Meeting:	**Executive**
Date:	**10 January 2011**
Subject:	**Treasury Management Strategy**
Report of:	**Cllr Maurice Jones, Executive Member for Corporate Resources**
Summary:	The report provides a brief summary of the proposed changes to the Treasury Management Policy and the Treasury Management Strategy.

Advising Officer:	Charles Warboys, Chief Finance Officer
Contact Officer:	Charles Warboys, Chief Finance Officer
Public/Exempt:	Public
Wards Affected:	All
Function of:	Council
Key Decision	No
Reason for urgency/ exemption from call-in (if appropriate)	N/A

CORPORATE IMPLICATIONS

Council Priorities:

Not applicable.

Financial:

1. Although there is not a direct financial cost arising from this report. The report looks at the cost relating to the capital programme and it outlines the instruments the Council can use for its investments and debt.

Legal:

2. Central Bedfordshire's Strategy is in line with the requirements of the Treasury Management in the Public Sector Code of Practice and The Prudential Code for Capital Finance in Local Authorities.

Risk Management:

3. The Strategy requires the consideration of risk in all treasury management undertakings.

Staffing (including Trades Unions):

4. None.

Equalities/Human Rights:

5. None.

Community Safety:

6. None.

Sustainability:

7. None.

Procurement:

8. None.

Overview and Scrutiny:

9. Customer and Central Services Overview and Scrutiny Committee considered the Strategy and Policy at its meeting on 28 November 2011.

RECOMMENDATION:

The Executive is asked to:

1. recommend to Council to approve the Treasury Management Policy and the Treasury Management Strategy.

Reason for Recommendation:	*To put an effective treasury management framework in place for the Council.*

Executive Summary

10. Central Bedfordshire annually agrees its Treasury Management Policy and Treasury Management Strategy. In response to the greater risk and uncertainty in investment markets CIPFA revised both the Treasury Management Code of Practice and the Prudential Code for Capital Finance in Local Authorities in November 2011. There continues to be a greater focus on risk in the two codes and this is recognised in the strategy.

Introduction

11. Local authority investments have been placed under greater scrutiny following the failure of the Icelandic Banks and from the failure and/or nationalisation of UK banks. In March 2009 the Audit Commission published their 'Risk and Return' report, the recommendations from which were addressed in the revised Treasury Management in the Public Sector Code of Practice. The Prudential Code for Capital Finance in Local Authorities was also revised in light of the greater risk now evident in investment markets.

12. The Treasury Management Policy is attached at Appendix A; this was revised in accordance to both the Code and is subject to review every three years, i.e. next due for review in 2015.

13. A revised Treasury Management Strategy is attached at Appendix B. The authority considers its Treasury Management Strategy against the key objectives of being tactically flexible whilst maintaining control.

14. This report summarises the changes to the Treasury Management Strategy as a result of continuous review with our external advisers, Arlingclose.

15. The reform of the Housing Revenue Account at a national level will mean major changes to the Authority's financing arrangements. These necessitate revising the original 2011-12 Treasury Management Strategy.

Treasury Management Policy

16. A number of changes have been made to the Treasury Management Policy adopted by the Council in February 2010. The new Policy is attached at Appendix A.

17. The Treasury Management Policy sets out the objectives and the regulatory requirements of the Authority's Treasury Management Function as well as making consistent reference throughout to the Chief Finance Officer, (job title change from the Assistant Director of Finance). The definition of Treasury activity has been altered to include the management of investments.

18. The other main change to the policy is around the Council's borrowing. It states that the "Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt".

19. The Policy also reinforces that the Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Authority's investments followed by the yield earned on investments remain important but are secondary considerations.

Treasury Management Strategy 2011/12

20. The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators on an annual basis. The TMSS also incorporates the Investment Strategy as required under the CLG's Investment Guidance

Housing Revenue Account Self Financing

21. Under the existing housing subsidy system Councils with housing stock are required to prepare a notional Housing Revenue Account using a set of predetermined factors for such items as maintenance costs and rental income to reflect the mix and age of the housing stock. The current year, 2011-12, will be the last year of the existing system. Under a new financing system, councils will be responsible for financing of the Housing Revenue Account, and the existing system of grants and payments will end. To fund this central government will be making payments to certain local authorities and in the case of the Council and other local authorities that currently contribute to the scheme, transferring an allocation of the national debt liability. The debt liability transfer is in the region of £165.7million for Central Bedfordshire, with a final figure to be confirmed in January 2012. The debt transfer is to take place on the 28 March 2012. Under the new system the Council will be able to keep all of the rental income from its own housing stock.

22. A key issue is how the transferred debt will be financed. Recent central government announcements have indicated that authorities that will be having debt transferred will now be able to borrow at preferential rates from the Public Works Loans Board (PWLB) rather than from the money markets by way of loans or bonds.

23. In light of this reform with a one–off reallocation of debt the Council has revised its prudential indicators for 2011/12, to allow for the additional borrowing required. The key impact of this change is set out in paragraphs 18 and 19 below in the form of the Councils Authorised Limit and Operational Boundary. Other operational changes are described in the Treasury Management Strategy.

24. The Strategy also delegates the power to increase investment limits to the Chief Finance Officer, where required, if the HRA borrowing is taken out in advance of the March transfer date under advice from our advisers, Arlingclose.

Counterparty Lists

25. In light of the recent downgrading of major banks in the United Kingdom the Council has in consultation with its external advisers, lowered its credit rating limit to include all categories A banks/building societies within its counterparty listings i.e. include A-. This change is necessary as the counterparty arrangements agreed in the original 2011/12 Treasury Management Strategy severely restricts the ability of the authority to diversify its portfolio of investments, hence spreading risk.

26. The Strategy also allows the Council's banker NatWest to be used, should there be a downgrade to their credit ratings to a level below the Council's minimum criteria the Council will continue to use the bank on an operational basis for short term liquidity investments (overnight and weekend investments) and for business continuity arrangements.

Authorised Limits and Operational Boundary

27. As previously described changes in the Housing Revenue Account Self Financing arrangement requires the Treasury Management Strategy to revise its Authorised limit and Operational boundary for 2011/12.

28. The Authorised Limit has been revised from £272m to £435m for 2011/12 and an Authorised limit of £455m has been set for 2012/13. This represents the maximum level of external borrowing on a gross basis.

29. The Operational Boundary has been revised from £257m to £414m for 2011/12 and an Operational Boundary of £434m has been set for 2012/13. These limits link directly to the Capital Financing Requirement and estimates of other cashflow requirements.

30. Both the Authorised and Operational boundaries are based upon the Councils Capital Financing Requirement (CFR) plus planned capital expenditure plus any unusual cashflow requirements the only difference being the authorised limit is increased to provide headroom over and above the operational boundary. Therefore both limits have been increased for 2011-12 to take in to account the increase in debt which will take place as part of the Housing Reform, as well as the revised capital program.

Treasury Management Dashboard

31. For information, the Treasury Management Dashboard is attached at Appendix C to the report. The authority has participated in CIPFA's half yearly benchmark survey and has therefore been able to evaluate its treasury management activities against 46 other local authorities to gain additional understanding of its treasury management performance in a wider context. The key benchmarked information is included within the dashboard and the report.

32. There is no change in the Council's Debt Portfolio as no new long term borrowing has been taken out by the Council this year. Internal resources, in lieu of borrowing, were utilised during the year as to fund capital commitments.

33. The decision to use internal resources in lieu of borrowing to fund capital expenditure together with the reduction in cash balances due to the schools transferring to a fully funded status has had an impact on investment income, Therefore it is expected interest income to be lower than budgeted figure of £1.3M.

34. The Council was able to obtain an average rate of return of 1.74% compared to benchmark authorities' average of 1.23%, as shown in B2 on the Treasury Management Performance Dashboard. The level of average cash held by the Council was £71m for the first half of the year which is considerably lower than benchmarked Authorities which held £106.2M.

35. The range of daily cash movements in the first half of the year has ranged between net payments of £18M and income of £14M. The volatility of the cash movement is set out in *C1 on the Treasury Management Performance Dashboard.*

36. The gross cash movement of the Council has ranged between £49m to £79m within a calendar month. In order to facilitate these cash movements the Council will typically keep up to £24M in liquid cash that is allowed to 'run down', and build up in the course of the month. The range of cash outflows and inflows is set out in *C2 on the Treasury Management Performance Dashboard.*

Appendices:

Appendix A	Treasury Management Policy
Appendix B	Treasury Management Strategy, 2011- 2016

Background Papers (open to public inspection):
Treasury Management in the Public Sector Code of Practice, edition 2011
The Prudential code for Capital Finance in Local Authorities, edition 2011

Location of papers: Technology House, Bedford