

<b>SUBJECT:</b>	Treasury Management Strategy 2017/18
<b>REPORT OF:</b>	Resources Portfolio Holder – Cllr T Egleton
<b>RESPONSIBLE OFFICER</b>	Director of Resources
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<b>WARD/S AFFECTED</b>	All

## 1. Purpose of Report

- 1.1 To advise the Portfolio Holder on the Treasury Management Strategy and related policies that should be adopted by the Council for 2017/2018.

### RECOMMENDATION

The PAG is requested to:

Advise the Portfolio Holder on the Treasury Management Strategy to **recommend** to Cabinet and Council, including approving 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 2017/18.

## 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. For 2017/18 there will be a significant change in strategy as it will be necessary to borrow funds to facilitate the planned capital programme. The Council has been debt free for many years so this represents a substantial change in approach.

## 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.

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**4. Treasury Management Strategy 2017/18**

4.1 The Treasury Management Strategy 2017/18 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 planned capital programme, and therefore in order to undertake prudential borrowing the Council needs to update its Treasury Management Strategy. Borrowing will be entered into once significant capital projects have been approved.
- Cash is unlikely to be available for investment over longer time periods.
- Interest rates are expected to remain low, and it will be challenging to achieve high investment returns.
- The expected return for 2017/18 from the proposed strategy is £200,000.

**5. Consultation**

5.1 Consultation is with the PAG 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 £430,000 for 2016/17. The current estimated investment return shows that there will be a shortfall against the budget of approximately £140,000.

7.2 Budgeted investment income in 2017/18 is based on interest rates remaining 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 2017/18 is £200,000.

7.4 This target for investment income reflects the latest forecasts for interest rates. It is regarded as realistic and achievable. Loss of £32K 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.

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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.
- 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.

7.9 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 2017/18 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.

## **9. Next Step**

9.1 Following views from the PAG, 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 PAG.

<b>Background Papers:</b>	None
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