



## PAPER D

Purpose: For Decision

# Committee report

Committee	<b>AUDIT COMMITTEE</b>
Date	<b>18 FEBRUARY 2016</b>
Title	<b>TREASURY MANAGEMENT STRATEGY 2016-17</b>
Report of	<b>TECHNICAL FINANCE MANAGER</b>

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### EXECUTIVE SUMMARY

1. This report presents the Treasury Management Strategy 2016-17. The strategy forms part of the council's annual budget strategy, to be approved by full council on 24 February 2016.
2. The committee is asked to agree the Treasury Management Strategy for 2016-17, for onward approval by full council.

### BACKGROUND

3. The Local Government Act 2003 and subsequent regulations require the council to set out its annual strategy with regard to both borrowing and the repayment of external debt. These are set out in the Borrowing Strategy (Section 4 of the attached appendix) and the Minimum Revenue Provision (MRP) Statement (Appendix D of the appendix) respectively.
4. The Act and subsequent regulations require the council to have regard to the Chartered Institute of Public Finance and Accountancy's (CIPFA's) revised Code of Practice for Treasury Management ("the Code"), and Treasury Management Practices ("TMPs"); the council is also required to have regard to the CIPFA Prudential Code for Capital Finance ("the Prudential Code") and to set prudential indicators for the next three years to ensure that the council's investment plans are affordable, prudent and sustainable. With regard to its investment plans the council also has a duty to determine a prudent MRP.
5. The council must also approve an annual Investment Strategy in compliance with government guidance on local government investments. Section 5 of the appendix to this report sets out the council's policy for managing its investments and for giving priority to the security and liquidity of those investments.

6. The council's TMPs, included in Appendix E of the attached appendix, set out how the council proposes to achieve its stated policy objectives, and how it will manage and control its treasury management activities. The TMPs specifically cover the following areas:
- TMP 1 Risk management
  - TMP 2 Performance measurement
  - TMP 3 Decision making and analysis
  - TMP 4 Approved Instruments, methods and techniques
  - TMP 5 Organisation, clarity and segregation of responsibilities, and dealing arrangements
  - TMP 6 Reporting requirements and management information arrangements
  - TMP 7 Budgeting, accounting and audit arrangements
  - TMP 8 Cash and cash flow management
  - TMP 9 Money laundering
  - TMP 10 Training and qualifications
  - TMP 11 Use of external service providers
  - TMP 12 Corporate governance
7. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. The framework requires that the council sets and monitors its performance against a set of prudential indicators which are designed to support and record local decision making in these key areas.
8. The prudential indicators, included in Appendix C of the attached appendix, are intended to ensure that decisions concerning capital expenditure, debt and treasury management are both affordable and prudent.

## STRATEGIC CONTEXT

9. The Treasury Management Strategy forms part of the council's budget strategy, specifically supporting the latest [Corporate Plan 2015-17](#), under priority 4: Ensuring that all the resources available to the Island are used in the most effective way in achieving the Island's priorities
10. The strategy specifically supports the council's capital programme and the Medium Term Financial Strategy, ensuring the key priorities of the council are deliverable within the reduced resources available to the council.

## CONSULTATION

11. The draft strategy has been prepared in conjunction with advice received from the council's treasury management advisers, Arlingclose Limited, who have provided details of the external economic context and have reviewed the draft strategy for compliance with regulations, etc.
12. There has been no external consultation undertaken specifically relating to the Treasury Management Strategy.

## FINANCIAL / BUDGET IMPLICATIONS

13. There are no direct financial or budgetary implications arising from the review of the Treasury Management Strategy and policy. However, the establishment of effective arrangements for the regular monitoring and review of the council's treasury management arrangements and prudential indicators is a key part of the effective budget management of the council.
14. The indicative budget for mainstream investment income in 2016-17 is £0.16 million. However, this is unlikely to be achieved, based on an average investment portfolio of £3.0 million at an interest rate of 0.25 per cent.
15. There is an additional investment income target of £340,000 in respect of the investment of the Asda capital receipt. This will also be challenging to achieve, given the current low interest rate and uncertainty over the period for which this money can be invested.
16. The indicative budget for mainstream debt interest paid in 2016-17 is £7.5 million. The cash flows on which this strategy is based, including an average debt portfolio of £162.2 million at an average interest rate of 4.25 per cent, suggests that there will be sufficient capacity in the interest payable budget to cover any shortfall in the mainstream investment income budget.
17. Additional capital financing costs of £1.038 million are included within the waste contract budget, to support the capital investment under that contract. It is likely that the cost of borrowing under this project will be significantly less than budgeted, due to the continuing low interest rate at which the council can borrow.
18. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

## LEGAL IMPLICATIONS

19. The Local Government Act 2003 and subsequent regulations require the council to set out its annual strategy with regard to both borrowing and the repayment of external debt. The Act and subsequent regulations require the council to have regard to CIPFA's revised Code of Practice for Treasury Management in Local Authorities, and TMPs. The council is also required to have regard to the CIPFA Prudential Code for Capital Finance, and to set

prudential indicators for the next three years to ensure the council's investment plans are affordable, prudent and sustainable.

## EQUALITY AND DIVERSITY

20. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender reassignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnerships. The treasury management strategy is not considered to have any impacts upon the equality duties.

## RISK MANAGEMENT

21. Treasury management activities have a high level of risk in that they relate to transactions that can amount to several million pounds which are undertaken with external bodies. When the council has surplus monies to invest, there are risks if those organisations to whom it lends default on repayment. The costs to the council of its treasury management activities are dependent on fluctuating interest rates.
22. The overall strategy of borrowing short-term and avoiding long-term debt carries the risk that, if interest rates suddenly rise, when longer term debt is eventually required, it will cost more.
23. The council manages these risks by adopting a treasury management strategy which includes a statement of treasury management practice specifically relating to risk, covering the following risk areas:
  - Credit and counterparty risk – who the council is permitted to lend to and borrow from and what instruments it can utilise
  - Liquidity risk – ensuring that sufficient, but not excessive, funds are available when needed
  - Interest rate risk – minimising the council's exposure to significant fluctuations in interest rate, both investment income and borrowing cost, by continually reviewing the instruments it uses
  - Exchange rate risk – minimising the council's exposure to foreign exchange risk by restricting the exposure to foreign currency investments and overseas counterparties
  - Refinancing risk – ensuring that the maturity profile of long term debt is as evenly spread as possible, and planning for the replacement of maturing debt at the most favourable interest rates
  - Legal and regulatory risk – ensuring compliance with regulations and statutory requirements
  - Risk of fraud, error and corruption – ensuring that appropriate controls are in place around staffing and processes, and ensuring appropriate business continuity arrangements

- Market risk – ensuring that the council’s treasury management activities are not compromised by adverse economic circumstances.
24. The committee’s overview of the council’s treasury management arrangements plays an important part in the council’s overall governance regime. It has an important role to play in the monitoring of treasury management activities, including overview of the risks faced by this function both internally, which are directly controllable through segregation of duties and reporting arrangements, and externally, controllable through the monitoring of counterparties and lending limits, and also regular monitoring of general economic factors.

**RECOMMENDATION**

25. That the council be recommended, as part of the budget strategy considerations, to agree the Treasury Management Strategy for 2016-17.

**APPENDICES ATTACHED**

26. [Appendix A](#) – Treasury Management Strategy 2016-17.

**BACKGROUND PAPERS**

- CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2011 Edition)  
[http://www.tisonline.net/investments/content/Treasury\\_Code\\_2011.pdf](http://www.tisonline.net/investments/content/Treasury_Code_2011.pdf)
- CIPFA The Prudential Code for Capital Finance in Local Authorities (2011 Edition)  
[http://www.tisonline.net/localauthorityaccounting/content/Prudential\\_Code\\_2011.pdf](http://www.tisonline.net/localauthorityaccounting/content/Prudential_Code_2011.pdf)

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