CABINET REPORT C/16/98 - 18TH JANUARY 2017
TREASURY MANAGEMENT STRATEGY STATEMENT (TMSS) 2017/18

Summary of key points for Overview and Scrutiny Committee on 17th January 2017.

1. **Introduction**
    - Requirement for Full Council to approve a TMSS before the start of each financial year
    - TMSS based on spending plans in current budget cycle
    - Excludes various major asset investment initiatives yet to be submitted to Members for approval

2. **Economic Outlook (Section 2 – Arlingclose View)**
    - Uncertainty will remain during the forthcoming negotiations to leave the European Union
    - GDP has held up well so far but concerns remain moving forward
    - CPI inflation is expected to peak during 2017 at around 3%
    - Interest rates expected to remain around their current historically low levels in 2017/18
    - Further detail in Appendix 1

3. **Borrowing & Investment Position (Section 3)**
    - Table at 3.1 shows the council's underlying borrowing need (Capital Financing Requirement) is forecast to rise through to 2020 (investment in new HRA stock)
    - Currently no new borrowing required as the council is forecast to have sufficient cash resources (reserves and balances) to meet the increase
    - The position is likely to change when new major asset investment initiatives come forward for approval

4. **Borrowing Strategy (Section 4)**
    - Reiterates the message from section 3 that no new borrowing is currently required in 2017/18

5. **Investment Strategy (Section 5)**
    - Priority is security then liquidity of cash invested before yield
    - Low interest rate environment likely to erode some capital value over time (even without negative interest rates)
    - Help to mitigate against the risk of capital erosion by diversifying into asset classes that can track inflation and/or provide enhanced returns while still offering good security

- Propose to follow Arlingclose's recommended asset classes and counterparty list from 2017/18 to provide a wider base of investments available to the council to achieve the diversification sought
- Main changes from 2016/17 are:
    - Addition of Corporates and Registered Providers assets classes
    - Greater use of Pooled Funds
    - Removing current £8m limit on investments in non-UK financial institutions (will still require very high credit quality)

- The Council will adhere to the counterparty credit quality information supplied by Arlingclose in making its investment decisions and the subsequent ongoing monitoring of its investment portfolio

6. Financial Implications (Section 8)

- The table at 8.1 shows that the net cost of interest to the General Fund in 2017/18 is forecast to rise by £77k compared to 2016/17 estimate
- This is mainly due to lower overall returns from the council's investment portfolio

7. Recommendations – as stated