APPENDIX

SOUTH HOLLAND DISTRICT COUNCIL

Report of:	**Portfolio Holder Finance & Executive Director Commercialisation (S151), Julie Kennealy**
To:	**Council 27th July 2016**
(Author:	**Ken Trotter – Chief Accountant (Deputy S151 Officer)**
Subject:	**Treasury Management Policy Amendments**
Purpose:	**To set an interim Treasury Management Policy which reflects changing liquidity requirments of the Council as part of amendments to the Medium Term Financial Plan**

Recommendation(s):

1) That Delegated Authority be given to the S151 officer in consultation with the Portfolio holder Finance and the Governance & Audit committee to vary counter party limits for investment and short term deposits.

2) That Governance & Audit review the situation at each meeting of the committee and report status to the council until 31st March 2017 when this policy will be superceded by the 2017/18 Treasury Management Policy.

1.0 BACKGROUND

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet 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 in accordance with a low risk policy, providing adequate liquidity initially before considering investment return.

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.
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. "

The Council's treasury function is undertaken by Compass Point Business Services (East Coast) Ltd (CPBS) on behalf of the Council. CPBS is responsible for: -

- Production of the draft annual treasury management strategy
- Production of regular treasury management policy reports
- Production of treasury management practices
- Production of budget and budget variations relating to the treasury management function
- Production of management information reports
- Provision of adequate treasury management resources and skills, and effective division of responsibilities within the treasury management function

- Arrangement of the appointment of external service providers.

1.2 Reporting requirements

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

Prudential and Treasury Indicators and Treasury Strategy - The first, and most important report is issued with the annual budget report and covers:

- the capital plans (including prudential indicators);
- a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- an investment strategy (the parameters on how investments are to be managed).

A Mid Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.3 Scrutiny

The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Governance and Audit Committee.

1.4 The annual report for 2015/16 Treasury activity is being presented to Governance & Audit committee on 28th July 2016 and additional information is included from this report on the outlook for investment rates and potential Base Rate changes..

1.5 Current Position

The summary position of the Monetary Policy Committee (MPC) meeting on 13th July 2016 is shown below for information.

The Bank of England's MPC sets monetary policy to meet the 2% inflation target and in a way that helps to sustain growth and employment. At its meeting ending on 13 July 2016, the MPC voted by a majority of 8-1 to maintain Bank Rate at 0.5%, with one member voting for a cut in Bank Rate to 0.25%. The Committee voted unanimously to maintain the stock of purchased assets financed by the issuance of central bank reserves at £375 billion. Committee members made initial assessments of the impact of the vote to leave the European Union on demand, supply and the exchange rate. In the absence of a further worsening in the trade-off between supporting growth and returning inflation to target on a sustainable basis, most members of the Committee expect monetary policy to be loosened in August. The precise size and nature of any stimulatory measures will be determined during the August forecast and Inflation Report round.

Financial markets have reacted sharply to the United Kingdom's vote to leave the European Union. Since the Committee's previous meeting, the sterling effective exchange rate has fallen by 6%, and short-term and longer-term interest rates have declined. Reflecting the fall in the level of sterling, financial market measures of inflation expectations have risen moderately at short-term horizons, but only to around historical averages, and have fallen slightly at longer horizons. Markets have functioned well, and the improved resilience of the core of the UK financial system and the flexibility of the regulatory framework has allowed the impact of the referendum result to be dampened rather than amplified.

1.6 The Bank of England base rate remains at 0.5% but the potential for a lower rate in August is being reflected in lower investment returns from all counter parties offering facilities to the council.

1.7 The Medium Term Financial Plan incorporates changes to the financial returns available to the council outside of this traditional Treasury management. This includes the Revised Welland Homes (WH) Business Plan which has been recommended by Cabinet. If the plan is approved by Council all funds will be provided from internal borrowing / lending rather than any external funding which was in the original plan.

1.8 The WH business plan incorporates a pilot development for delivery of homes directly to the Housing Revenue Account for use as Affordable Housing. In conjunction with this, options for acquisition of units are also being explored with a view to accelerating the recovery of lost rent from increased right to buy sales of dwellings.

1.9 Commercialisation activities including a review of potential nvestments funded from the Growth fund are also in progress.

1.10 In order to ensure liquidity within these potential cash flow requirements an interim change to the Treasury management policy is proposed. As funds are returned from counter parties in the next 3 months no new medium (6 months) or long (12 months) term investments will be actioned and the policy will be reviewed after this initial period of change and amended as necessary with regular actions and reviews taking place until 31st March 2017. Regular updates will be issued to the Governance & Audit Committee to ensure members are fully informed on status & progress..

1.11 As an alternative, short (1 month or less) term deposits will be actioned while cash flow requirements are being finalised.

1.12 This will mean that short term instant access cash balances will rise as a consequence and generally the counter party limits will need to be adjusted upwards. It is proposed that the Executive Director commercialisation (S151 officer) will monitor all activity and set appropriate limits during these challenging times.

1.13 In oder to provide additional security on cash balances it is also proposed that the council uses the services of The Debt Management Office (DMO).

1.14 The DMO is an Executive Agency of Her Majesty's Treasury which carries out debt and cash management for the UK Government, lending to local authorities and managing certain public sector funds. Interest rates are generally low (currently 0.25% below the base rate) but security of funds is of the highest level. Limited use of these facilities will allow the S151 officer to balance security of funds within the regime of short term deposits during 2016/17.

1.15 The Municipal Bonds agency is also in the market but a short term deposit scheme is not yet part of their portfolio. Other facilities utilising this agency are also being examined and a report will be presented to council in September 2016 to consider these options.

2.0 **OPTIONS**

2.1 Note The report and accept the recommendations

2.2 Note the report, do not accept the recommendations and instruct Treasury Management to follow the exisiting policy This option could lead to liquidity issues for proposed projects and involve medium / long term investments which do not contribute to the Medium Term Financial Plan.

3.0 **REASONS FOR RECOMMENDATION(S)**

3.1 During a period of uncertainty and an extended timescale for an improvement in investment rates, alternative uses of cash balances are being progressed to ensure overall yield from cash balances, to the council, is in line with targets.

4.0 **EXPECTED BENEFITS**

4.1 Improved use of Council cash balances which contribute to the overall budget in line with the Medium Term Financial Plan.

5.0 **IMPLICATIONS**

5.1 **Constitution & Legal**

5.1.1 The Treasury Management Policy is approved by Council as part of the annual Budget & Medium Term Financial Plan submission to council in February of each year.

5.1.2 The 2016/17 Treasury Management policy was approved by Council 24th February 2016 and includes specific Minimum Revenue Provsion terms in relation to 100% owned companies “Any loans to Welland Homes and South Holland Local Housing Company which are classed as capital expenditure will increase the Councils CFR. The Council will earmark the repayment of the loans to reduce the CFR and therefore will not apply MRP on such loans.”

5.2 **Financial**

5.2.1 Cash and Cash equivalent deposits as at the 30th June 2016 are as per the table below

Counter Party	Maturity	Deposit	Interest
Goldman Sachs	05/07/2016	£3.5m	0.79%
Lloyds Bank S106 Money	29/07/2016	£0.25m	0.28%
Royal Bank of Scotland	31/07/2016	£3m	0.97%
Royal Bank of Scotland	12/08/2016	£1.5m	0.97%
Nationwide BS	30/09/2016	£3m	0.70%
Nationwide BS	14/10/2016	£1m	0.71%
Toronto Dominion	01/12/2016	£4m	0.92%
Lloyds Bank	09/12/2016	£1m	0.80%
Helaba Bank	13/01/2017	£3m	1.00%
Helaba Bank	28/02/2017	£2m	0.95%
Qatar National Bank	12/04/2017	£1m	1.01%
Commercial Bank Australia	02/06/2017	£2.5m	0.99%
Investments		**£25.75m**	
Lloyds Current Account		£0.77m	-
Svenska Handelsbanken		£4.98m	0.48%
CCLA Money Mk		£3.25m	0.49%
Instant Access		**£9.00m**	
Total Funds 30/06/16		**£34.75m**	

5.2.2 Average investment rate on offer for 6 months and beyond is currently 0.5% which is in line with the Bank of England Base Rate.

5.2.3 Current Investments will only yield a maximum of £417 per month for each £1m deposited after the deals shown above expire.

5.2.4 £3.5m has been returned to the council since the end of June and has been placed on deposit with the Coventry Building Society at 0.39% for 1 month

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5.2.5 Loans to Welland Homes are projected to have an approximately value of £1.9m in March 2017, £3.5m March 2018 & £3.2m March 2019. The high point for borrowing is £3.8m in August 2017.

5.2.6 Loans extended to WH will be charged interest at a commercial rate of 3.5% above the base rate and this will be charged on a compound monthly basis using loan values existing on each day of the month. Estimated Interest to the Council is approx. £250,000 over 3 years

5.2.7 Investments are currenly being assessed under a minimum gross return of 6% per annum

5.9 **Risk Management**

5.9.1 The investment policy of the council has regard to the CLG Guidance on Local Government Investments ("the Guidance") and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). Investment priorities are security first, liquidity second, then return.

6.0 **WARDS/COMMUNITIES AFFECTED**

6.1 Budget implications affect all wards.

7.0 **ACRONYMS**

7.1 CLG – Communities & Local Government
7.2 CIPFA – Chartered Institute pf Public Finance & Accountancy
7.3 HRA – Housing Revenue Account
7.4 GF – General Fund
7.5 WH – Welland Homes
7.6 MRP – Minimum Revenue Position
7.7 DMO – Debt Management Office
7.8 CPBS – Compass Point Business Services

Background papers:- Treasury Management Policy

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Key Decision: No

Exempt Decision: No

Appendices attached to this report: None