Chiltern District Council
Council 24 February 2016

SUBJECT:	**Treasury Management Strategy 2016/17**
REPORT OF:	Resources Portfolio Holder – Cllr M Stannard
RESPONSIBLE OFFICER	Director of Resources
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WARD/S AFFECTED	All

1. Purpose of Report

1.1 To agree the Treasury Management Strategy and related policies that should be adopted by the Council for 2016/2017.

RECOMMENDATION

That the Annual Treasury Management Strategy for 2016/17 be approved, including the following appendices to the Annual Investment Strategy (Appendix 1):

Appendix 1A - Annual Investment Strategy Policies
Appendix 1B - Prudential Indicators including the borrowing limits
Appendix 1C - the MRP method to be used in 2016/17.

2. Executive Summary

2.1 The Council is required to formally review its treasury management policies each year as part of determining what level of returns will be achieved from investments. The format of the treasury management policies is defined by the Code of Practice adopted by the Council, and is required to be approved by the Council on recommendation from the Cabinet.

2.2 The treasury management policies underpin the strategy for the year in question, which seek to achieve a level of investment return.

3. Background

3.1 The Council adopted the CIPFA code of practice on Treasury Management in June 2002, which includes the creation of a Treasury Management Strategy, which sets out the policies, and objectives of the Council's treasury management activities for the year ahead.

4. Treasury Management Strategy 2016/17

4.1 The Treasury Management Strategy 2016/17 is attached as Appendix 1. In essence the proposed strategy is as follows, and makes appropriate recognition of the Government's advice to prioritise security and liquidity over returns.

- Basic cashflow requirement of up to £6m which will not be invested for more than one year, expected return averaging 0.5%

- Core investment cash of £15m, of which £9m can be invested for durations longer than two years.
- The long term investments can include property and bond funds and could be expected to deliver returns of at least 3%.

The expected return for 2016/17 from the proposed strategy is £140,000.

5. Consultation

5.1 Consultation is with the Resources Overview Committee within the framework set by the Code of Practice.

6. Options

6.1 The framework set by the Code of Practice means that options effectively relate to the judgements and risk assessments made when finalising the Strategy around likely returns, counterparty risks, and liquidity issues related to the level of available cash balances.

7. Corporate Implications

7.1 The budget for investment interest was set as £110,000 for 2015/16. Current estimated returns shows that this budget will be exceeded.

7.2 For 2016/17 investment income will be based on total core cash reserves of £15m. In addition officers invest surplus cash flow during the year and estimated returns for these sums are based on short-term interest rates remaining less than 1%. The duration of investments will be influenced by the Council's Medium Term Financial Strategy and in particular the Capital Prgramme.

7.3 Based upon the recommendations outlined in the Treasury Management Strategy 2016/17 attached the estimated investment return for 2016/17 is £140,000.

7.4 This target for investment income reflects the latest forecasts for interest rates. It is regarded as realistic and achievable. Loss of £44K of investment income is equal to £1 Council Tax on a band D property.

7.5 As with any budget based on forecasts of future interest rates there is a risk of variation due to factors outside of the Council's control. This risk will need to be taken into account in determining the level of reserves held by the Authority.

7.6 The Local Government Act 2003 requires the Council to have regard to the Prudential code and to set Prudential Indicators for the next 3 years to ensure that the Council's capital investments plans are affordable, prudent and sustainable.

7.7 The Act requires the Council to set out its Treasury Strategy and to prepare an Annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

7.8 It is a statutory requirement under section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, section 32 requires a local authority to calculate its budget requirements for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- loss of investment interest caused by the use of capital receipts to finance additional capital expenditure.
- any increases in running costs from new capital projects.

are limited to a level which is affordable within the projected income of the Council for the foreseeable future as part of the Council's overall Financial Strategy.

7.9 The CLG's investment guidance states that authorities could combine the Treasury Strategy Statement and the Annual Investment Strategy (AIG) into one report. The Treasury Management Strategy 2016/17 document is attached to this report (Appendix 1).

8. Links to Council Policy Objectives

8.1 The Council's Treasury Management Strategy is a key element to the overall Financial Strategy.

9. Next Step

9.1 Following views from the Resources Overview Committee, the Strategy will be considered by the Cabinet in February. Cabinet will then recommend to the Council the Strategy.

9.2 The implementation and monitoring of the strategy and policy will be undertaken by reports to the Resources Overview Committee.

Background Papers:	None