

Report to the Council

Committee: Cabinet

Date: 20 February 2014

Portfolio Holder: Councillor S Stavrou
(Finance and Technology)

TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2014/15 -2016/17

Recommending:

That the following attached documents be adopted:

- (a) Treasury Management Strategy Statement and Annual Investment Strategy 2014/15 to 2016/17;**
- (b) Minimum Revenue Provision (MRP) Statement;**
- (c) Treasury Management Prudential Indicators for 2014/15 to 2016/17;**
- (d) the rate of interest to be applied to any inter-fund balances; and**
- (e) Treasury Management Policy Statement**

(Note: At its meeting on 6 February 2014, the Audit and Governance Committee considered how the risks associated with Treasury Management have been dealt with in the proposed Treasury Management Strategy Statement and Annual Investment Strategy. The Chairman of that Committee will report orally at the Council meeting on any comments or suggestions of that Committee).

Introduction

1. The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management – revised November 2011). There is a requirement for the Council to approve its treasury and investment strategy and prudential indicators each year.
2. The attached strategy has been prepared in line with advice from the Council's treasury advisors, Arlingclose.
3. There are no major changes to the strategy from the current strategy.

Minimum Revenue Provision

4. Each year the Council has to approve its statement on the Minimum Revenue Provision (MRP). The Council has taken on debt of £185.5m and this would normally require the local authority to charge MRP to the General Fund. The Department for Communities and Local Government has produced regulations to mitigate this impact, whereby the Council can ignore the borrowing incurred in relation to the Housing Self-financing when calculating MRP and therefore, (for MRP purposes only) the Council is classed as debt free and does not have to make provision for MRP. However, the Council may undertake additional borrowing before or after additional capital spending. This will require MRP in the year following, 2015/16

Inter-fund balances

5. The Council has inter-fund borrowed for many years between the General Fund and Housing Revenue Account and the interest charge made between the funds has been based on the average interest earned on investment for the year. As the Council has been undertaking inter-fund borrowing for many years, we are proposing to continue to use the average interest earned for the year on investments as the rate for any inter-fund borrowing.

Policy Statement

6. The Treasury Management Policy Statement is a high level statement setting out how the Council Treasury function will be undertaken. The Policy Statement was last updated as part of the 2013/14 Treasury Strategy and no amendments are proposed at this time.

Current Investments

7. The Council's investments are all denominated in UK sterling and the treasury officers receive regular information from our treasury advisors on the latest position on the use of Counterparties. The latest information supplied is as follows:

UK Banks and building societies:

- (a) a maximum maturity limit of 12 months applies to HSBC, Standard Chartered, Barclays Bank and Nationwide Building Society;
- (b) a maximum maturity limit of 6 months applies to Lloyds TSB, Bank of Scotland;
- (c) a maximum maturity limit of 100 days applies to Santander UK plc; and
- (d) a maximum maturity limit of overnight applies to RBS and Nat West.

European Banks:

- (a) a maximum maturity limit of 100 days applies to Credit Suisse, ING Bank and Landesbank Hesses-Thuringen;
- (b) a maximum maturity limit of 6 months applies to Pohjola Bank; and

- (c) a maximum maturity limit of 12 months applies to Svenska Handelsbanken, Rabobank, Bank Nederlandse Gemeeten, Deutsche Bank, and Nordea Bank.

Non European Banks:

A maximum maturity limit of 12 months applies to Australian, Canadian and US banks that are on our list.

Money Market Funds:

A maximum exposure limit of 10% of the total investment per MMF.

8. The Council currently has an investment portfolio of £61m, this will vary from day to day, depending on the cash flow of the authority. A breakdown of this portfolio by Country and length of time remaining on investments are shown in the two tables below.

Country of counterparty	£m
United Kingdom	51.0
Canada and United States of America	0.0
Australia	0.0
Ireland **	2.0
Sweden	8.0
Total	61.0

** The investments shown under Ireland relates to Money Market Funds that are AAA rated and approved to be used by Arlingclose.

Maturity profile of investment as at 31 December 2013	£m
Overnight (Call / Money Market Fund)	16.0
Up to 7 days	5.5
7 days to 1 month	5.0
1 month to 3 months	16.2
3 months to 6 months	5.0
6 months to 9 months	2.0
9 months to 1 year	1.3
Greater than 1 year	10.0
Total	61.0

9. The continued low interest rates, the use of fewer counterparties and the shorter durations of investments have reduced estimated interest income for 2014/15 to £399,000.

10. Following our meeting on 3 February 2014, the Audit and Governance Committee were due to consider this matter at its meeting on 6 February 2014 and the Chairman of that Committee will report orally at the Council meeting on the views of that Committee.

11. We recommended as set out at the commencement of this report.