

SOUTH HOLLAND DISTRICT COUNCIL

Report of: Julie Kennealy - Executive Director Commercialisation

To: Governance and Audit Committee - 3 December 2015

(Author: Sean Howsam - Finance Manager Treasury (CPBS))

Subject: Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2016/17.

Purpose: To provide pre-decision scrutiny to the strategy being proposed.

Recommendation:

- 1) That the Governance and Audit Committee scrutinise the Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy 2016/17 (**Appendix A**) and make any comments and suggestions to be considered by Cabinet when they consider these documents at their meeting on 16 February 2016.

1.0 BACKGROUND

- 1.1 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk policy, providing adequate liquidity initially before considering investment return.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 CIPFA defines treasury management as:

"The management of the local authority's investments and 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."
- 1.4 The Council's treasury function is undertaken by Compass Point Business Services (East Coast) Ltd (CPBS) on behalf of the Council.
- 1.5 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011 was adopted by this Council on 8 March 2012.

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy statement which sets out the policies and objectives of the Council's treasury management activities;

- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by the full council of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a Mid-year review Report and an Annual Report (stewardship report) covering activities during the previous year;
- Delegation by the Council of responsibilities for implementing and monitoring treasury policies and practices and for the execution and administration of treasury management decisions;

1.6 Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Governance and Audit Committee.

2.0 SUMMARY

2.1 The Act requires the Council to set out its Treasury Management Strategy Statement, Minimum Revenue Provision Policy and Annual Investment Strategy for the forthcoming year. These outline the Council's strategy for borrowing and its policies for managing its investments and for giving priority to the security and liquidity of those investments. Our strategy statements for 2016/17 are attached at **Appendix A**. The strategy statements cover:

- reporting requirements
- capital prudential indicators 2015/16 to 2018/9
- the borrowing requirement
- the MRP policy
- the use of the Council's resources and the investment position
- Prudential and Treasury Indicators
- treasury limits in force which will limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment policy
- creditworthiness policy
- country limits
- investment strategy

2.2 The strategy document presented to Governance and Audit for scrutiny is currently at draft stage. This is because the future Capital Programme has yet to be finalised and approved by Council. Once this is known the tables within the strategy document shown at **Appendix A** will be submitted to Council for approval before the commencement of the 2016/17 financial year.

2.3 The Council has recently created a Housing Company (Welland Homes) which may involve the Council taking on additional borrowing and providing a loan to the Housing Company. Once further information becomes available it may result in amendments to the draft strategy attached.

2.4 The Council's strategy statement has been prepared in accordance with the 2011 Code and will require approval by Full Council. In addition there will be monitoring reports and

regular review by Councillors in both executive and scrutiny functions. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of treasury management policies and activities, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.

3.0 **OPTIONS**

3.1 Members have the option of making comments to Cabinet in respect of the proposed strategy or alternatively making no comments.

4.0 **REASONS FOR RECOMMENDATION**

4.1 To comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011.

5.0 **EXPECTED BENEFITS**

5.1 The report provides Governance and Audit Members with the proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2016/17. The report requires scrutiny prior to submitting to Council for approval.

6.0 **IMPLICATIONS**

6.1 **Constitution & Legal**

6.1.1 This Council is required to produce a Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy before the commencement of each financial year to comply with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011. The report has no implications which would affect the constitution and does not therefore warrant a further change in the constitution.

6.1.2 Plans and strategies for control of the Council's borrowing, investments, capital expenditure and minimum revenue provision form part of the Council's policy framework and are therefore a non-executive (Council) function under the Council's Constitution.

6.2 **Corporate Priorities**

6.2.1 The Treasury Management Strategy (incorporating the Annual Investment Strategy) aims to achieve the optimum performance from the Council's cash flow, debt and investment operations and effectively control the associated risks. This will help to finance the corporate priorities of the Council.

6.3 **Financial**

6.3.1 Adoption of the proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy will ensure sound financial controls associated with the management of the authority's investments and cash flows, its banking, money market and capital market transactions and safeguard these assets.

6.4 **Risk Management**

6.4.1 The Strategy will put in place measures for the effective control of the risks associated with

Treasury Management and the pursuit of optimum performance consistent with those risks. The Council's priority is the security of its investments.

6.5 Stakeholders / Consultation / Timescales

6.5.1 This report is being submitted for pre decision scrutiny prior to submission to Cabinet and Council.

6.5.2 Capita Asset Services have been consulted in relation to the compilation of this report.

7.0 WARDS/COMMUNITIES AFFECTED

7.1 None.

8.0 ACRONYMS

CIPFA – Chartered Institute of Public Finance and Accountancy

CPBS – Compass Point Business Services

MRP – Minimum Revenue Provision

VRP – Voluntary Revenue Provision

DCLG – Communities and Local Government

HRA – Housing Revenue Account

PFI – Public Finance Initiative

CFR – Capital Financing Requirement

PWLB – Public Works Loan Board

CPI – Consumer Price Index

GDP – Gross Domestic Product

CDS – Credit Default Swap

MPC – Monetary Policy Committee

EZ – Eurozone

ECB – European Central Bank

QE – Quantitative Easing (purchase of Sovereign Debt)

Background papers:- None

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Key Decision: No

Exempt Decision: No

This report refers to a Mandatory Service

Appendices attached to this report:

Appendix A Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2016/17.