

**Meeting:** Audit Committee

**Date:** 18 January 2016

**Wards Affected:** All Wards in Torbay

**Report Title:** Treasury Management Strategy 2017/18 (incorporating the Annual Investment Strategy 2017/18 and the Minimum Revenue Provision Policy 2017/18)

**Is the decision a key decision?** Yes

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## **1. Proposal and Introduction**

- 1.1 The Treasury Management Strategy appended to this report aims to support the provision of all Council services by the management of the Council's cash flow, debt and investment operations in 2017/18 and effectively control the associated risks and the pursuit of optimum performance consistent with those risks.
- 1.2 The views of the Audit Committee are sought ahead of the consideration of this Policy Framework document by the Council at its meetings in February 2017.

## **2. Reason for Proposal**

- 2.1 The Treasury Management Strategy is considered under a requirement of the CIPFA Code of Practice on Treasury Management which was adopted by the Council on 25 March 2010.
- 2.2 The approval of an Annual Investment Strategy by Council is a requirement of the Guidance on Local Government Investments issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003. This Strategy sets out the Council's policies for managing its investments under the priorities of security first, liquidity second and then returns.
- 2.3 In addition, the Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 2.4 Under Department for Communities and Local Government regulations the Council is required to approve a Minimum Revenue Provision (MRP) Statement in advance of each year.

### 3. Recommendations

#### 3.1 That the Audit Committee provide any comments and/or recommendations on the proposed:

- Treasury Management Strategy for 2017/18 (incorporating the Annual Investment Strategy 2017/18);
- the Prudential and Treasury Indicators 2017/18; and
- the Annual Minimum Revenue Provision Policy Statement for 2017/18 as set out in the Appendix to this report.

### 4. Treasury Management Strategy

- 4.1 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 risk appetite, providing adequate liquidity initially before considering investment return.
- 4.2 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. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 4.3 Currently the Council's approved capital plan has a borrowing requirement of approx £80 million which will have a significant impact on the Treasury management function in the short and medium term. In addition the timing of this borrowing is currently very uncertain which makes planning difficult. **It should be noted that this report is based on the Council's approved capital plan as at Quarter Two of 2016/17. The final version of this Treasury Management Strategy to Council in February will be updated to include the position as at Quarter Three plus any significant capital activity by end of January 2017.**

### 5. Prudential and Treasury Indicators

- 5.1 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans. The proposed indicators for 2017/2018 are set out in Appendix 1 to the Treasury Management Strategy.

### 6. Minimum Revenue Provision (MRP) policy statement

- 6.1 The Council is required to set aside an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision (MRP)). The policy was updated in the mid year review report presented to Council in September 2016.
- 6.2 MRP calculations exclude the impact of capital schemes approved but not commenced.

- 6.3 The MRP policy for 2017/18 incorporates the option of not applying an MRP where there is a clear decision or realistic expectation that an asset purchased as an investment property will be sold in the future. The capital receipts from that sale will be set aside to enable repayment of the borrowing associated with the asset. These assets will be reviewed each year to assess any reduction in value. If any reduction in value has occurred then an MRP will be charged to recover the loss in the medium term, such as over five years.
- 6.4 The recommended MRP Policy for 2016/17 is set out at Appendix 2 to the Treasury Management Strategy.