
REPORTS FROM THE EXECUTIVE AND COMMITTEES TO COUNCIL

1 TREASURY MANAGEMENT STRATEGY STATEMENT

- 1.1 This item of business was referred by the Review Committee on 7 February 2017 to Full Council with recommendations on the Council's Treasury Management Strategy for borrowing and investment for 2017/18. An extract of the key elements of the report of the Section 151 Officer to the Review Committee is at Appendix A.
- 1.2 The strategy was scrutinised by the Review Committee in line with the requirements of the Prudential Code for Capital Finance in Local Authorities.
- 1.3 In response to questions raised by Members prior to the meeting, the Section 151 Officer advised the following:
- 1.4 The Capital Financing Requirement (CFR) is the maximum allowable Capital Programme that can be financed through borrowing. The CFR can be updated throughout the year, but must be approved by Council (either directly or through a formal Investment Board recommendation). The CFR is likely to change as the Investment Board starts to make investment decisions. Updates will be made to the Review Committee and can be included in the usual half yearly Treasury Management report, according to the wishes of the Committee.
- 1.5 The entry in the Capital Expenditure table 'Other Earmarked Reserves' of £264,000 is for the Council's 'Cloud' IT project and will be met from the Infrastructure reserve for 2017/18.
- 1.6 The 'equal instalment' method of calculating Minimum Revenue Provision (MRP) is achieved by the provision being split over its usual life equally. The 'annuity' method is where the provision each year is matched to the revenue stream being created, so in years where there is a lower income, there would be a correspondingly lower MRP. Both methods have the same total MRP amount; it is the amount of provision per year that is decided on a case by case basis, depending on the capital investment type and any expected income.
- 1.7 Further to the Review Committee's resolution in April 2016 that the Treasury Management Task and Finish Group looks at what the Council gets in terms of added value for the investment advice service it receives from its Treasury Management advisor, Capita, the Section 151 Officer advised that the current contract is due for renewal in April 2018. The Task and Finish Group, therefore, should look to conclude its work by September 2017 as this would coincide with the commencement of the formal procurement process. The Task and Finish Group could also consider whether Essex County Council should become the provider (as part of the Section 151 role), which would remove the need for a separate advisor altogether.

- 1.8 A Member commented that it was right to have concerns about the commercial property market, as opposed to the private housing market, in the wake of Brexit.
- 1.9 It is difficult to forecast the movement of interest rates but predictions are that they will remain low over the next few years.
- 1.10 In response to a Member question about the opportunities for the Council to make savings by investing in new technologies, the Section 151 Officer advised that the digitisation of some services could be considered. However, investment in technology markets was not considered a prudent approach given the risk adverse nature of the Council's Investment Strategy. Opportunities to maximise income generated by the best use of the Council's capital assets is part of the Investment Board's Asset Register review.

2 RECOMMENDATION

- 2.1 It is proposed that the Council **RESOLVES** to note:
- (1) The Treasury Management Strategy Statement and Annual Investment Strategy including the investments instruments, indicators, limits and delegations contained within the report.
 - (2) The Capital Expenditure Forecasts.
 - (3) The Minimum Revenue Provision Policy for 2017/18.
 - (4) The Authorised Limit for external debt as laid down in the report.

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TREASURY MANAGEMENT STRATEGY STATEMENT

1 POLICY STATEMENT

- 1.1 This report sets out the Council's Treasury Management Strategy for borrowing and investment for 2017/18 and seeks the views of the Review Committee on the approach proposed in this Strategy, before it is presented for approval by Full Council on 14 February 2017.
- 1.2 The investment policy objective for this Council is the prudent investment of its treasury balances. The Council's investment priorities are security of capital and liquidity of its investments so that funds are available for expenditure when needed.
- 1.3 Both the CIPFA Code and the DCLG guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The generation of investment income to support the Council's spending plans is an important, but secondary objective.
- 1.4 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- 1.5 The Council acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is, therefore, committed to the principles of achieving value for money in treasury management and to employing suitable comprehensive performance measurement techniques within the context of effective risk management.

2 REPORTING

- 2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are:-
 - The Prudential and Treasury Indicators and Treasury Strategy (this report), which covers:-
 - the capital plans (including prudential indicators);
 - a minimum revenue provision (MRP) policy (how residual capital expenditure is charged to revenue over time);
 - the treasury management strategy (how the investments and borrowings are to be organised) including treasury indicators; and

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- an investment strategy (the parameters on how investments are to be managed).
 - The Mid Year Treasury Management Report, which will update Members with the progress of the capital position, amending prudential indicators as necessary, and whether the Treasury Strategy is delivering its objectives or whether any policies require revision. In addition, the Executive will receive quarterly updates of the capital programme position.
 - Annual Strategy report (reported to Council in June). This provides details of actual performance compared to the estimates.
 - The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Review Committee.
- 2.2 The Strategy covers:-
- Capital**
- The capital plans and the prudential indicators;
 - The Minimum Revenue Provision (MRP) Strategy;
- Treasury Management**
- Treasury indicators, which will limit the treasury risk and activities of the Council;
 - The current treasury position;
 - The borrowing strategy;
 - Prospects for interest rates;
 - Policy on borrowing in advance of need;
 - The investment strategy;
 - Creditworthiness policy;
 - Benchmarking of other Local Authority plans; and
 - Policy on use of external service providers.
- 2.3 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.
- 2.4 The CIPFA Code requires the responsible financial officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management.
- 2.5 The Council uses Capita Asset Services “Capita” (formerly Sector Treasury Services) as its external treasury management advisors.

3 CAPITAL PRUDENTIAL INDICATORS FOR 2017/18 TO 2019/20

3.1 The Council's capital expenditure plans are one of the key drivers of treasury management activity. The capital expenditure plans are reflected in prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

3.2 Capital Expenditure and the Capital Financing Requirement.

3.3 This prudential Indicator is a summary of the Council's capital expenditure budget for 2017/18, subject to approval at Council on 14 February 2017, both those agreed previously, and those forming part of this budget cycle. The table below also shows how these plans are being financed and any shortfall that will require borrowing. This table does not yet include Capital expenditure for Capital projects, which have not yet been approved through the Investment Board. These will be considered through the year and the CFR will be updated accordingly.

£000s	2016/17 Outturn	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast
Opening CFR	687	687	687	687	687
Capital Expenditure	927	1,024	675	675	675
Financed by:					
Capital receipts		-	-	-	-
Capital grants	250	375	375	375	375
Other Earmarked Reserves	527	264	-	-	-
General Fund	150	285	300	300	300
Capital Financing Reserve	-	100	-	-	-
External Borrowing	-	-	-	-	-
Closing CFR	687	687	687	687	687

The CFR is simply the total historic outstanding capital expenditure, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. The CFR is reduced by the application of resources such as capital receipts, grants or charges to revenue.

4 Minimum Revenue Provision (MRP) Policy Statement

4.1 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

- 4.2 CLG Regulations have been issued, which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to Councils, so long as there is a prudent provision.
- 4.3 There is an historic adjustment arising from the former Housing Revenue Account which results in a negative CFR for the purposes of the MRP calculation. No MRP provision is envisaged in the current capital programme.
- 4.4 However, any future borrowing by the Council will require an MRP recognition through the revenue account, which will be considered as part of any future business case and the preferred method would be the Asset Life method (by way of either Equal Instalment or Annuity).

5 OTHER INDICATORS

The Use of the Council's Resources and the Investment Position

- 5.1 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances:-

Year End Resources £000s	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Fund balances / reserves	2,500	2,500	2,500	3,000	3,500
Capital receipts	71	-	-	-	-
Total core funds	2,571	2,500	2,500	2,500	3,000
Expected investments	1,000	2,000	2,000	2,500	3,000

Affordability Prudential Indicators

- 5.2 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans.
- 5.3 The indicators are designed to support and record local decision making in a manner that is publicly accountable and are not designed to be comparative performance indicators to other organisations. There are no recommended limits or values for the indicators.

- 5.4 These provide an indication of the impact of the capital investment plans on the Council's overall finances. Members are asked to approve the following indicators.

Ratio of financing costs to net revenue stream (revenue budget).

- 5.5 The table below shows the impact of borrowing compared to the general fund. It is negative because the Council does not currently borrow and so this represents only the interest received on investments as a comparison to the revenue budget.

%	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Ratio of Financing Costs to Net Revenue Stream	(1.13%)	(0.59%)	(0.85%)	(1.11%)	(1.36%)

- 5.6 **Incremental impact of capital investment decisions on the band D council tax.** If the capital programme is to be funded through revenue (council tax) this indicator identifies the revenue costs associated with proposed changes to the three year capital programme. The assumptions are based on the budget.

£000's	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate	2020/21 Estimate
Capital Expenditure	927	1,024	675	675	675
Incremental impact of capital investment	(2,207)	97	(349)	-	-
Council Tax Income	6,511	6,750	6,820	6,900	6,970
Council Tax – band D	(0.34)	0.01	(0.05)	-	-

6 BORROWING

- 6.1 Depending on the decisions made on some of the larger capital projects being progressed through the Investment Board, borrowing need will be considered as these materialize on a case by case basis.
- 6.2 Borrowing could be used for “invest to save” projects providing the cost of servicing the debt is contained within the revenue savings/income the project generates, the project generates a positive net present value and the payback period for invest to save projects should be shorter than the life of the asset.
- 6.3 The following issues will be considered prior to undertaking any external borrowing:

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- Affordability
 - Maturity profile of existing debt
 - Interest rate and refinancing risk
 - Borrowing source including Internal
- 6.4 Sources of borrowing. In conjunction with advice from its treasury advisor, the council will keep under review the following external borrowing sources:
- Public Works Loan Board (PWLB) (or its replacement)
 - any institution approved for investments
 - any other bank or building society authorised to operate in the UK
 - UK public and private sector pension funds (except for Essex Pension Fund)
 - Capital market bond investors
 - Local Capital Finance Company and other special purpose companies created to enable local authority bond issues
 - Capital markets (stock issues, commercial paper and bills)
- 6.5 Borrowing would add pressure on the revenue budget as MRP and interest would become payable. The capacity to make these payments would need to be identified in advance, namely the further efficiency savings generated by the investment in the assets.
- 6.6 There are two methods for calculating MRP open to the Council, which are meant for new borrowing under the Prudential system for which no Government support is being given. Both methods make provision over the estimated life of the asset for which the borrowing is undertaken.
- 6.7 Under this, where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. With the Equal Instalment approach, MRP is determined by reference to the life of the asset and an equal amount charged in each year. The Annuity method involves a more complex calculation. Here, MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing.

TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY

The Operational Boundary

- 6.8 This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, limited to 85% of the closing CFR.

- 6.9 The Operational Boundary reflects the most likely (not worst case scenario), and should be a prudent view of the level of gross external indebtedness (borrowing + long term liabilities). It is regularly monitored and any breaches would be investigated promptly.

The Authorised Limit for external debt.

- 6.10 A further key prudential indicator represents a control on the maximum level of borrowing. This represents the upper limit beyond which external debt is prohibited, and this limit can only be revised by Full Council. It reflects the level of external debt which could be afforded in the short term, but is not sustainable in the longer term and provides headroom over and above the operational boundary which should be sufficient for unusual cash limits.
- 6.11 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

The Authorised and Operational limits are based on the assumption that there will be long term borrowing to fund capital expenditure and that borrowing will be to fund long and short term cash flow requirements. The limits include balance sheet liabilities such as finance leases and creditors.

Authorised limit £000s	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate	2018/19 Estimate	2019/20 Estimate
Debt	700	500	500	500	500

Treasury Management Limits on Activity

- 6.12 There are debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance.
- 6.13 The limit indicators are shown separately for borrowing and investments. Fixed rates for investments or borrowing for a period of less than one year are treated as variable by the Prudential Code.

Interest rate Exposures %	2017/18	2018/19	2019/20
	Upper	Upper	Upper
Limits on fixed interest rates:			
Borrowing	75	75	75
Investments	25	25	25
Limits on variable interest rates:			
Borrowing	25	25	25
Investment	75	75	75

7 BORROWING IN ADVANCE OF NEED

- 7.1 The Council has some flexibility to borrow funds for use in future years where a future need for borrowing has been identified. Any decision to borrow in advance will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.
- 7.2 The Section 151 Officer may do this under delegated power where, for instance, a sharp rise in interest rates is expected, and so borrowing early at fixed interest rates will be economically beneficial or meet budgetary constraints. Whilst the Section 151 Officer will adopt a cautious approach to any such borrowing, where there is a clear business case for doing so borrowing may be undertaken to fund the approved capital programme or to fund future debt maturities.
- 7.3 In determining whether borrowing will be undertaken in advance of need the Council will:
- Revenue liabilities created, and the implications for the future plans and budgets have been considered;
 - Economic and market factors that might influence the manner and timing of any decision to borrow;
 - Consider the merits and demerits of alternative forms of funding; and
 - Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use
- 7.4 Borrowing in advance will be made within the constraints that:
- It will be limited to no more than 50% of any expected increase in borrowing need (CFR) over the three year planning period; and
 - Would not look to borrow more than 2 years in advance of need.

- 7.5 Risks associated with any advance borrowing activity will be subject to appraisal in advance and subsequent reporting through the mid-year or annual reporting mechanism. It is unlikely that the Council will require any borrowing in advance of need.

8 ANNUAL INVESTMENT STRATEGY

- 8.1 The Council has no approved plans to deviate from its current investment strategy. A full list of those items already in the 2016/17 strategy are:
- Term and Call Deposits with banks and building societies
 - Term deposits, call deposits and bonds with other UK Local Authorities
 - Certificates of deposit with banks and building societies
 - Deposit Facility
 - Money Market funds (both Standard and Enhanced)
 - Debt Management Agency Deposit Facility (Government Managed)
 - Treasury Bills

CREDIT RATINGS

- 8.2 The Council uses long-term credit ratings from the three main rating agencies Fitch Ratings, Moody's Investors Service and Standard & Poor's Financial Services to assess the risk of investment default. The lowest available counterparty credit rating will be used to determine credit quality, unless an investment-specific rating is available. Credit ratings are obtained and monitored by the Council's treasury advisor, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 8.3 In order to minimise risk and maintain diversity, the Council will have a limit on the amount which can be placed in institution. This limit will also apply to groups. Because the value of investments held at any time can vary by up to £6m, depending on cash flow requirements, it is not considered practical to

have a percentage limit. The limits will be linked to duration and be as follows:-

Capita Colour Coding	Maximum Duration	Maximum Investment
No colour	Not to be used	0
Green	100 days	£6m
Red	6 months	£3m
	100 days	£6m
Orange	1 year	£1m
	6 months	£3m
	100 days	£6m
Blue	1 year	£4m
Purple	2 years	£3m
	100 days	£6m

Organisation	Maximum Duration	Maximum Investment
Debt Management Office (Government Body)	6 months	£14m
Lloyds Bank current account The Council's main banker	On call (can be withdrawn immediately)	£5m
Money Market Funds – AAA long-term credit rating	On call (can be withdrawn immediately)	£5m per fund
Certificates of Deposit and Treasury Bills.	Will follow the Capita Colour Coding limits as per the above table.	Will follow the Capita Colour Coding limits as per the above table.
Local Authorities	1 year	£3m
Local Capital Finance Company Limited	10 years	£10,000 & 0.6% of borrowing

- 8.4 If in the case of a decision to recall or sell an investment at a cost which is over the approved virement limits, the Council's urgent action procedure in its Constitution would be invoked by officers.
- 8.5 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative rating watch" or "negative credit watch") so that it may fall below the approved rating criteria, then only

investments that can be withdrawn in a timely manner will be made with that organisation until the outcome of the review is announced, any further investment with the counterparty would be suspended until its credit rating came back in line with Capita's suggested colour coding. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating. Any counterparty downgrades must be included in the monitoring reports sent to the members of the Treasury Management Task & Finish Group.

9 INVESTMENT STRATEGY

Country Limits

- 9.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ from Fitch Ratings (or equivalent from other agencies if Fitch does not provide).
- 9.2 Following the vote to leave the European Union, the United Kingdom's credit rating dropped to AA from AA+. Upon discussion with our Treasury Management advisers, Capita Treasury Services Ltd, the approval to remove the United Kingdom from this stipulation of credit rating criteria was granted at Full Council 19 July 2016. Capita has advised that it would be very unlikely for a UK institution to be allowed to default, given the Government's robust financial backing and the consequences this might have on the industry as a whole.
- 9.3 Countries other than the UK will be subject to a £3m investment limit for duration of up to one year, subject to Section 151 Officer authorisation.
- 9.4 Those countries which have a sovereign rating of AA+ or higher currently are:

AAA

- Australia
- Canada
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore

- Sweden
- Switzerland

AA+

- Finland
- Hong Kong
- U.S.A.

AA

- United Kingdom

Investment Management

9.5 The Council does not use a fund manager and funds are managed in-house. Investments will accordingly be made with reference to the core balances and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

9.6 **Investment returns expectations.** Bank Rate is forecast to stay flat at 0.25% until quarter 2 of 2019/20 and not rise above 0.75% by quarter 1 2020/21. Bank Rate forecasts for financial year ends (March) are:-

- 2016/ 2017 0.25%
- 2017/ 2018 0.25%
- 2018/ 2019 0.25%
- 2019/ 2020 0.50%

The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year are as follows:

- 2016/ 2017 0.25%
- 2017/ 2018 0.25%
- 2018/ 2019 0.25%
- 2019/ 2020 0.50%
- 2020/ 2021 0.75%
- 2021/ 2022 1.00%

9.7 There are upside risks to these forecasts (i.e. start of increases in Bank Rate occur sooner) if economic growth strengthens. However, should the pace of growth fall back there could be downside risk, particularly given the uncertainty over the final terms of Brexit. If growth expectations disappoint

and inflationary pressures are minimal, the start of increases in Bank rate could be pushed back.

- 9.8 The Council will avoid locking into longer term deals while investment rates are down at historically low levels unless attractive rates are available with counterparties of particularly high creditworthiness which make longer term deals worthwhile and within the risk parameters set by this Council. This will allow the funds to be used for invest to save projects that could generate a far greater return as well as a social benefit and also reduce the need for borrowing and thus interest costs.
- 9.9 It is expected that this authority will have sufficient funds to invest that will realise a return on investments c£30,000 - £40,000 for financial year 2017/18.
- 9.10 At the end of the financial year, the Council will report on its investment activity as part of its Annual Strategy Report.

10 LIQUIDITY RISK MANAGEMENT

- 10.1 This council will ensure it has adequate though not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it at all times to have sufficient liquidity in its investments, taking into account known and potential cash-flow requirements and the level of funds available to it which are necessary for the achievement of its business/service objectives.
- 10.2 Giving due consideration to the Council's level of balances over the next year, the need for liquidity, its spending commitments and provisioning for contingencies, it is considered very unlikely that the Council will have cash balances to invest other than on a temporary basis. For this reason, no cash will be held on term deposit maturities in excess of 1 year.

11 BENCHMARKING OTHER AUTHORITIES

- 11.1 The review committee requested that the performance of other Local authorities be looked at to consider if there were any other opportunities open to the Council for future investment portfolios and to provide an estimate of the potential returns of such schemes.
- 11.2 The graph below shows a comparison of the Rochford District Council's budgeted investment income for 2016/17 compared to the budgeted income for a range of other local authorities.



11.3 From this graph it can be seen that Lancashire, Ashford and Barking & Dagenham are in the upper quartile of budgeted investment returns at an average of 1.67% versus the Rochford target of 1%.

11.4 Those Local Authorities have considered a different risk profile to Rochford District Council and have invested in the following types of products:

- Shares in major banks
- Bonds in Multilateral banks
- Lower credit rating of A- (therefore higher counterparty risk)
- Property funds, such as the CCLA
- Much larger investment amounts (up to £577m) which opens up more products compared to Rochford's circa £8m.

11.5 If Rochford were to pursue a higher risk strategy, which is not being recommended currently, then it could generate an additional £90,000 investment income on top of its £40,000 target for 2017/18.

11.6 However, currently the risk of loss in some of these investments is too great for Rochford District Council and so it is not recommended to consider at this time.

12 CASH AND CASH FLOW MANAGEMENT

12.1 The optimum amount of cash held by the council will depend on working capital needs. The overall amount of working capital needed can be estimated from forecast activity and the cash conversion cycle. Based on 2016/17

activity and 2017/18 budgets average working capital requirements are estimated to be £3.8m for the Council (including 10% variation contingency).

- 12.2 The objective should be to keep low interest cash balances at an optimum and maximise temporary investments. There is likely to be a difference between forecast activity and actual activity and therefore working capital will need to be subject to regular review and report to Treasury Committee / Full Council in the light of changing levels of activity.
- 12.3 The council will prepare reports which include cash flow forecasts and actuals on a 12 month rolling basis so as to be able to determine:
- whether minimum acceptable levels of cash balances plus short-term investments might be (or have been) breached
 - the adequacy (or otherwise) of standby/overdraft facilities or contingency arrangements
 - the optimum arrangements to be made for investing and managing surplus cash.

13 POLICY ON THE USE OF EXTERNAL SERVICE PROVIDERS

- 13.1 The Council uses Capita Asset Services as its external treasury management advisers.
- 13.2 The Council recognises that responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers.
- 13.3 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

14 SCHEME OF DELEGATION

- 14.1 Under the Code, the Council is required to specify its Scheme of Delegation for Treasury Management and the responsibilities of the Section 151 Officer, and this is shown below:-

(i) Council

- receiving and reviewing reports on treasury management policies, practices and activities.
- approval of annual strategy (including the limits and parameters for investment and borrowing activity).
- budget consideration and approval.

- receiving the end of year report on treasury management.

(ii) Review Committee Treasury Management Task & Finish Group

- scrutiny of the three main treasury reports, before recommendation to Council or Executive.

(iii) Executive

- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- approval of the division of responsibilities.
- receiving and reviewing regular monitoring reports and acting on recommendations.

(iv) Audit committee

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

(v) Section 151 officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance.
- submitting regular treasury management policy reports.
- submitting budgets and budget variations.
- receiving and reviewing management information reports.
- reviewing the performance of the treasury management function.
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function.
- ensuring the adequacy of internal audit, and liaising with external audit.
- approving the selection of external service providers and agreeing terms of appointment.

15 RISK IMPLICATIONS

- 15.1 As a debt free authority with a medium term resource strategy identifying the potential for investment income the Council's highest priority in its treasury management function is the security of those investments in accordance with the priorities set out in the CIPFA Code. Where investment returns are short term in nature they should be used to fund one-off expenditure or capital investment and not to balance the base revenue budget.

- 15.2 Sums are invested with a diversified range of counter parties using a wide range of instruments consistent with avoiding the risk of the capital sum being diminished through movements in prices.
- 15.3 This means that the Council whilst fundamentally risk adverse, will accept some modest degree of risk. It will consider first the range of risks and secondly how prudently to manage those different risks. It will ensure that priority is given to security and liquidity when investing funds before seeking to optimise yield. The use of different investment instruments and diversification of high credit quality counter parties along with country, sector and group limits, as set out in the Strategy, enables the Council to minimise the nature and extent of the different risks.

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