

Treasury Management Strategy Statement and Investment Strategy 2016/17

Assistant Director Donna Parham, Finance and Corporate Services
Service Manager Donna Parham, Finance and Corporate Services
Lead Officer: Karen Gubbins, Principal Accountant – Exchequer
Contact Details: donna.parham@southsomerset.gov.uk or (01935) 462225

Purpose of the Report

This report has been prepared for Audit Committee who has been tasked with the scrutiny of treasury management and to recommend to full Council the Treasury Management Strategy Statement and Investment Strategy for 2016/17.

Recommendation

- (a) To recommend the Treasury Management Strategy Statement and Investment Strategy for 2016/17 to full Council; (Appendix 1)

Introduction

In March 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.

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.

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

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.

Background

The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM 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.

CIPFA has defined Treasury Management as:

"the management of the organisation's cash flows, its banking, 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."

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).

The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The proposed strategy for 2016/17 takes into account the Council's current treasury position and the approved Prudential Indicators and draws upon the forecasts for interest rates provided by the Council's treasury advisers.

The Strategy is attached at Appendix 1 and is split into the following main areas:

- Background
- Credit Outlook and Interest Rate Forecast
- Balance Sheet and Treasury Position
- Borrowing Requirement and Strategy
- Investment Strategy
- Policy on use of financial Derivatives
- Balanced Budget Requirement
- 2016/17 MRP Statement
- Monitoring and Reporting on Treasury Management
- Other Items

Financial Implications

The revised strategy will achieve the budget for new investments in 2016/17. If members would prefer to accept a more risk averse strategy we will be unable to achieve the Treasury Management Interest budget because the Authority will be restricted to counterparties who offer lower rates of return. In addition, there would be less diversification within the Council's portfolio, ultimately concentrating all risks within a select few counterparties.

Background Papers: *Cipfa Treasury Management Code of Practice*
Treasury Management Practices
Arlingclose Treasury Strategy Template
