

# Treasury Management Strategy Statement and Investment Strategy 2018/19

*Executive Portfolio Holder:* Councillor Peter Seib, Finance and Legal Services  
*Service Manager* Paul Fitzgerald, Section 151 Officer  
*Lead Officer:* Karen Gubbins, Finance Specialist  
*Contact Details:* Karen.gubbins@southsomerset.gov.uk or (01935) 462456

## Purpose of the Report

1. To approve the Treasury Management Strategy Statement and Investment Strategy for 2018/19. The report was considered by the Audit Committee on 25<sup>th</sup> January 2018 who agreed the recommendation to go forward to Full Council.

## Recommendation

2. Council is recommended to approve the Treasury Management Strategy Statement and Investment Strategy for 2018/19 as set out in Appendix 1.

## Introduction

3. In April 2002 the Council adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year.
4. In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.
5. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.
6. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.
7. In late December 2017 CIPFA released an updated Prudential Code for Capital Finance in Local Authorities (2017 Edition) (the "Prudential Code") and Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition) (the "Treasury Code"). This report reflects the requirements of the new Codes and supporting guidance.

## Background

8. The CIPFA Treasury Code and Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.
9. CIPFA has defined Treasury Management as:

*“the management of the organisation’s borrowing, investments and cash flows, its banking, its 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.*

10. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Specific treasury management risks are identified in the Council’s approved Treasury Management Practices. The risks include:
  - Liquidity Risk (Adequate cash resources)
  - Market or Interest Rate Risk (Fluctuations in the value of investments).
  - Inflation Risks (Exposure to inflation)
  - Credit and Counterparty Risk (Security of Investments)
  - Refinancing Risks (Impact of debt maturing in future years).
  - Legal & Regulatory Risk (Compliance with statutory and regulatory requirements).
11. The Local Government Act 2003 requires the Council to have regard to the Prudential Code when determining how much money it can afford to borrow. 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. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out indicators that must be set and monitored each year.
12. The Treasury Management Strategy Statement is attached at Appendix 1 and is split into the following main areas:
  - External Context
  - Local Context
  - Borrowing Strategy
  - Investment Strategy
  - Non-Treasury Investments
  - Treasury Management Indicators
  - Other Items
13. The capital prudential indicators and MRP Statement for 2018/19 is included within the main Budget Setting report on the Full Council agenda 22 February 2018 (Appendix H) and is split into the following main areas:
  - Capital prudential indicators
  - Annual Minimum Revenue Provision Statement 2018/19

## **Financial Implications**

14. The budget for investment income in 2018/19 is £727,820, based on an average investment portfolio of £48 million at an interest rate of 1.52%. The budget for minimum revenue provision (MRP) i.e. debt repayment in 2018/19 is £186,200. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

## **Background Papers**

None