Report to the Cabinet

Report reference: C-056-2016/17
Date of meeting: 2 February 2017

Epping Forest District Council

Portfolio: **Finance**

Subject: **Treasury Management Strategy Statement 2017/18**

Responsible Officer: **Bob Palmer (01992 564279).**

Democratic Services Officer: **Gary Woodhall (01992 564470).**

Recommendations/Decisions Required:

(1) That Cabinet considers and, after amendment where necessary, recommend the following to Council for approval:

(a) Treasury Management Strategy Statement 2017/18;

(b) Minimum Revenue Provision (MRP) Strategy;

(c) Treasury Management Prudential Indicators for 2017/18 to 2019/20;

(d) The rate of interest to be applied to any inter-fund balances; and

(e) The Treasury Management Policy Statement.

Executive Summary:

The Council is required to approve the Treasury Management Strategy and Prudential Indicators and a statement on the Minimum Revenue Provision (MRP) before the start of each financial year.

The strategies will be scrutinised by the Audit and Governance Committee on 6 February 2017 and an oral update will be provided on any suggestions or proposed amendments.

Reasons for Proposed Decision:

The proposed decision is necessary to ensure we comply with CIPFA Code of Practice on Treasury Management.

Other Options for Action:

Members could ask for additional information about the Treasury Management Strategy, or could decide that alternative indicators are required.

Report:

Introduction

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2011). There is a requirement for Council to approve its treasury and investment strategy and prudential indicators each year.

2. The Strategy was prepared in line with advice from our treasury advisors Arlingclose. The attached report at Appendix 1 shows the Treasury Management Strategy Statement 2017/18.

3. There have been no major changes to the strategy from the current strategy approved in February 2016. However, Members should be aware of the following:

Minimum Revenue Provision

4. Each year the Council has to approve at Full Council its statement on the Minimum Revenue Provision (MRP). In previous years the Council has been debt free and therefore, we did not have to provide MRP in our accounts. The Council took on debt of £185.5m in 2012 and this would normally require the local authority to charge MRP to the General Fund. CLG have produced regulations to mitigate this impact, whereby we can ignore the borrowing incurred in relation to the Housing Self-financing when calculating MRP and therefore, (for MRP purposes only) we are classed as debt free and do not have to make provision for MRP. However, the Council may undertake additional borrowing before or after additional capital spending. This will require a Minimum Revenue Provision in the year following, so if we borrow in 2017/18 MRP will be necessary in 2018/19.

Inter-Fund balances

5. The Council has inter-fund borrowed for many years between the General Fund and Housing Revenue Account and the interest charge made between the funds has been based on the average interest earned on investment for the year. Under draft regulations issued by CIPFA, it is now proposed that the interest rate applicable to any inter-fund borrowing should be approved by Full Council before the start of the financial year. As the Council has been undertaking inter-fund borrowing for many years, it is proposed to continue to use the average interest earned for the year on investments as the rate for any inter-fund borrowing.

Policy Statement

6. The Treasury Management Policy Statement is a high level statement setting out how the Council Treasury function will be undertaken. The Policy Statement was last updated as part of the 2016/17 Treasury Strategy. The Policy is attached at Appendix G for Cabinet to consider, no amendments are currently proposed.

Current Investments

7. The Council's investments are all denominated in UK sterling and the treasury officers receive regular information from our treasury advisors on the latest position on the use of Counterparties.

8. The latest information supplied is as follows:

UK Banks and building societies:

1. A maximum maturity limit of between 35days and 13 months is now applicable;

2. A maximum maturity limit of 13 months to Bank of Scotland, Lloyds TSB, HSBC Bank plc;

3. A maximum maturity limit of 6 months to Santander UK, Nationwide Building Society, Coventry Building Society and Close Brothers;

4. A maximum maturity limit of 100 days applies to Barclays plc and most building societies;

5. A maximum maturity limit of 35 days applies to RBS and NatWest.

European Banks:

1. A maximum maturity limit of 100 days applies to Credit Suisse, Danske Bank and ING Bank;

2. A maximum maturity of 6 months applies to Op Corporate Bank and Landesbank Hessen-Thuringen;

3. A maximum maturity limit of 13 months applies to Nordea, Rabobank and Handelsbanken.

Non European Banks:
A maximum maturity limit of 6 months applies to Australian, 13 months to Canadian and US and other banks that are on our list.

Money Market Funds:
A maximum exposure limit of £5m of our total investment per MMF

9. As at 31 December the Council had an investment portfolio of £48.5m, this will vary from day to day, depending on the cash flow of the authority. A breakdown of this portfolio by Country and length of time remaining on investments are shown in the two tables below.

Country of counterparty	**£m**
United Kingdom	46.5
Sweden	2.0
Total	**48.5**

Current maturity profile of investments	**£m**
Overnight (Call / Money Market Fund)	15.5
Up to 7 days	1.0
7 days to 1 month	18.0
1 month to 3 months	14.0
3 months to 6 months	0.0
6 months to 9 months	0.0
9 months to 1 year	0.0
Greater than 1 year	0.0
Total	**48.5**

Resource Implications:

Continued low interest rates, restrictions on counterparties and the short durations of investments have lowered the estimated interest income for 2016/17. Interest earnings for 2017/18 will reduce further as balances are invested in capital projects rather than short term deposits. No significant change in interest rates is anticipated over the medium term.

Legal and Governance Implications:

The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10 or since);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.

Under section 21(1)AB of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

Safer, Cleaner and Greener Implications:

None.

Consultation Undertaken:

The Council's external treasury advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

Background Papers:

None.

Risk Management:

As detailed in the appendices, a risk aware position is adopted to minimise the chance of any loss of the capital invested by the Council.