

## Scrutiny Panel

27 January 2015

Item  
**15**

Report of	Assistant Chief Executive	Author	Steve Heath ☎ 282389
Title	Treasury Management Strategy Statement		
Wards affected	Not applicable		

**This report presents the 2015/16 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for pre-scrutiny prior to its submission to Cabinet and Council as part of the final budget process**

### 1. Action Required

- 1.1 The panel is asked to review the 2015/16 Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy prior to it being considered by Cabinet and Full Council as part of the 2015/16 budget report.

### 2. Reasons for Scrutiny

- 2.1 The Council agreed to adopt the revised CIPFA Treasury Management in the Public Services Code of Practice on 17 February 2010. The Code requires the Council to approve an annual Treasury Management Strategy Statement, which should be submitted for scrutiny prior to the start of the year to which it relates, and to keep treasury management activities under review.
- 2.2 The Local Government Act 2003 introduced new freedoms for local authorities though the prudential borrowing framework. It also requires the Council to set Prudential and Treasury Indicators to ensure that capital investment plans are affordable, prudent and sustainable.

### 3. Treasury Management Strategy

- 3.1 The proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy (TMSS) for 2015/16 is included as a background paper to this report. The follow paragraphs contain a summary of the strategy for 2015/16, which covers the following issues:
  - the capital plans and the prudential and treasury indicators;
  - the Minimum Revenue Provision (MRP) Policy;
  - the current treasury position;
  - the economic background and prospects for interest rates;
  - the borrowing strategy;
  - the investment policy and strategy; and
  - the policy on use of external service providers.
- 3.2 The Council's Prudential and Treasury Indicators for 2015/16 through to 2017/18 have been produced to support capital expenditure and treasury management decision making, and are designed to inform whether planned borrowing and the resultant

revenue costs are affordable and within sustainable limits. The indicators take into account all the economic forecasts and proposed borrowing and investment activity detailed in the report.

- 3.3 The Minimum Revenue Provision (MRP) Policy Statement for 2015/16 states that the historic debt liability will continue to be charged at 4%, with the charge for more recent capital expenditure being based on the useful life of the asset and charged using the equal annual instalment method.
- 3.4 The UK bank rate has been unchanged from a historically low 0.5% since March 2009. The current view from the Council's treasury advisers is that the Bank Rate is expected to remain unchanged until quarter 4 of 2015. **Appendix A** to the TMSS draws together a number of current forecasts for short term and longer term interest rates.
- 3.5 The Council is currently maintaining an under-borrowed position. The borrowing strategy is to reduce the difference between gross and net debt by continuing to 'borrow internally', which is primarily due to investment rates on offer being lower than long term borrowing rates. This has the advantages of maximising short-term savings and reducing the Council's exposure to interest rate and credit risk. This approach is intended to be maintained during the year.
- 3.6 The investment policy reflects the Council's low appetite for risk, emphasising the priorities of security and liquidity over that of yield. The main features of the policy are as follows:
- The Council will only invest with institutions with the highest credit ratings, taking into account the views of all credit rating agencies and other market data when making investment decisions.
  - The Council will use the creditworthiness service provided by Capita Asset Services, which combines data from credit rating agencies with credit default swaps and sovereign ratings.
  - The Council will only use approved counterparties from countries with the highest credit rating of 'AAA', together with those from the UK.
  - The suggested budgeted return on investments placed for periods up to 100 days during the year is 0.60%.
  - The Council will now consider longer-term deals if attractive rates are available within the risk parameters set by the Council.
- 3.7 Investment instruments identified for use in 2015/16 are detailed in **Appendix B** of the TMSS. The investment limits shown focus solely on short and long-term ratings to reflect the changes to Capita Asset Services' credit rating methodology detailed in the report. It should also be noted that whilst this table includes a wide range of investment instruments, it is likely that a number of these will not be used. However, their inclusion enables the required credit controls to be stated if their use is to be considered.

#### **4. Strategic Plan References**

- 4.1 Prudent treasury management underpins the budget strategy required to deliver all Strategic Plan priorities.

#### **5. Financial Implications**

- 5.1 Interest paid and earned on borrowing and investments is shown within the Central Loans and Investment Account (CLIA). The strategy documents have been produced with reference to the agreed CLIA budget for 2015/16.

## **6. Risk Management Implications**

- 6.1 Risk Management is essential to effective treasury management. The Council's Treasury Management Statement contains a section on treasury Risk Management (TMP1).
- 6.2 TMP1 covers the following areas of risk all of which are considered as part of our treasury management activities:
- Credit and counterparty risk
  - Liquidity risk
  - Interest rate risk
  - Exchange rate risk
  - Refinancing risk
  - Legal and regulatory risk
  - Fraud, error and corruption, and contingency management
  - Market risk

## **7. Standard References**

- 7.1 Having considered consultation, and publicity, equality, diversity and human rights, health and safety and community safety implications, there are none which are significant to the matters in this report.

### **Background Papers**

Treasury Management Strategy Statement 2015/16