

CABINET

14 February 2017

TREASURY MANAGEMENT STRATEGY 2017/18

Report of the Director for Resources

Strategic Aim:	Sound Financial and Workforce Planning	
Key Decision: Yes	Forward Plan Reference: FP/041116/07	
Exempt Information	No	
Cabinet Member(s) Responsible:	Councillor Tony Mathias, Leader and Portfolio Holder for Finance and Places (Highways, Transport and Market Towns)	
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Ward Councillors	N/A	

DECISION RECOMMENDATIONS

That Cabinet RECOMMENDS TO COUNCIL to approve the Treasury Management Strategy in Appendix 1, including the Investment Strategy, Borrowing strategy, Minimum Revenue Provision statement and Capital Expenditure Prudential indicators.

1 PURPOSE OF THE REPORT

1.1 This report sets out the expected treasury operations for 2017/18 to 2019/20, linked to the Council's Budget, Medium Term Financial Strategy and Capital Strategy. It is inextricably linked to delivering the Council's aims, priorities and values. It contains four key legislative requirements:

- The Treasury Management Strategy Statement which sets out how the Council's treasury service supports capital decisions, day to day treasury management and the limitations on activity through treasury prudential indicators. The key indicator is the Authorised Limit required by S3 of the Local Government Act 2003 and is in accordance with the CIPFA (The Chartered Institute of Public Finance & Accountancy) Codes of Practice. Any changes to the strategy during the year will be subject to the approval of members.

- The reporting of the prudential indicators for capital, external debt and the treasury management prudential indicators as required by the CIPFA Treasury Management Code of Practice.
- The investment strategy which sets out the Council's criteria for choosing investment counterparties and limiting exposure to the risk of loss. This strategy is in accordance with the Department for Communities and Local Government (DCLG) Guidance on Local Government Investments updated in 2010.
- The Council's Minimum Revenue Provision (MRP) Policy, which sets out how the Council will pay for capital assets through revenue each year as required by Local Authorities (Capital Finance and Accounting) Regulations 2008.

2 BACKGROUND AND MAIN CONSIDERATIONS

2.1 The Council's treasury strategy in Appendix 1 includes the following sections:

- What are our investment objectives? (Paragraph 2.2)
- What types of investments do we make and who with? What rules do we work to? (Paragraph 2.3)
- What type of returns do we achieve on Investments? (Paragraph 2.5)
- Why do we borrow? (Paragraph 3.1)
- What are the Council's borrowing objectives? (Paragraph 3.2)
- What is the Council's borrowing need (the Capital Financing Requirement)? (Paragraph 3.5)
- What is the current level of debt and how might it change? (Paragraph 3.6)
- When is debt due and can/will we repay it early? (Paragraph 3.7)
- What is the cost of borrowing? How is this shown in the Revenue Account? (Paragraph 3.8)
- What are the limits to borrowing activity? (Paragraph 3.9)

2.2 There are no changes proposed from last year's Treasury Management Strategy.

3 CONSULTATION

3.1 No formal consultation required.

4 ALTERNATIVE OPTIONS

4.1 Option 1. To approve the 2017/18 Treasury Management Strategy Statement. This is the recommended option.

4.2 Option 2. Not to accept the 2017/18 Treasury Management Strategy. This is not

recommended as it means that the Council will be in breach of its statutory obligations.

4.3 Option 3. To approve the Strategy with revisions to any one of the following elements:

- propose alternative investment criteria, including revisiting the Council's appetite for risk, the kinds of investment vehicles available – this is not recommended as to diversify extensively into other complex other products would require greater financial resource and result in greater risk with no absolute guarantee of greater returns.
- reconsidering its existing investment objectives of security first, liquidity second and then maximisation of returns – in light of the Council's own experience with Heritable bank and current financial climate, this is not recommended
- amend the external borrowing limit – given the uncertain financial climate and current level of borrowing, this is not recommended;
- amend counterparty list – this would limit the potential for investments so is not recommended at this time;
- making voluntary CFR/MRP contributions – this could be undertaken but would restrict the resources available to fund the capital programme and undertake invest to save capital projects such as OEP;
- repay debt now – this is not advisable based on the cost benefit analysis undertaken.

5 FINANCIAL IMPLICATIONS

5.1 The Medium Term Financial Plan includes three amounts for interest payable on loans (this is fixed), interest receivable on investments (changes in the Treasury Management Strategy may result in increased returns) and MRP (which is based on the current capital plans). There have been no changes to amounts in the MTFP from any of the decisions arising from this strategy. PWLB loans will be monitored and if it is advantageous for the Council, then repayment or restructuring will be considered.

6 LEGAL AND GOVERNANCE CONSIDERATIONS

6.1 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Council's Financial Procedure Rules. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

6.2 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2012/13);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities; and
- Under Section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

6.3 The Council's strategy explains how it complies with this legal framework.

6.4 As per Article 4 of the Council's Constitution the Treasury Management Strategy forms part of the Council's Policy Framework. It therefore requires the approval of Full Council.

7 EQUALITY IMPACT ASSESSMENT

7.1 An Equality Impact Assessment (EqIA) has not been completed because the report does not represent the introduction of a new policy or service or a change / review to an existing policy or service.

8 COMMUNITY SAFETY IMPLICATIONS

8.1 There are no community safety implications.

9 HEALTH AND WELLBEING IMPLICATIONS

9.1 There are no health and wellbeing implications.

10 CONCLUSION AND SUMMARY OF REASONS FOR THE RECOMMENDATIONS

10.1 The Council is required to approve a Treasury Management Strategy.

10.2 The Investment interest rates remain constantly low in the short term and in order to maximise the returns available, various changes have been recommended.

10.3 The Council is not planning to take on new borrowing or repay existing borrowing.

11 BACKGROUND PAPERS

Capital Programme 2017/18 to 2019/20
Budget Setting Report 2017/18 (44/2017)

12 APPENDICES

Appendix A	Treasury Management Strategy
Appendix B	Investment Counterparty Selection Criteria
Appendix C	PWLB Debt Analysis
Appendix D	Economic Background Review (Provided by Capita)
Appendix E	Glossary of Treasury Management Terms

A Large Print or Braille Version of this Report is available upon request – Contact 01572 722577