

Management Committee

7 February 2017

Treasury Management Strategy Statement and Investment Strategy 2017/2018

For Recommendation To Council

Briefholder

Cllr Cant, Finance and Assets

Senior Leadership Team Contact:

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Statutory Authority

The Local Government Act 2003 requires the Council to prepare a Treasury Management Strategy Statement, an Annual Investment Strategy and set prudential indicators.

Purpose of Report

- 1 To consider the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy for the coming year. To set prudential indicators, and to review the policy on Minimum Revenue Provision.

Officer Recommendations

- 2 That Members recommend to Council:
 - (i) Approval of the Treasury Management Strategy Statement and Investment Strategy 2017/2018
 - (ii) The Minimum Revenue Provision Policy set out in Appendix C of the Treasury Management Strategy Statement
 - (iii) The Prudential Indicators set out in Appendix C of the Treasury Management Strategy Statement
 - (iv) The 2017/2018 Authorised borrowing limit

Reason for Decision

- 3 Full Council adopted the CIPFA Treasury Management Code of Practice on 18th February 2002, which was updated following the Icelandic banking crisis in November 2009. This requires a Treasury Management Strategy Statement and an Annual Investment Strategy to be approved by Full Council on an annual basis.

Treasury Management Strategy

- 4 The Treasury Management Strategy Statement and an Annual Investment Strategy is rather technical by necessity in order to comply with legislation, regulation and codes of practice. To ensure that this technical area is adequately scrutinised the Council has Treasury Management briefings that meets regularly throughout the year which reviews all treasury activity and is open to all Councillors to attend.
- 5 The Council has a portfolio of both investments and debt resulting from past events such as borrowing for building works and the sale of the housing stock. Due to the historic situation all the Council's debt is at a fixed rate and long term, while the investments are split between fixed and variable interest rates and short to long term in length. The Council cannot afford to repay the historic debt because of the very high penalties attached to it; therefore it has investments which must generate income to reduce the cost of the debts.
- 6 The Treasury Management Strategy Statement details the Council's investment strategy, explains the institutions (counterparties) with whom the Council is permitted to invest and the limits related to the size of investments with institutions.
- 7 The Council uses external Treasury Management Advisors who provide expert advice on all treasury issues and their expertise has been used to develop the strategy for 2017/2018.
- 8 Both the CIPFA Code and the CLG Guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. This is undertaken by the Chief Financial Officer (CFO) under delegated powers and reports quarterly to Management Committee.
- 9 The Authority and its advisors, Arlingclose Ltd, regularly update our recommended Sovereign and Counterparty list after analysis and ongoing monitoring of a variety of indicators including credit ratings, share prices and corporate information. A list of approved investment counterparties and limits is included in the TMSS at Table 2.
- 10 Investment advice on duration will always reflect credit developments as well as credit outlook and may often be below the maximum limit within the TMSS.

- 11 In the past 12 months, the Authority's investment balance has ranged between £33.6 and £43.6 million with the fluctuation being due to cashflow balances building in the process of collecting council tax and dropping following the payment of precepts. Interest generated from these investments reduces the cost of the historical debt the Authority holds.
- 12 These balances are linked to the year end balance sheet by calculation of the internally borrowed position (£20.1m) plus usable reserves and working capital (£13.5m). Useable reserves and working capital are the underlying resources available for investment but the calculation assumes an underlying need to borrow of £8.3m and therefore the net investment position is £5.2m.
- 13 Work is ongoing to identify the costs and income associated to the Authority's individual assets e.g. hotels in order to calculate accurate returns and identify actions for improvement of these returns.
- 14 At the last Budget Working group a potential list of once off growth bids was provided, including once off bids, which totalled nearly £8m. This excluded the expected capital receipt from the sale of North Quay.
- 15 The Authority's Treasury Management Strategy Statement sets out the parameters and practices and incorporates the need for diversification. This is therefore aiming to reduce risk by spreading investments widely as security is the utmost priority followed by the liquidity of funds before pursuing the highest yield. Solely seeking the highest yield would be against both the CIPFA Code and CLG guidance.
- 16 Investment benchmarking to the 31 December 2016:

	Weymouth	56 English Non Met Districts Ave	132 LAs Ave
Total Investments – Income Return	2.05%	1.00%	0.82%
Total Investments – Total Return	4.64%	1.22%	0.90%

- 17 Our treasury advisors gave a presentation on the latest treasury management developments and also introduced the changes made to the coming year's strategy statement. The draft strategy was considered by Members at the Treasury Management briefing on 30th January 2017.

Minimum Revenue Provision

- 18 Since 1st April 2008, the Council has had discretion to set a policy on the amounts set aside to repay debt. This is called the Minimum Revenue Provision. It's proposed to continue with the current policy as outlined in Appendix C of the Treasury Management Strategy Statement 2017/2018.

Implications

Financial

The approach the Council takes on managing its debt and investments has a direct impact on the Council's finances in terms of the costs to the Revenue Budget.

Risk Management

Only investing with Counterparties on the approved list seeks to limit the Council's exposure to investment risk. However, this risk cannot be eliminated.

Appendices

Appendix 1 – Treasury Management Strategy Statement and Annual Investment Strategy 2017/2018.

Background Papers

Draft Treasury Management templates supplied by Arlingclose Ltd, Treasury Management Advisors.

All member Treasury Management briefing meeting on 30th January 2017.

Footnote

Issues relating to financial, environmental, economic and equalities implications have been considered and any information relevant to the decision is included within the report.

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