

| | |
|----------------------------|---|
| SUBJECT: | TREASURY MANAGEMENT STRATEGY 2018/19 |
| REPORT OF: | Support Services Portfolio Holder – Cllr M Stannard |
| RESPONSIBLE OFFICER | Director of Resources |
| REPORT AUTHOR | Helen O’Keeffe, Principal Accountant, hokeeffe@chiltern.gov.uk, 01494 732781 |
| WARD/S AFFECTED | All |

1. Purpose of Report

The Cabinet at the meeting held on 6 February 2018 agreed to recommend to Council that the Treasury Management Strategy and related policies be adopted for 2018/2019. The report was also considered by the Resources Overview Committee on 23 January 2018.

RECOMMENDATION

1. **That the Treasury Management Strategy 2018/19 including the following appendices to the Treasury Management Strategy (Appendix 1) be adopted by the Council:**
 - **Appendix 1A - Annual Investment Strategy Policies**
 - **Appendix 1B - Prudential Indicators including the borrowing limits**
 - **Appendix 1C - the MRP method to be used in 2018/19.**

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 and efficiently manage any borrowing arising from the Council’s Capital Strategy. For 2017/18 there was a significant change in strategy as the Council borrowed funds to facilitate the building of the new Amersham Multi Storey Car Park. The Council had been debt free for many years so this represented a substantial change in approach. It is probable that borrowing will be undertaken in future years to facilitate other planned significant capital projects in accordance with the Capital Strategy. The Treasury Management Strategy and the Capital Strategy are two key related documents that underpins the Council’s compliance with the Prudential Code of Borrowing.

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.
- 3.2 The Code is currently under review, however until the results of the consultation are published the Council will continue to follow the key requirements of the latest version of the Code.

4. Treasury Management Strategy 2018/19

- 4.1 The Treasury Management Strategy 2018/19 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.
- Borrowing will be required in order to deliver the Council's Capital Strategy and its related capital programme. Borrowing will be entered into once significant capital projects have been approved.
 - Cash is unlikely to be available for investment over time periods greater than one year.
 - Interest rates are expected to increase slightly on previous years, although it will remain challenging to achieve high investment returns.
 - The expected return for 2018/19 from the proposed strategy is £90,000.

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 at £100,000 for 2017/18. The current estimated investment return shows that the budget is likely to be exceeded by a modest amount.
- 7.2 Budgeted investment income in 2018/19 is based on interest rates remaining just below 1%. Although borrowing will not be undertaken in advance of need, there will be some short term timing differences where funds will be borrowed and not yet required for the payment of suppliers. Any surplus funds will be invested on a short term basis until they are required.

- 7.3 Based upon the recommendations outlined in the Treasury Management Strategy the estimated investment return for 2018/19 is £90,000. This target for investment income reflects the latest forecasts for interest rates, and is regarded as realistic and achievable.
- 7.4 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.
- 7.5 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. This is particularly relevant now that the Authority has undertaken external borrowing.
- 7.6 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.
- 7.7 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.
 - any interest payable on loans
- 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 Medium Term Financial Strategy.
- 7.8 The CLG's investment guidance states that authorities could combine the Treasury Strategy Statement and the Annual Investment Strategy (AIS) into one report. The Treasury Management Strategy 2018/19 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 Medium Term Financial Strategy. The Treasury Management Strategy and the Capital Strategy are two key related documents that underpins the Council's compliance with the Prudential Code of Borrowing.

9. Next Step

- 9.1 If agreed by Council, the implementation and monitoring of the strategy and policy will be undertaken by reports to Cabinet.

| | |
|---------------------------|------|
| Background Papers: | None |
|---------------------------|------|