints

**WARD(S) AFFECTED: All**