

BRECKLAND DISTRICT COUNCIL

Report of: Suzanne Jones, Executive Director Commercialisation

To: Governance & Audit Committee 9th December 2016

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Subject: Mid-Year Treasury report

Purpose: This report requests Audit Committee to note this update on the Treasury Management Strategy, Policy and Prudential Indicators

Recommendation(s):

- 1) That Audit Committee note the report and the information on treasury activity

1.0 BACKGROUND

- 1.1 Treasury management is defined as: “The management of the local authority’s investments and cash flows, its banking, 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.”

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

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 the Council can meet its capital spending operations.

The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised 2011) has been adopted by this Council. The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the full council of an annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-Year Review report (this report) and an Annual Report (stewardship report) covering activities during the previous year.
4. Delegation by the Council of responsibilities for implementing and monitoring

treasury management policies and practices and for the execution and administration of treasury management decisions.

5. Delegation by the Council of the role of the scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Governance and Audit Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of 2016/17;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2016/17;
- A review of the Council's borrowing strategy for 2016/17;
- A review of compliance with Treasury and Prudential Limits for 2016/17.

1.2 Summary of key issues and changes

As detailed in Appendix 2, the Council continues to use Capita's colour coding methodology to select suitable counterparties and holds instant access cash in AAA rated Constant Net Asset Value (CNAV) Money Market Funds (MMFs) in line with its policy. All MMF's that have European funds have adopted an approach whereby technically they are still a CNAV fund but in reality in a negative interest rate environment the Council could get back less than the full value of its shares. Capita have advised (November 16) that they still support the use of these MMF's because MMF's would reduce fees to ensure they did not enter a negative interest rate environment and if we did enter such an environment, all investments would be at risk. In addition, we would be warned that the MMF was entering a negative interest rate environment. Capita consider a strategy where a counterparty is solely selected on the basis of a true CNAV to be flawed.

However, because we have been specifically notified of this risk by the MMF's, we have been exploring new instant access accounts which will offer reduced interest but aim to reduce the risk of losing principle. We have opened a Government deposit facility (DMADF) which earns 0.15% and we have re-opened the Handelsbanken instant access account also at 0.15%. This is a non-UK counterparty and the balance will reflect any other non-UK investments out at any given time. A further instant access account is required so until such time as we open a further account we will still have some funds in the CNAV MMF's (which does still remain within policy but it is desirable to zero these balances as soon as possible).

The 17/18 Policy documents are also being presented to this meeting as a separate agenda item and that report recommends that MMF's without a true CNAV are removed from the approved counterparty list from 01/04/2017.

Breckland Bridge Loans totalling £1,428,429 were due to be repaid 30th November 2016 but the deadline for repayment has been extended to 28th February 2017 to reflect when sales will occur, generating additional interest receipts for the Council. An additional loan for approx. £450,000 has been agreed in principle for phase 2 of the existing project subject to final details being reviewed.

2.0 OPTIONS

That Governance and Audit Committee note the report and the information on treasury activity

3.0 REASONS FOR RECOMMENDATION(S)

3.1 To comply with the Local Government Act 2003 and to safeguard the Council's financial assets whilst maximising returns

4.0 EXPECTED BENEFITS

4.1 To ensure Members are updated regularly on the Treasury Management service so that they can adequately scrutinise treasury management activity

5.0 IMPLICATIONS

5.1 Financial

The report is of a financial nature and financial details are included in the report and appendices

5.2 Risk Management

We can confirm that risk has been given careful consideration and it is addressed in TMP1 within the Treasury Policy Statement 2016-17

6.0 WARDS/COMMUNITIES AFFECTED

6.1 N/A

7.0 ACRONYMS

7.1 CFR – Capital Financing Requirement

7.2 CIPFA – Chartered Institute of Public finance and Accountancy

7.3 CNAV – Constant Net Asset Value

7.4 DMADF – Debt Management Account Deposit Facility

7.5 MMF – Money Market Fund

7.6 MRP – Minimum Revenue Provision

7.7 PFI – Private Finance Initiative

7.8 TMSS – Treasury Management Strategy statement

Background papers:- None

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Key Decision: No

Exempt Decision: No

This report refers to a Discretionary Service

Appendices attached to this report:

Appendix 1 – Economic Outlook

Appendix 2 – Treasury Management Strategy Statement

Appendix 3 – Current Deposit Schedule