

Treasury Management Strategy Statement and Investment Strategy 2018/19

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Purpose of the Report

1. This report has been prepared for Audit Committee which has been tasked with the scrutiny of treasury management and to recommend to full Council the Treasury Management Strategy Statement and Investment Strategy for 2018/19 and the Prudential Indicators and MRP statement.

Recommendation

- (a) To recommend the Treasury Management Strategy Statement and Investment Strategy for 2018/19 to full Council (Appendix 1)
- (b) To note the Capital prudential indicators and the annual MRP statement (This is to go to full council for approval. The figures within the report are provisional dependant on the report going to District Executive in Feb 2018 so it is anticipated that these will change) (Appendix 2)

Introduction

2. In April 2002 the Authority adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.
3. In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year.
4. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.
5. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.
6. CIPFA has just this month released an updated The Prudential Code for Capital Finance in Local Authorities (2017 Edition) (the "Prudential Code") and Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition) (the "Treasury Code"). This report reflects the requirements of the new Codes and supporting guidance.

Background

7. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "Treasury Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential

Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

8. CIPFA has defined Treasury Management as:

“the management of the organisation’s borrowing, investments and cash flows, its banking, its money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

9. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Specific treasury management risks are identified in the Council's approved Treasury Management Practices. The risks include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk (Fluctuations in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements).

10. The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out indicators that must be set and monitored each year.

11. The Treasury Management Strategy Statement is attached at Appendix 1 and is split into the following main areas:

- External Context
- Local Context
- Borrowing Strategy
- Investment Strategy
- Non-Treasury Investments
- Treasury Management Indicators
- Other Items

12. The capital prudential indicators and MRP Statement for 2018/19 is attached at Appendix 2 and is split into the following main areas:

- Capital prudential indicators
- Annual Minimum Revenue Provision Statement 2018/19

13. These are included in draft at this stage, and will potentially be amended for the report to Executive to reflect final budget proposals for 2018/19.

Financial Implications

14. The budget for investment income in 2018/19 is £727,820, based on an average investment portfolio of £48 million at an interest rate of 1.52%. The budget for minimum revenue provision (MRP) i.e. debt repayment in 2018/19 is £186,200. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Background Papers: *CIPFA Treasury Management Code of Practice*
CIPFA Prudential Code
Treasury Management Practices