

## **Report to the Cabinet**

**Report reference:** C-055-2011/12  
**Date of meeting:** 30 January 2012



**Portfolio:** Finance & Economic Development

**Subject:** Council's Treasury Management Strategy Statement and Investment Strategy 2012/13 to 2014/15

**Responsible Officer:** Brian Moldon (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 2012/13 to 2014/15;
  - (b) Minimum Revenue Provision (MRP) strategy;
  - (c) Treasury Management Prudential Indicators for 2012/13 to 2014/15;
  - (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 9 February 2012 prior to consideration by Council on 14 February 2012.

### **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 2009). 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 2012/13 to 2014/15.
3. There have been no major changes to the strategy from the current strategy approved in July 2011. 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 is taking on debt of around £186m and this would normally require the local authority to charge MRP to the General Fund. CLG has produced draft regulations intended 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.

### 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 mission statement for how the Council Treasury function will be undertaken. The Policy Statement was last updated as part of the 2010/11 Treasury Strategy following the changes made to the Code in November 2009.
7. CIPFA has now updated this Policy to include a high level statement for borrowing and investments. This amended Policy is attached at appendix 2 for Council to approve. Our treasury advisors are still in the process of considering the best possible borrowing schedule for the Council, based on the 30 year financial plan. Once this has been received an updated treasury strategy will be issued with completed tables under the Gross and Net Debt, Interest Rate Exposures and Maturity Structure of fixed rate borrowing indicators.

### Current Investments

8. The Council's investments are all denominated in UK sterling and 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 3 months applies to HSBC and Standard Chartered
2. A maximum maturity limit of 1 month to Barclays Bank, Lloyds TSB, Bank of Scotland, Royal Bank of Scotland, National Westminster, and Nationwide Building Society.
3. A maximum maturity limit of overnight applies to Santander UK plc.

**European Banks:**

All temporarily suspended for new investments.

**Non European Banks:**

A maximum maturity limit of 3 months applies to Australian, Canadian and US banks that are on our list.

**Money Market Funds:**

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

9. The Council currently has an investment portfolio of £55m, 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	34.6
France	4.0
Australia	5.0
Ireland **	11.4
<b>Total</b>	<b>55.0</b>

\*\* Please note that the investments shown under Ireland relates to Money Market Funds that are AAA rated and approved to be used by Arlingclose, however they are domicile in Ireland for tax purposes only.

<b>Maturity profile of investment as at 18 January 2012</b>	<b>£m</b>
Overnight (Call / Money Market Fund)	23.0
Up to 7 days	7.0
8 days to 1 month	5.0
1 month to 3 months	15.0
3 months to 6 months	0.0
6 months to 9 months	5.0
<b>Total</b>	<b>55.0</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 2012/13 to £561,000.

### **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);
- 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.

### **Impact Assessments:**

#### 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.

#### Equality and Diversity

*Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?*

No

*Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?* N/A

*What equality implications were identified through the Equality Impact Assessment process?*  
N/A

*How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?*  
N/A