AGENDA ITEM 12		AGENDA ITEM 12

WEST DEVON BOROUGH COUNCIL

NAME OF COMMITTEE	**AUDIT**
DATE	**24 February 2015**
REPORT TITLE	**Treasury Management Strategy, Minimum Revenue Provision Policy and Annual Investment Strategy for 2015/16**
Report of	**Finance Community of Practice Lead (Section 151 Officer)**
WARDS AFFECTED	**All**

Summary of report:
This report seeks approval of the proposed Treasury Management and Investment Strategies together with their associated prudential indicators.

Financial implications:
Good financial management and administration underpins the entire strategy. The budget for investment income for 2015/16 has been set at £40,000.

RECOMMENDATIONS:
That the Audit Committee resolves to **RECOMMEND** to **Council** approval of the following:

1. The prudential indicators and limits for 2015/16 to 2017/18 contained within Appendix A of the report.

2. The Minimum Revenue Provision (MRP) Statement contained within Appendix A which sets out the Council's policy on MRP.

3. The Treasury Management Strategy 2015/16 and the treasury prudential indicators 2015/16 to 2017/18 contained within Appendix B.

4. The Investment Strategy 2015/16 (Appendix C) and the detailed criteria included in Appendix D.

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1. 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 commensurate with the Council's low risk appetite, 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 The Chartered Institute of Public Finance & Accountancy (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 risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

2. REPORTING REQUIREMENTS

2.1 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. Regular reports on treasury management monitoring are provided to the Audit Committee. 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. These reports are required to be adequately scrutinised by Committee before being recommended to Council. This role is undertaken by the Audit Committee.

2.2 **Prudential and Treasury indicators and Treasury Strategy** (this report) – The first and most important report covers:

- The capital plans (including prudential indicators);
- A Minimum Revenue Provision Policy
- 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).

2.3 **A Mid Year Treasury Management Report** – This will update members on whether the treasury function is meeting the strategy or whether any policies require revision.

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

3. TREASURY MANAGEMENT FOR 2015/16

The strategy for 2015/16 covers two main areas:

3.1 Capital Issues

- The capital plans and the prudential indicators
- The minimum revenue provision (MRP) policy

3.2 Treasury management issues

- The current treasury position
- Treasury indicators which will limit the treasury risk and activities of the Council
- Prospects for interest rates
- The borrowing strategy (including borrowing in advance of need)
- Debt rescheduling
- The investment strategy
- Creditworthiness policy; and
- Policy on use of external service providers

4. LEGAL IMPLICATIONS

4.1 The elements set out in paragraph 3.2 cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code, the Department for Communities and Local Government (DCLG) Investment Guidance and the DCLG MRP Guidance. The Council nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. This was agreed at Council on 25th February 2010 and formed part of the revision to the Council's Constitution in April 2010.

4.2 **Balanced Budget Requirement** – It is a statutory requirement under section 33 of the Local Government Finance Act 1992, for the Council to set a balanced budget. The treasury management function will comply with this requirement.

5. FINANCIAL IMPLICATIONS

5.1 Good financial management and administration underpins the entire strategy. The budget for investment income for 2015/16 is £40,000

5.2 The unprecedented financial crisis has resulted in significant interest cuts around the world and interest rates are currently at a record low level with the bank base rate at 0.5%. This, coupled with adopting a near risk free investment strategy, has meant a significant drop in the level of investment income that supports the revenue budget.

5.3 As at 31/3/2014 (Balance Sheet position), the Council had £3,630,000 in investments. The Council's investments can fluctuate up to a level of £6 million during the year due to the timing of cash flows. Falling interest rates have had a significant impact on the Council's finances. For example, in 2007/08 we had investment income of £720,000, but for 2015/16 this is estimated at £40,000 a reduction of £680,000.

6 RISK MANAGEMENT

6.1 The Risk Management implications are shown at the end of this report in the Strategic Risks Template.

7. OTHER CONSIDERATIONS

Corporate priorities engaged:	Sound financial management underpins all of the Council's corporate priorities.
Statutory powers:	Local Government Act 1972, s148(5)
Considerations of equality and human rights:	N/a
Biodiversity considerations:	N/a
Sustainability considerations:	N/a
Crime and disorder implications:	N/a
Background papers:	Audit Committee 11/02/14 – TMS & Annual Investment Strategy 2014-15 Audit Committee: 23/09/14 – Annual TM Report 2013-14 Audit Committee: 25/11/14 – TMS (Mid Year Update) Resources: 03/02/15 – Capital Programme 2015-16
Appendices attached:	Appendix A – The Capital Prudential Indicators Appendix B - Treasury Management Strategy Appendix C – Investment Strategy Appendix D -Treasury Management Practice (TMP 1) – Credit and Counterparty Risk Management Appendix E – Treasury Management Scheme of delegation Appendix F – Glossary of Terms

STRATEGIC RISKS TEMPLATE

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
1	Security	risk of failure of counterparty	5	3	15	⇔	The Council has adopted the CIPFA Code of Practice for Treasury Management and produces an annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines. The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and Resources Committee. The Audit Committee has a scrutiny role over the Treasury Management operation. The Council's adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrates a low risk	S151 Officer

No	Risk Title	Risk/Opportunity Description	Inherent risk status				Mitigating & Management actions	Ownership
			Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel			
							approach.	
2	Liquidity	liquidity constraints affecting interest rate performance	3	2	6	⇔	See above	S151 Officer
3	Yield	volatility of interest rates / inflation	4	4	16	⇔	See above	S151 Officer

Direction of travel symbols ⇩ ⇧