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All Wards

WELWYN HATFIELD BOROUGH COUNCIL
CABINET – 10 JANUARY 2017
REPORT OF THE EXECUTIVE DIRECTOR (RESOURCES, ENVIRONMENT AND CULTURAL SERVICES)

TREASURY MANAGEMENT STRATEGY 2017/18

1 Executive Summary

1.1 In accordance with the CIPFA Treasury Management in the Public Services: Code of Practice 2011 and CLG guidance on local authority investments, this report presents the proposed Treasury Management Strategy for 2017/18.

2 Recommendation

2.1 That Cabinet approve the Treasury Management Strategy and Indicators for 2017/18 and recommend them for approval by full Council.

3 Background

3.1 In February 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 which requires the Council to approve a treasury management strategy before the start of each financial year.

3.2 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. 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.

3.3 In accordance with the CLG guidance, should the assumptions on which the proposed strategy is based change significantly, Council approval would be sought for any required revisions. Such circumstances would include, for example, a large unexpected change in interest rates, or in the authority's capital programme or levels of investment balance.

4 Current treasury portfolio

4.1 As at 17 November 2016 the Council's treasury portfolio was as follows:

	Amount £000
Short term deposits	36,473
Money Market Funds	25,906
Instant access	3,999
Long term deposits	13,201

Total investments	**79,579**
	Amount £000
Short term loans	14,400
Long term loans	244,299
Total borrowing	**258,699**

(Short term defined as <365 days remaining to maturity; CCLA Property Fund included in long term)

4.2 The weighted average investment rate on the day was 0.82% (assuming a 3% return on the CCLA Property Fund investment in Q3) and year to date 0.97%. The weighted average borrowing rate on the day was 2.48%.

4.3 The maturity profile of the outstanding investments and borrowing is shown below.

Current Investments		Amount £000
Maturing	2016/17	28,621
	2017/18	8,867
	2018/19	3,001
	2019/20	3,185
	2020/21	2,000
Property Fund		4,000
Instant access & MMFs		29,905
Total		**79,579**

Current Borrowing		Amount £000
Maturing	2016/17	6,800
	2017/18	15,300
	2018/21	55,900
	2021/24	68,300
	2024/28	112,399
Total		**258,699**

4.4 Appendices A, B and C detail all investments at 17 November 2016, provide an analysis of credit risk, counterparty and country exposure, and show balances and fixed term investments from 2009 – 2019.

5 Treasury Management Strategy 2017/18

5.1 The proposed Treasury Management Strategy for 2017/18 is attached at Appendix D. No significant changes to last year's strategy are being made, though the limit on non specified investments, which are generally long term or with unrated counterparties, is being increased from £35m to £45m. This is to reflect a likely increase in use of medium term pooled bond and/or equity funds, which are classed as non-specified. These funds are more volatile in the short term, but highly diversified and are likely to yield higher returns than fixed unsecured deposits with banks or building societies over a one to two year period.

5.2 The increased limit will also allow investment in property funds that are classed as capital expenditure, for which a separate limit of £10m has been established. Use of these funds may be considered alongside the creation of a property company.

6 Property Company

6.1 At the time of writing the Council is actively progressing with the intention to set up a property company for further investment in property during 2017/18. Whilst this activity will be classified as capital expenditure as opposed to treasury activity the Council's overall risk exposure to property values will need to be monitored and managed. As such, the business plan for the company and level of investment will need to have regard to the Council's existing property portfolio and the amount of investment in property funds. There are no changes required to the Treasury Strategy as a result of this proposal.

7 External context

7.1 Attached for information at Appendix E is a commentary from treasury consultants Arlingclose Ltd on the current economic position.

Implications

8 Financial Implications

8.1 No significant changes are being made to lending criteria and in view of the likelihood of Bank Rate remaining at 0.25% for some time, investment income will continue to be limited by low interest rates. For budget setting purposes, the current forecast predicts a return in the region of £450k for 2017/18 based on an assumed average investment balance through the year of £50m and an average return on investments of 0.9%. This income is split between the General Fund and HRA based on monthly fund balances, adjusted for credit risk.

8.2 Investment performance is reviewed monthly, so that any likely changes to this figure can be reported through normal budget monitoring processes.

9 Link to Corporate Priorities

9.1 The subject of this report is linked to the Council's Corporate Priority 'Engage with our communities and provide value for money'.

10 Legal Implications

10.1 Section 151 of the Local Government Act 1972 states that:

"every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

10.2 The proposed strategy complies with this statutory provision.

10.3 The proposed Prudential Indicators comply with the Local Government Act 2003.

11 Climate Change Implications

11.1 There are no climate change implications contained within this report.

12 Risk Management Implications

12.1 The Council's TMS adheres to the CIPFA Code of Practice on Treasury Management, which promotes the assessment and control of risk related to treasury activities. It is believed the proposed Strategy represents an appropriate balance between risk management and cost effectiveness. Utilising the Treasury Management Practices and information provided by advisors Arlingclose, the Council continues to review the national outlook for interest rates and changing factors affecting the Council's position in order to minimise risk.

12.2 Investment budgets are significant in terms of their financial value and the level of risk that may occur due to interest rate variations. Budgets relating to investments are monitored monthly and any major variances affecting the Council's financial standing would be escalated through appropriate methods and reported to members if significant.

13 Equality and Diversity

13.1 An Equality Impact Assessment (EIA) is not required in relation to the proposals that are set out in this report.

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Date	24 November 2016

Background papers:

CIPFA Treasury Management in the Public Services: Code of Practice 2011

DCLG Guidance on Local Authority Investments March 2010