

## ***Report to the Cabinet***

**Report reference:** C-066-2014/15  
**Date of meeting:** 2 February 2015



**Portfolio:** Finance

**Subject:** Treasury Management Strategy Statement and Investment Strategy 2015/16 to 2017/18

**Responsible Officer:** Simon Alford (01992 564455).

**Democratic Services Officer:** Gary Woodhall (01992 564470).

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### **Recommendations/Decisions Required:**

(1) That Cabinet considers and, after amendment where necessary, recommend the following to Council for approval:

- (a) Treasury Management Strategy Statement and Annual Investment Strategy 2015/16 to 2017/18;
- (b) Minimum Revenue Provision (MRP) Strategy;
- (c) Treasury Management Prudential Indicators for 2015/16 to 2017/18;
- (d) The rate of interest to be applied to any inter-fund balances; and
- (e) Treasury Management Policy Statement.

### **Executive Summary:**

The Council is required to approve the Treasury Management Strategy and Prudential Indicators and a statement on the Minimum Revenue Provision (MRP) before the start of each financial year.

The strategies, as amended if necessary, will be scrutinised by the Audit and Governance Committee on 5 February 2015 prior to consideration by Council on 17 February 2015.

### **Reasons for Proposed Decision:**

The proposed decision is necessary to ensure we comply with CIPFA Code of Practice on Treasury Management.

### **Other Options for Action:**

Members could ask for additional information about the Treasury Management Strategy, or could decide that alternative indicators are required.

## **Report:**

### 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 Council to approve its treasury and investment strategy and prudential indicators each year.
2. The Strategy was prepared in line with advice from our treasury advisors Arlingclose. The attached report at Appendix 1 shows the Treasury Management Strategy Statement and Annual Investment Strategy 2015/16 to 2017/18.
3. There have been no major changes to the strategy from the current strategy approved in February 2014. However, Members should be aware of the following:

### Minimum Revenue Provision

4. Each year the Council has to approve at Full Council its statement on the Minimum Revenue Provision (MRP). In previous years the Council has been debt free and therefore, we did not have to provide MRP in our accounts. However, the Council took on debt of £185.5m and this would normally require the local authority to charge MRP to the General Fund. CLG have produced regulations to mitigate this impact, whereby we can ignore the borrowing incurred in relation to the Housing Self-financing when calculating MRP and therefore, (for MRP purposes only) we are classed as debt free and do not have to make provision for MRP. However, the Council may undertake additional borrowing before or after additional capital spending. This will likely require a Minimum Revenue Provision in the year following, 2016/17.

### 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. Under draft regulations issued by CIPFA, it is now proposed that the interest rate applicable to any inter-fund borrowing should be approved by Full Council before the start of the financial year. As the Council has been undertaking inter-fund borrowing for many years, it is proposed 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 2014/15 Treasury Strategy. The Policy is attached at Appendix G for Cabinet to consider, no amendments are currently proposed.

### 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:**

1. A maximum maturity limit of 12 months is no longer applicable;

2. A maximum maturity limit of 6 months to Lloyds TSB, Bank of Scotland, Santander UK, HSBC, Nationwide Building Society and Standard Chartered;
3. A maximum maturity limit of 100 days applies to Barclays plc;
4. A maximum maturity limit of Overnight applies to RBS and NatWest.

**European Banks:**

1. A maximum maturity limit of 100 days applies to Credit Suisse and ING Bank;
2. A maximum maturity limit of 6 months applies to Svenska Handelsbanken, Rabobank and Bank Nederlandse Gemeenten;
3. A maximum maturity limit of 12 months is no longer applicable.

**Non European Banks:**

A maximum maturity limit of 6 months applies to Australian, Canadian, US and other banks that are on our list.

**Money Market Funds:**

A maximum exposure limit of 10% of our total investment per MMF

8. The Council currently has an investment portfolio of £63.3m, 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.

<b>Country of counterparty</b>	<b>£m</b>
United Kingdom	55.3
Canada and United States of America	0.0
Australia	0.0
Ireland	0.0
Sweden	8.0
<b>Total</b>	<b>63.3</b>

<b>Current maturity profile of investments</b>	<b>£m</b>
Overnight (Call / Money Market Fund)	24.3
Up to 7 days	0.0
7 days to 1 month	10.0
1 month to 3 months	15.0
3 months to 6 months	4.0
6 months to 9 months	5.0
9 months to 1 year	0.0
Greater than 1 year	5.0
<b>Total</b>	<b>63.3</b>

**Resource Implications:**

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 £400,200.

**Legal and Governance Implications:**

The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10 or since);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the ODPM (now DCLG) has issued Investment Guidance to structure and regulate the Council's investment activities.

Under section 21(1)AB of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007.

**Safer, Cleaner and Greener Implications:**

None.

**Consultation Undertaken:**

The Council's external treasury advisors provided the framework for this report and have confirmed that the content satisfies all regulatory requirements.

**Background Papers:**

None

**Risk Management:**

As detailed in the appendices, a risk aware position is adopted to minimise the chance of any loss of the capital invested by the Council.

# Due Regard Record

This page shows **which groups of people are affected** by the subject of this report. It sets out **how they are affected** and how any **unlawful discrimination** they experience can be eliminated. It also includes information about how **access to the service(s)** subject to this report can be improved for the different groups of people; and how they can be assisted to **understand each other better** as a result of the subject of this report.

S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

No groups of people are affected by this report which is not directly service related.