

BARNSLEY METROPOLITAN BOROUGH COUNCIL

This matter is a key decision within the Council's definition and has been included within the relevant Forward Plan

Report Ref:

Cabinet:

**Report of the Director of
Finance, Assets and Information Services**

TREASURY POLICY AND STRATEGY STATEMENTS 2016/17

1. Purpose of Report

- 1.1 The purpose of this report is to present for approval the 2016/17 Treasury Policy Statement and Treasury Strategy Statement, including the Annual Investment Strategy.

2. Recommendations

2.1 It is recommended that: -

- **Members note the main treasury management policies, as outlined in the Treasury Policy Statement (Annex A).**
- **Members approve the attached Treasury Management Strategy Statement for 2016/17 (Annex B) including:**
 - **the revised Minimum Revenue Provision (MRP) Statement at Appendix E.**
 - **the Annual Investment Strategy for 2016/17.**

3. Background

- 3.1 The Treasury Management Code of Practice requires local authorities to produce a Treasury Management Strategy and Policy Statement on an annual basis.
- 3.2 The Council adopted the original CIPFA Code of Practice on 13th February 2002, and this resolution is carried through to the revised Code. Therefore, the attached Treasury Policy Statement and Treasury Management Strategy Statements for 2016/17 have been prepared in compliance with the revised Code.

4. Treasury Policy Statement

- 4.1 Attached at Annex A is the Council's Treasury Policy Statement (TPS) for 2016/17. This complies with the requirements of the Code and is submitted for approval.
- 4.2 The TPS defines the Council's policies, objectives and approach to risk management of its treasury management activities. Further detail is contained within the Council's Treasury Management Practices (TMPs) document. This is the key systems document for the Council and the Executive Director of Finance, Assets and Information Services in the operation, review and performance assessment of the Treasury Management function.
- 4.3 The revised code recommends the TPS should include the organisation's high level policies for borrowing and investments and these requirements are addressed within the 2016/17 document.

5. Treasury Management Strategy Statement

- 5.1 Attached at Annex B is the Council's Treasury Management Strategy Statement (TMSS) for 2016/17. This Statement details:
 - Outlook for interest rates;
 - Borrowing requirements & strategy;
 - Annual investment strategy;
 - Approach to risk management;
 - Minimum Revenue Provision statement for 2016/17.
- 5.2 The Authority's treasury management advisor Capita forecasts the first rise in official interest rates in the fourth quarter of 2016 and gradual increases thereafter. The TMSS is based on this interest rate forecast and close monitoring of rates will continue throughout the year.
- 5.3 The Council has developed General Fund and Housing Revenue Account borrowing strategies in response to the changes following the implementation of housing self-financing.
- 5.4 The Council's borrowing strategy will continue to focus on interest costs in order to minimise the impact on the overall revenue budget however it will also seek to address the GF interest rate risk exposure and refinancing risk. The approach will consider a range of options to address these aims including:
 - Continuing the process of internal borrowing;
 - Continuing temporary/short-term borrowing from other local authorities;

- A phased programme of long-term borrowing aimed at reducing interest rate risk and refinancing risk especially for future borrowing;
- Taking fixed rate debt to cover maturities, generating guaranteed savings;
- Restructuring/rescheduling existing debt.

The potential combination of the above approaches should help to keep interest payments at relatively low levels, whilst gradually reducing the General Fund's exposure to interest rate and refinancing risk.

- 5.5 The key aim of the HRA borrowing strategy is to manage the affordability of debt repayments within the 30 year business plan. There is a limited borrowing requirement in 2016/17 and therefore the initial strategy will be to internally borrow.
- 5.6 The TMSS outlines the Council's Minimum Revenue Provision (MRP) statement for 2016/17. The Council will apply Option 3 (Asset Life Method) in respect of supported and unsupported capital expenditure. Within Option 3 revenue provision will be calculated using the annuity method. The MRP Statement for 2016/17 is shown at Appendix E.

6. Annual Investment Strategy

- 6.1 In compliance with CLG Guidance the Council's investment priorities are security, liquidity and then yield.
- 6.2 As a result of the Council's strategy of internal borrowing, investment balances will remain depleted. This approach, combined with low money market rates will reduce the level of investment income.
- 6.3 The Code requires authorities to analyse information over and above credit ratings including share price and Credit Default Swaps (CDS). In tandem with Capita, the Council will continue to monitor these revised indicators of creditworthiness.
- 6.4 We remain in a very difficult investment environment and the 2016/17 investment strategy has been developed to take into account of continuing uncertainty within financial markets. Whilst counterparty risk appears to have eased, market sentiment has been subject to extreme volatility and economic forecasts remain full of uncertainty.
- 6.5 Following a tender process, in June 2015 Capita Asset Services were appointed as the Authority's Treasury Management Advisers. This has resulted in some changes to our approach to the creditworthiness of counterparties which is detailed within the strategy.

7. Consultations

7.1 The Treasury Policy and Strategy Statements were drafted in consultation with the Council's Treasury Management advisers (Capita).

8. Risk Implications

8.1 The successful identification, monitoring and control of risk is an important and integral element of its treasury management activity.

8.2 Credit, interest rate and refinancing risk are the most relevant to the Council at the current time. The following 2016/17 TMSS and TPS sets out how the Council intends to address these risks. An additional Appendix has also been included (Appendix B) within the TMSS which further examines the risks faced by the Council and the mitigations used to address these risks.

8.3 In order to implement the strategy and monitor treasury management activity, the Council has set up a Treasury Management (TM) Panel. Chaired by the Director of Finance, Assets and Information Services and including the Cabinet Spokesperson and Cabinet Support Member for Corporate Services, the TM Panel meets on a quarterly basis to ensure that the approved treasury strategy is implemented.

8.4 To further enhance the scrutiny and risk management of the treasury management operation, treasury officers have been working closely with members of the Audit Committee.

9. Reduction of Crime and Disorder

9.1 None arising directly from this report.

10. Employee Implications

10.1 None arising directly from this report.

11. Financial Implications

11.1 The strategy outlines borrowing and investment activity which will be factored into the wider budget.

12. Annexes

12.1 Annex A - Treasury Policy Statement 2016/17
Annex B - Treasury Management Strategy Statement 2016/17

13. Background Papers

13.1 The following documents and publications were used in preparation of the Treasury Management documents :

- CIPFA's Treasury Management Code of Practice
- CIPFA's Prudential Code for Capital Finance in Local Authorities.
- CIPFA's guide to Housing Self Financing.
- Papers from the Council's Treasury Management advisers (Capita).

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