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**Meeting:** Corporate Resources Overview & Scrutiny Committee  
**Date:** 27<sup>th</sup> January 2015  
**Subject:** Treasury Management Strategy And Treasury Policy  
**Report of:** Cllr Maurice Jones , Deputy Leader and Executive Member for Corporate Resources  
**Summary:** This report outlines the Draft Treasury Policy and Treasury Management Strategy for 2015-16

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**Advising Officer:** Charles Warboys, Chief Finance Officer  
**Contact Officer:** Ralph Gould, Head of Financial Control  
**Public/Exempt:** Public  
**Wards Affected:** All  
**Function of:** Executive

#### **CORPORATE IMPLICATIONS**

##### **Council Priorities:**

1. Effective management of the Council's financial resources and the associated risks is a cornerstone to the delivery of the Council's priorities.

##### **Financial:**

2. The Council's Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) are derived from the Medium Term Financial Plan (MTFP). The TMSS and PIs are explained within the body of this report.
3. Treasury management is defined by the Chartered Institute of Public Finance and Accountancy's (CIPFA) *Treasury Management in the Public Services: Code of Practice (2011 Edition)* as: 'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

**Legal:**

4. The Council's treasury management activities are regulated by statute, professional codes and official guidance. The Local Government Act 2003 (the Act) provides the powers to borrow and invest as well as providing controls and limits. Under the Act, Communities and Local Government has issued Guidance on Local Government Investments (revised March 2010) to structure and regulate the Council's investment activities. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 – Statutory Instrument (SI) 3146 (plus subsequent amendments), 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 (2011 Edition)*. The SI also requires the Council to operate the overall treasury function with regard to the CIPFA *Treasury Management in the Public Services: Code of Practice (2011 Edition)* (the Code of Practice).

CIPFA revised the Code of Practice in November 2011 to reflect developments in financial markets and the introduction of the Localism Act for English local authorities

**Risk Management:**

5. The approved strategy aims to manage the risks to the Council's finances from instability in financial markets.

**Staffing (including Trades Unions):**

6. Not Applicable.

**Equalities/Human Rights:**

7. Not Applicable.

**Public Health**

8. Not Applicable.

**Community Safety:**

9. Not Applicable.

**Sustainability:**

10. Not Applicable.

**Procurement:**

11. Not applicable.

## **RECOMMENDATION(S):**

### **The Committee is asked to:-**

Consider the report and submit comments to the Executive as considered necessary.

The reason for recommendations is to put an effective treasury management framework in place for the Council.

## **Background**

12. The Council's TMSS has been underpinned by the adoption of CIPFA's Code of Practice, which includes the requirement for determining a treasury strategy covering the likely financing and investment activity for the forthcoming financial year.
13. An updated Treasury Management Policy Statement is attached in Appendix A; this was revised February 2012 and is subject to review every three years. A revised TMSS is attached in Appendix B with the updated PIs in Appendix C.
14. The Code requires the TMSS for the year to be approved by Council, and it will be submitted for approval on 26<sup>th</sup> February 2015. Local arrangements require the Corporate Resources Overview & Scrutiny Committee to scrutinise the proposed revised strategy on an annual basis. Both the Policy and the Strategy documents are proposed to be presented to the Executive on 10<sup>th</sup> February 2015 for recommendation to Council.
15. This report summarises the changes to the Treasury Management Policy and the TMSS as a result of continuous review with our external advisers, Arlingclose Ltd.

## **Treasury Management Policy**

16. It is the Council's responsibility to approve a Treasury Management Policy Statement on a periodic basis. This Policy will be reviewed every three years or whenever legislative, regulatory or best practice changes materially impact the effectiveness of the current Policy. This is the triennial review since the Treasury Management Policy Statement was adopted by Council in February 2012.
17. The Treasury Management Policy sets out the objectives and the regulatory requirements of the Council's treasury management function.

18. The principal objectives of this Treasury Management Policy Statement are to provide a framework within which:
  - i) risks which might affect the Council's ability to fulfil its responsibilities or which might jeopardise its financial security, can be identified
  - ii) borrowing costs can be minimised whilst ensuring the long term security and stability of the Council's financial position
  - iii) Investment returns can be safely maximised and capital values maintained.
19. Section 4.2 of the Treasury Management Policy Statement (Appendix A) now also refers to the inclusion of a policy on the use of financial derivatives and a policy on apportioning interest to the Housing Revenue Account (HRA) in the TMSS.

### **Treasury Management Strategy Statement**

20. CIPFA's *Treasury Management in the Public Services: Code of Practice (2011 Edition)* and their *Prudential Code for Capital Finance in Local Authorities (2011 Edition)* require local authorities to determine the TMSS on an annual basis.
21. The TMSS is included in Appendix B, and comprises three main components:
  - i) the 'External Context', drafted by the Council's external treasury advisers, Arlingclose Ltd. This is important as the rate at which the Council can borrow and the return it will obtain on cash balances are linked to the performance of the wider UK and global economy.
  - ii) a Borrowing Strategy, including the approved sources of long term and short term borrowing.
  - iii) an Investment Strategy, including the type of institutions the Council is able to place its cash with and the limits with each type of institution.
22. The TMSS also includes other items that the Council is required by CIPFA and the Department for Communities and Local Government (CLG) to include as part of its strategy, including the Council's policy on the use of financial derivatives, interest charges between the HRA and the General Fund and borrowing in advance of need.

23. The main changes to the TMSS for 2015/16 are:

- a lower minimum credit rating criteria for acceptable investment counterparties from A- (or Moody's equivalent of A3) to BBB+ (or Moody's equivalent of Baa1), which was approved by Council at the meeting of 27<sup>th</sup> November 2014. This change allows the Council flexibility to continue to invest with the major UK banks and building societies in the event of further downgrades in credit ratings arising from the UK implementing the final bail-in provisions of the EU Bank Recovery and Resolution Directive. This implementation is planned to commence in January 2015, a year ahead of most other European countries.
- an increase to the non-specified cash limit for total investment rated below a credit rating of A- (or Moody's equivalent of A3) from £15m to £30m in recognition of a lower minimum credit rating criteria as outlined above, which was approved by Council at the meeting of 27<sup>th</sup> November 2014.
- a reduction in the investment counterparty limit for any single organisation (or group of organisations under the same ownership) from £15m to £7m in order to manage credit risk, which was approved by Council at the meeting of 27<sup>th</sup> November 2014.
- an increase to the short-term fixed rate maturity borrowing limit from 20% to 30% of overall debt to facilitate an increased use of short term debt in line with the strategy for new borrowing. The intention is to minimise the revenue cost of debt, whilst acknowledging the latest market forecasts on interest rates.
- the PIs below have been updated in line with the latest draft Capital Programme.

### **Prudential Indicators**

24. The CIPFA *Prudential Code for Capital Finance in Local Authorities (2011 Edition)* requires performance against specified key indicators to be measured and reported on a regular basis. The purpose of these indicators is to demonstrate prudence, affordability and sustainability.

25. An explanation of PIs is included in Appendix C. Key objectives of the indicators are to:
- ensure borrowing is less than the Council's Capital Financing Requirement (CFR), demonstrating that all long term borrowing has been undertaken for capital purposes in line with the Prudential Code
  - set the Council's authorised and operational borrowing limits
  - show the percentage of the revenue budget required to be spent on financing borrowing
  - show the incremental impact of new capital investment decisions on Council Tax and housing rent levels.
26. PIs are monitored throughout the year and reported to Members at Council mid-year and at the end of the financial year, in line with the best practice requirements outlined in the CIPFA Treasury Management Code of Practice.
27. Appendix C also includes a statement of the Council's Minimum Revenue Provision (MRP) policy, used to calculate the amount the Council is annually required to set aside towards repaying its CFR.

**Background Papers:**

None

**Appendices:**

Appendix A – Treasury Management Policy

Appendix B – Treasury Management Strategy Statement

Appendix C – Prudential Indicators and MRP Statement