

## FOR PUBLICATION

### TREASURY MANAGEMENT AND ANNUAL INVESTMENT STRATEGIES (J000)

MEETING: (1) COUNCIL  
(2) CABINET  
(3) DEPUTY LEADER  
(4) STANDARDS AND AUDIT COMMITTEE

DATE: (1) 27<sup>th</sup> FEBRUARY 2014  
(2) 18<sup>TH</sup> FEBRUARY 2014  
(3) 11<sup>TH</sup> FEBRUARY 2014  
(4) 7<sup>TH</sup> FEBRUARY 2014

REPORT BY: HEAD OF FINANCE

WARD: ALL  
FORUM ALL  
KEY DECISION NO: 365

---

FOR PUBLICATION

#### BACKGROUND PAPERS

Local Government act 2003, CIPFA Prudential Code & Guidance and Sector's Economic Forecasts.

---

#### 1. PURPOSE OF REPORT

1.1 To approve the Treasury Management Strategy Statement and the Annual Investment Strategy Statement for 2014/15.

#### 2. RECOMMENDATIONS

2.1 That the Council affirms its adoption of CIPFA's Code of Practice on Treasury Management.

2.2 That the Treasury Management Strategy Statement and Annual Investment Strategy, including the Prudential Code Indicators and Minimum Revenue Provision Policy be approved.

2.3 That the contingency banking arrangements (para 6.2) be ratified.

2.4 That the inclusion of Svenska Handelsbanken on the counterparty list is approved.

### 3. **BACKGROUND**

3.1 The key aims of the CIPFA 'Code of Practice for Treasury Management in the Public Services' (the Code) are:

- a) Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities;
- b) Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities;
- c) They should acknowledge that the pursuit of best value in treasury management, and the use of suitable performance measures, are valid and important tools to employ.

3.2 The Council first adopted the Code at its meeting on the 22<sup>nd</sup> October 2003. The Council is required to approve the Treasury Management and Investment Strategies and reaffirm its adoption of the Code before the start of each financial year.

3.3 CIPFA amended the Code in 2011 to take account of developments in the financial market place and the introduction of the Localism Act.

3.4 The report was considered by Cabinet at its meeting on the 18<sup>th</sup> February, 2014 and the recommendations were approved.

### 4. **TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY**

4.1 The Strategy Statement is shown in Annexe 1. The key Sections are explained below.

4.2 **Treasury Limits and Prudential Indicators** - sets the limits and indicators for the forthcoming financial year and two successive financial years, including:

4.2.1 Affordability Ratios:

- ◆ Ratio of financing costs to net revenue stream (para 2.6 of Annexe 1) shows the trend in the cost of capital based on the latest capital programme against the net revenue stream (i.e. council tax for the General Fund and rent income for the Housing Revenue Account).

The General Fund ratio increases in 2013/14 and 2014/15 which reflects the prudential borrowing required to finance the rebuild of Queens Park Sports Centre but this reduces in 2015/16 as capital receipts are set aside to repay some of the debt. The HRA ratio shows a decreasing trend over the period which is due to a combination of reducing interest costs and an increasing revenue stream.

- ◆ Estimates of the incremental impact of capital decisions on the Council Tax and housing rents are shown in para's 2.7 and 2.8 of Annexe 1. These costs have been incorporated into the revenue budget forecasts.

#### 4.2.2 Borrowing Limits (Annexe 1, para. 3.2):

- ◆ **Authorised Limit** - represents the limit beyond which borrowing is not permitted. It includes estimates for long and short-term borrowing. The limit must be set and can be revised by the Council.
- ◆ **Operational Boundary** - this is an estimate of the probable external borrowing during the year, it is not a limit and actual borrowing can vary for short periods during the year.

#### 4.2.3 Other Prudential Indicators:

- ◆ **Capital expenditure** - the planned capital expenditure over the medium term.
- ◆ **Net Borrowing** - estimates of the net of borrowing and investments.
- ◆ **Capital Financing Requirement** - enables the net borrowing position to be compared to the capital financing requirement.
- ◆ **Fixed and variable rate exposures, maturity structures and long term investments.**

4.3 **Borrowing Strategy** (para. 3.4 of Annexe 1) - the current borrowing strategy is to bring the long term debt into line with the capital borrowing limit as determined by the Capital Financing Requirement. The Public Works Loans Board continues to be the main source of long-term financing.

#### 4.4 **Debt Repayment and Minimum Revenue Provision Policy (Annexe 1, para. 2.3)**

The Minimum Revenue Provision Policy which determines the rate at which debt will be repaid is:

a) General Fund - unchanged from last year with new borrowing usually repaid on an 'asset life' basis; and

b) Housing Revenue Account - based on 1.5% of the Capital Financing Requirement. This policy will be reviewed in future years as the pressure to earmark revenue resources for back log repairs to achieve Decent Homes Standard reduces, thereby freeing up resources for debt repayment or other purposes.

**Debt Re-scheduling** (Annexe 1, para. 3.6) – under the old Housing Subsidy system there were few opportunities for debt rescheduling and since then the changes to the PWLB rescheduling rates has continued to limit the opportunities. This position may change in the future, particularly under the new self-financing regime for the HRA. The Head of Finance will continue to monitor rescheduling opportunities and report any actions taken to the next available Cabinet meeting.

4.4 **Annual Investment Strategy** (Section 4 of Annexe 1) - defines what categories of investments are to be used and the restrictions placed on their use. The primary objective is to protect capital and the maximisation of returns is secondary. The credit ratings of the approved counterparties for investments are regularly reviewed. Appendix 5.2 of Annexe 1 provides details of permitted investments. Access to a wider range of investment instruments is now included for the in-house team (see below).

## 5. **EXTERNAL FUND MANAGERS**

5.1 The performance of our external fund managers during 2013/14 has been disappointing. In view of this we intend to review the external fund management arrangements during 2014/15. One option to be explored is to manage all or a proportion of the funds in-house and to ensure that any such change can be implemented quickly the approved list of investments available to the in-house team has been extended.

## 6. **BANKING ARRANGEMENTS**

6.1 Our current bankers, the Co-operative Bank wrote to us in December 2013 to inform us of their intention to withdraw from the local authority sector. Our current contract with them for banking services is due to expire in March 2016. We intend to retender this contract in the next 18 months.

6.2 In the run up to the vote on the Co-operative Bank's rescue package in December 2013 a contingency bank account was set up with Lloyds Bank. The contingency account was put in place to make sure that we had immediate access to alternative banking facilities in the event that the Co-operative Bank was unable to continue functioning. Fortunately the Co-operative Bank's rescue package went through and we did not

have to use the contingency account. The contingency account, however, remains in place with the following facilities:

- BACS aggregate amount £4m;
- CHAPS daylight facility of £3m;
- LloydsLink payments facility up to an aggregate of £5m
- The Head of Finance or any duly authorised official to enter into all documentation on behalf of the Council.

## **7. COUNTERPARTIES**

- 7.1 To provide further opportunities and flexibility for placing investments the in-house team wish to add another counterparty to the approved list. The counterparty is the Svenska Handelsbanken which because of its strong credit rating would provide investment opportunities of up to 12 months in duration. It is recommended that this bank is included on our list of counterparties.

## **8. RECOMMENDATIONS**

- 8.1 That the Council affirms its adoption of CIPFA's Code of Practice on Treasury Management.
- 8.2 That the Treasury Management Strategy Statement and Annual Investment Strategy, including the Prudential Code Indicators and Minimum Revenue Provision Policy be approved.
- 8.3 That the contingency banking arrangements (para 6.2) be ratified.
- 8.4 That the inclusion of Svenska Handelsbanken on the counterparty list is approved.

## **9 REASON FOR RECOMMENDATIONS**

- 9.1 To comply with regulations and recognised best practice.

**B DAWSON  
HEAD OF FINANCE**

Further information on this matter can be obtained from Barry Dawson, Head of Finance Services (ext. 5451).