

## FOR PUBLICATION

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

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

DATE: (1) 26 FEBRUARY 2015  
(2) 17 FEBRUARY 2015  
(3) 10 FEBRUARY 2015  
(4) 6 FEBRUARY 2015

REPORT BY: CHIEF FINANCE OFFICER

WARD: ALL

FORUM ALL

KEY DECISION NO: 488

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#### FOR PUBLICATION

#### BACKGROUND PAPERS

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

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#### **1. PURPOSE OF REPORT**

1.1 To approve the Treasury Management Strategy Statement and the Annual Investment Strategy Statement for 2015/16.

#### **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.

### **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.

### **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 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 2016/17 which reflects the prudential borrowing required to finance the rebuild of Queens Park Sports Centre but this reduces in 2017/18 as capital receipts are set aside to repay that 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):

- ◆ 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.
- ◆ 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.

#### 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) – PWLB rescheduling rates has continued to limit the opportunities. The Chief Finance Officer will continue to monitor rescheduling opportunities and report any actions taken to the next available Cabinet meeting.

- 4.5 **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 5.1 of Annexe 1 provides details of permitted investments. Access to a wider range of investment instruments is now included for the in-house team. Collective Investment Schemes have been included for the first time in the form of Unit Trusts and Open Ended Investment Companies (OEIC) which are very similar to Unit Trusts.

## 5. **RECOMMENDATIONS**

- 5.1 That the Council affirms its adoption of CIPFA's Code of Practice on Treasury Management.
- 5.2 That the Treasury Management Strategy Statement and Annual Investment Strategy, including the Prudential Code Indicators and Minimum Revenue Provision Policy be approved.

## 6. **REASON FOR RECOMMENDATIONS**

- 6.1 To comply with regulations and recognised best practice.

**B DAWSON  
CHIEF FINANCE OFFICER**

Further information on this matter can be obtained from  
Barry Dawson, Chief Finance Officer (ext. 5451).

Officer recommendation supported.

J. F. Kelly

Signed:

Executive Member

Date 3.2.2015

Consultee Executive Member/Support Member comments (if applicable)  
/declaration of interests.