

# Performance and Audit Scrutiny Committee



Forest Heath  
District Council

<b>Title of Report:</b>	<b>Annual Treasury Management and Investment Strategy Statements 2016/17 and Treasury Management Code of Practice</b>	
<b>Report No:</b>	<b>PAS/FH/16/007</b>	
<b>Report to and date/s:</b>	<b>Performance and Audit Scrutiny Committee</b>	28 January 2016
	<b>Cabinet</b>	10 February 2016
	<b>Council</b>	24 February 2016
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<b>Lead officer:</b>	Joanne Howlett Acting Head of Resources and Performance <b>Tel:</b> 01284 757264 <b>Email:</b> <a href="mailto:joanne.howlett@westsuffolk.gov.uk">joanne.howlett@westsuffolk.gov.uk</a>	
<b>Purpose of report:</b>	The purpose of this report is to seek approval for; <ul style="list-style-type: none"> <li>• The Annual Treasury Management and Investment Strategy Statements 2016/17 (including treasury related Prudential Indicators)</li> <li>• The Treasury Management Code of Practice.</li> </ul>	

<b>Recommendation:</b>	<b>Performance and Audit Scrutiny Committee is asked to:</b>  <b>(1) make recommendations to Cabinet and Council regarding the approval of the Annual Treasury Management and Investment Strategy Statements 2016/17 (as set out in Appendix 1 and 2); and</b>  <b>(2) make recommendations to Cabinet and Council regarding the approval of the Treasury Management Code of Practice (attached in Appendix 3 and 4).</b>	
<b>Key Decision:</b>  <i>(Check the appropriate box and delete all those that <b>do not</b> apply.)</i>	<i>Is this a Key Decision and, if so, under which definition?</i> Yes, it is a Key Decision - <input type="checkbox"/> No, it is not a Key Decision - <input checked="" type="checkbox"/>	
<b>Consultation:</b>	<ul style="list-style-type: none"> <li>Treasury management activities are currently undertaken in consultation with Tradition (City Deposit Cash Managers), the Council's appointed treasury management fund managers.</li> </ul>	
<b>Alternative option(s):</b>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>	
<b>Implications:</b>		
<i>Are there any <b>financial</b> implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> <li>Total budgeted interest receipts from investments for 2016/17 is £350k. This amount has been included within the 2016/17 budget setting process.</li> </ul>	
<i>Are there any <b>staffing</b> implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> <li></li> </ul>	
<i>Are there any <b>ICT</b> implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> <li></li> </ul>	
<i>Are there any <b>legal and/or policy</b> implications? If yes, please give details</i>	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> <li>Approval and adoption of the Annual Treasury Management and Investment Strategy Statements 2016/17 and the Treasury Management Code of Practice will ensure compliance with relevant legislation and guidance from professional bodies, in terms of best practice.</li> </ul>	
<i>Are there any <b>equality</b> implications? If yes, please give details</i>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> <li></li> </ul>	
<b>Risk/opportunity assessment:</b>	<i>(potential hazards or opportunities affecting corporate, service or project objectives)</i>	

<b>Risk area</b>	<b>Inherent level of risk (before controls)</b>	<b>Controls</b>	<b>Residual risk (after controls)</b>
	Low/Medium/ High*		Low/Medium/ High*
Fluctuations in interest rates or in projected cash flows having significant impact on budgeted investment income.	High	Spread of investments for periods up to five years. Budget monitoring and half yearly performance reports	Medium
Bank / building society failure resulting in loss of Council funds.	High	Use of Tradition advice and counterparty credit ratings (based on Fitch, Moody and S&P ratings) and the setting of lending limits. Use of building societies based on asset base and additional credit ratings.	Medium
Further details regarding treasury management risks and risk management are included within the Annual Treasury Management and Investment Strategy Statements 2015/16 and the Treasury Management Code of Practice.			
<b>Ward(s) affected:</b>		All Wards	
<b>Background papers:</b> <i>(all background papers are to be published on the website and a link included)</i>		None	
<b>Documents attached:</b>		Appendix 1: Annual Treasury Management & Investment Strategy 2016/17  Appendix 2: Credit Ratings Definitions  Appendix 3: Treasury Management Code of Practice  Appendix 4: List of Approved Organisation	

# 1. Annual Treasury Management and Investment Strategy Statements 2016/17

## 1.1 How will the recommendations help us meet our strategic priorities

1.1.1 In order for the Council to be able to meet its strategic priorities it is essential that sufficient and appropriate financial resources are available. Optimising returns from investments, without exposing the Council to an unacceptably high level of risk, increases those financial resources.

## 1.2 Major changes between the 2015/16 Strategy and the new 2016/17 Strategy

1.2.1 With the recent changes to the Business Rates Retention Scheme and other funding/grant arrangements the Council is experiencing increased short term cash surpluses due to the timing difference between receiving the monies and paying them over to County and Central Government etc.

1.2.2 It is therefore requested that the Council agree to an increase in the investment limit with suitable counterparties, as defined by the Annual Treasury Management and Investment Strategy Statements, by £500,000 per counterparty.

1.2.3 The revised limits are detailed in the table below

Institution	CDCM Maximum Investment	Internally Managed Maximum Investment		Aggregated Maximum Investment	
		Current	Proposed	Current	Proposed
	£M	£M	£M	£M	£M
UK Clearing Banks	6	2	2.5	8	8.5
(Lloyds/Bank of Scotland)	(7)	(3)	(3.5)	(10)	(10.5)
UK Building Societies (The Top 10 & £1bn Assets)	4	2	2.5	6	6.5
UK Building Societies (from Top 11 downwards & £1bn Assets)	4	1	1.5	5	5.5
UK Clearing Bank Subsidiaries	4	2	2.5	6	6.5
Other UK Banks (with links to overseas banks)	4	1	1.5	5	5.5
Overseas Banks	3	0	0	3	3
Local Authorities	7	3	3	10	10
Debt Management Office	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited

### **1.3 Interest rates 2016/17 to 2018/19**

1.3.1 Following advice from the Council's external fund managers, interest rate projections have updated as follows:

	<b>Previous Strategy</b>	<b>New Strategy</b>
2016/17	2.15%	1.50%
2017/18	2.50%	1.75%
2018/19	2.50%	2.00%
2019/20		2.50%

1.3.2 The budgeted interest receipts from investments for 2016/17 is £347k. This amount has been included in the 2016/17 budget setting process.

1.3.3 Please see **Appendix 1** Annual Treasury Management and Investment Strategy Statements 2016/17 for full details.

### **1.4 Credit Rating Definitions**

1.4.1 There have been no changes to the Credit Rating Definitions since the 2015/16 Strategy was presented to Cabinet on 27 February 2015.

1.4.2 Please see **Appendix 2**, Credit Rating Definitions, for full details.

## **2. Treasury Management Code of Practice**

### **2.1 Major changes between the 2015/16 Code of Practice and the 2016/17 Code of Practice**

2.1.1 There have been no major changes to the Code of Practice since the 2015/16 Code of Practice was presented to Cabinet on 27 February 2015 other than the investment limits detailed in paragraph 1.2 above.

2.1.2 Please see **Appendix 3**, Treasury Management Code of Practice, for full details.

### **2.2**

#### **List of Approved Organisations for Investment**

2.2.1 There have been a few minor changes to the List of Approved Organisations for Investment during 2015/16 due to credit rating changes and changes to the Top 10 List of Building Societies.

2.2.2 Please see **Appendix 4**, List of Approved Organisations for Investment, for full details.