

**TREASURY MANAGEMENT STRATEGY STATEMENT 2017/18 TO 2019/20**

<u>Report of the:</u>	Director of Finance and Resources
<u>Contact:</u>	Lee Duffy
<u>Urgent Decision?(yes/no)</u>	No
<u>If yes, reason urgent decision required:</u>	N/A
<u>Annexes/Appendices (attached):</u>	<b>Annexe 1</b> - Changes to Treasury Management Strategy from 2016/17 <b>Annexe 2</b> - Treasury Management Strategy Statement
<u>Other available papers (not attached):</u>	None stated

**REPORT SUMMARY**

**This reports sets out the updated Treasury Management Strategy Statement 2017/18 to 2019/20.**

**RECOMMENDATION (S)**

*Notes*

**(1) That the Committee approves:**

- (a) the Capital Prudential Indicators and Limits for 2017/18 to 2019/20 contained within the Treasury Management Strategy Statement (Section 2 and 5);**
- (b) the Treasury Management Strategy 2017/18 to 2019/20 and the Treasury Prudential Indicators contained within it (Section 3);**
- (c) the Borrowing Strategy contained within the Treasury Management Statement (Section 3);**
- (d) the Investment Strategy 2017/18 contained within the Treasury Management Strategy Statement (Section 4), including changes to counterparty limits;**
- (e) the Minimum Revenue Provision (MRP) policy statement contained within the Treasury Management Strategy Statement (Section 5);**

<p>(f) the treasury management practices as set out in Section 7 of the Treasury Management Strategy Statement; and</p> <p>(2) Recommends to Council the adoption of the updated Treasury Management Strategy Statement 2017/18 to 2019/20.</p>	
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## **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.
- 1.2 The Council holds investments an average balance of around £30m, but fluctuates depending upon the level of reserves and cash flow surpluses. Depending on investment returns, the Council budgets to use around £200,000 of interest per annum to finance Council services or to maintain the value of provisions for future expenditure and commitments.
- 1.3 The Council recently secured borrowing to finance the purchase of two commercial properties costing c£19 million, in February 2017 Council agreed that borrowing can increase to up to £80 million to fund further property acquisitions.

## **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 2017.
- 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 2017/18 to 2019/20**

- 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.

- 3.3 Since 2008 there has been a reduction in confidence in financial institutions which has led to a substantial drop in the number of eligible counterparties that the Council can use for investments. Consequently this has made it more difficult to find investments that meet the credit rating criteria whilst delivering comparatively good returns and remaining within individual counterparty limits.
- 3.4 External financial advice has been sought from Capita and two options were put forward. The options were to reduce our credit rating criteria which will allow the Council to invest with lower quality counterparties with a higher risk of default higher risk counterparties but increase the number of institutions eligible for investments.
- 3.5 The second and preferred option is to increase the individual counterparty limit from £2.5 million to £5 million which will maintain the quality of financial institutions with which the Council has funds invested.
- 3.6 This increase to £5 million would return counterparty limits back to a level that was used within its approved treasury management strategy in 2003/04 when it was permitted to invest up to £5 million with English or Scottish clearing banks and £3 million with the top 10 building societies.
- 3.7 Included within the new Strategy are the borrowing limits and borrowing and investment parameters required by the Prudential Code which were approved by Council on 14 February 2017.

#### **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, an interest bearing account and in several fixed term deposits.
- 4.2 An interim report on the performance of investments for 2016/17 was given to the Financial Policy Panel on 27 October 2016. A further report will be presented to this Committee in June 2017 detailing the overall performance of investments for the year.
- 4.3 The overall investment returns for 2016/17 are estimated at 1%. Both externally and internally managed investments are expected to be significantly 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 2016/17 will be assessed against alternative funds as part of the end of the year performance review.

- 4.5 The Council at its meeting in February 2017 approved total borrowing of up to £80 million and at the time of writing this report has taken out two 50 year loans with the PWLB totalling £19.2 million to fund the acquisition of two commercial properties.

## 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 have been updated to include new procedures on borrowing and these can be found within the attached Treasury Management Strategy.

## 6 Proposals

- 6.1 The Committee is recommended to approve each of the key elements of these reports, including changes to counterparty limits:
- 6.1.1 The Prudential Indicators and Limits for 2017/18 to 2019/20 contained within the Treasury Management Strategy Statement (Sections 2 and 5).
  - 6.1.2 The Treasury Management Strategy 2017/18 to 2019/20 and the Treasury Prudential Indicators contained within the Treasury Management Strategy Statement (Section 3).
  - 6.1.3 The Borrowing Strategy contained within the Treasury Management Statement (Section 3)
  - 6.1.4 The Annual Investment Strategy 2017/18 contained within the Treasury Management Strategy Statement (Section 4).
  - 6.1.5 The Minimum Revenue Provision (MRP) policy statement contained within the Treasury Management Strategy Statement (Section 5);
  - 6.1.6 The treasury management practices as set out in Section 7 of the Treasury Management Statement.
- 6.2 **Chief Finance Officers comments:** *Concur with information presented in report.*

## 7 Financial and Manpower Implications

- 7.1 Expenses on the Treasury Management Strategy and Policy will be managed within the budget provision of £42k for fund management fees and for treasury management advice for both borrowing and investing.
- 7.2 The treasury management arrangement will help secure the Council's investment (around £30m), assisting in generating budgeted returns to help fund services during the year whilst maintaining that investments are held with secure counterparties.

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

8.1 There are no specific implications for the purposes of this report.

8.2 ***Monitoring Officer's comments:*** *The legal requirements in respect of treasury management have been properly considered in the preparation of the Strategy.*

**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 Conclusion and Recommendations**

10.1 The attached **Annexe 2** sets out the Financial Strategy for Treasury Management, which aims to ensure maximum return on investments for the Council within reasonable risk constraints and ensure funding is available for approved property acquisitions.

**WARD(S) AFFECTED: (All Wards);**