

SOUTH HAMS DISTRICT COUNCIL

NAME OF COMMITTEE	Executive
DATE	5 March 2015
REPORT TITLE	Treasury Management Strategy 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 £123,000.

RECOMMENDATIONS:

That the Executive 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 Treasury Management Strategy 2015/16 and the treasury prudential indicators 2015/16 to 2017/18 contained within Appendix B.
3. 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. The Council is currently debt-free and the approved Capital Programme for 2015/16 can be financed from capital receipts, capital grants and reserves, without the need for borrowing.
- 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 Executive.

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 (this is not applicable to the Council as the Council is debt-free)
- 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 on whether the treasury function is meeting the strategy or whether any policies require revision.

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

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)
- 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.

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 £123,000.

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 £18,022,000 in investments. The Council's investments can fluctuate to levels between £20 -30 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 £1,359,000, but for 2015/16 this is estimated at £123,000, a reduction of over £1.2 million.

Heritable Bank

- 5.4 The Council placed a deposit of £1,250,000 on 25th September 2008. At the time the deposit was placed the risk rating of Heritable was 'A' (long term deposits) and F1 (short term deposits) which were within the deposit policy approved by the Council. Both these ratings indicate low risk.
- 5.5 At the 28 February 2015 the Council had £72,368 frozen in the Heritable Bank which is UK registered and regulated, but a subsidiary of Landsbanki, one of the Icelandic Banks that have been affected by the world economic crisis. Heritable Bank is registered in Scotland with a registered address in Edinburgh. Heritable Bank Plc is authorised and regulated by the Financial Services Authority and is on the FSA Register. The bank's shares are owned by Icelandic bank Landsbanki.
- 5.6 Administrators have kept the bank trading and are winding down the business over a period of years. The Administrators had paid fourteen dividends at the end of September 2013 amounting to 94% of the original deposit. However, they do not intend to make any further distributions until the conclusion of a legal dispute with Landsbanki.

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:	Executive:06/03/14 - TMS & Annual Investment Strategy 2014-15 Executive: 11/09/14 - Annual TM Report 2014-15 Executive: 23/10/14 - TMS (Mid Year Update) Executive: 29/01/15 - Capital Programme 2015-16
Appendices attached:	Appendix A - The Capital Prudential Indicators Appendix B - Treasury Management Strategy Appendix C - Annual 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	↔	<p>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 the Executive. The Audit Committee has a scrutiny role over the Treasury Management operation.</p> <p>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 approach.</p>	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			
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 ↓ ↑

