

REPORT

SUBJECT:	Treasury Management Policy Statement & Strategy Statement, MRP Policy Statement and Investment Strategy 2014/15
DIRECTORATE:	Chief Executive's Unit
MEETING:	Council
DATE:	27th February 2014
DIVISION/WARDS AFFECTED:	Countywide

1. PURPOSE:

- 1.1 To adopt the annual Treasury Management Policy Statement and the Treasury Management Strategy Statement and Investment Strategy for 2014/15 to 2017/18 incorporating the Minimum Revenue Provision (MRP) Statement for 2014/15.

2. RECOMMENDATIONS:

- 2.1 It is recommended that the proposed Treasury Management Policy Statement for 2014/15 (appendix 2) and proposed Treasury Management Strategy and Investment Strategy 2014/15 to 2017/18 (appendix 1), including the Minimum Revenue Provision (MRP) Statement for 2014/15, be approved together with the Treasury Limits as required by section 3 of the Local Government Act 2003.

3. KEY ISSUES:

Treasury Management Policy Statement and Treasury Management and Annual Investment Strategy

- 3.1 Treasury Management is defined 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”.
- 3.2 The Authority pays due regard to CIPFA’s Code of Practice for Treasury Management in the Public Services (the “Code”) and accompanying Guidance Notes (as revised in 2011) and the Prudential Code for Capital Finance in Local Authorities (as revised in 2011). The Prudential Code for Capital finance in local authorities outlines requirements for the manner in which capital spending plans are to be considered and approved, and in conjunction with this, the development of an integrated treasury management strategy.
- 3.3 The Prudential Code further requires the Council to set a number of Prudential and Treasury Management indicators. The attached strategy therefore incorporates the indicators to which regard should be given when determining the Council's treasury management strategy for 2014/15 and indicatively for the subsequent 3 financial years. The Indicators are based on the capital budget proposals being separately approved by Council at its meeting dated 27th February 2014.
- 3.4 The Council also has regard to the WG Guidance on Local Government Investments. This guidance requires the production of an Investment Strategy in addition to a Treasury Management Strategy, and allows Councils to combine these two strategies into one document. Pages 6 and 7 of appendix 1 contains the Council's proposed Investment Strategy. With regards to investments the Codes and Guidance emphasize an appropriate approach to risk management, particularly in relation to the security and liquidity of invested funds. Authorities are required to demonstrate value for money when borrowing in advance of need and ensure the security of such funds.
- 3.5 The Code requires that Council approve annually a Treasury Management Policy Statement and a Treasury Management Strategy Statement and Investment Strategy. The Council also has regard to the revised Welsh Government (WG) guidance on Local Government Investments issued in April 2010.
- 3.6 Furthermore, as a minimum, the Code requires that the Authority formally report on their treasury activities and arrangements at the mid-year point and after the year-end. Audit Committee is identified as being the committee responsible for reviewing update reports on the treasury function, given its overarching role in assessing the risk management arrangements for the Authority.

- 3.7 The Council delegates responsibility for the execution and administration of treasury management decisions to the Head of Finance (S151 officer) who will act in accordance with the Treasury Management policy statement (appendix 2) and treasury management practices and CIPFA's Standard of Professional Practice on Treasury Management.
- 3.8 Arlingclose were re-appointed as the Council's treasury management advisor in April 2011. Arrangements to extend the contract to cover 2014/15 are currently being finalised. The Council is clear as to the services it expects and is provided under the contract. The service provision is comprehensively documented.
- 3.9 The Council is also clear that overall responsibility for treasury management remains with the Council.

Annual Minimum Revenue Provision Policy Statement

- 3.10 The annual Minimum Revenue Provision is the mechanism used for spreading the capital expenditure financed by borrowing. Regulations state that the authority must calculate for the current financial year an amount of minimum revenue provision which it considers to be prudent. In addition there is the requirement for an Annual Minimum Revenue Provision Policy Statement to be drafted and submitted to full Council.
- 3.11 Authorities are permitted discretion in terms of the charge levied, albeit within certain parameters. A "prudent" period of time for debt repayment is defined as being one which reflects the period over which the associated capital expenditure provides benefits. Annex C of the attached Treasury Management Strategy and Investment Strategy (Appendix 1) incorporates the Council's Statement in this regard.

Changes influencing proposed amendments to strategy

- 3.12 To add flexible in securing investment returns, Treasury advisers recommend the inclusion of particular building societies as additional specified instruments.
- 3.13 As per the credit outlook section in (Appendix 1) the risk of banking failures has diminished, but not dissipated altogether. However regulatory change afoot in the UK means that bail outs will be replaced with bank resolution regimes in which shareholders, bond holders and unsecured creditors are 'bailed in' to participate in any recovery process. Consequently any investments that we hold in a bank when it fails, would not be secure or guaranteed returned. Our treasury advisers remain comfortable that the limits set in (Appendix 1), table 3 are a suitable level of diversification to mitigate against loss.

4. REASONS:

- 4.1 The Authority is required to produce a Treasury Management Policy and a Treasury Management and Annual Investment Strategy in order to comply with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code").
- 4.2 The Authority is required to produce an MRP Policy Statement in order to comply with the Local Authorities (Capital Finance and Accounting) (Wales) Regulations, last amended in 2009.

5. RESOURCE IMPLICATIONS:

- 5.1 There are no resource implications directly arising from this report. The medium-term treasury budgets contained within the 2014-2015 revenue budget proposals being presented to Council on 27th February, along with indicative revenue budgets for 2014-18, have been constructed in accordance with the strategy documents appended to this report.
- 5.2 There are however some key future financial risks on medium-term treasury budgets concerning:
- The number of significant capital receipts in the existing medium-term forecasts, and on which the authority's internal borrowing strategy and budgets are based. There will be an adverse financial impact in the event that such receipts do not materialize or are significantly delayed.
 - The current medium-term capital programme does not factor in commitments towards the future schools programme other than Raglan. The need for the Authority to finance the full programme through capital receipts or prudential borrowing will have a consequential impact on treasury budgets due to the reduction in capacity to internally borrow and the requirement for additional long term external borrowing, and this has been taken into account in the revenue budget projections.
 - The strategy states the Authority's chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. It presents the option of taking advantage of currently low short-term interest rates possibly at the expense of increasing future borrowing costs. This balance will be monitored regularly in order to decide whether to borrow additional sums at long-term fixed rates in 2014/15 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

- It should be noted that as a result of the expenditure plans of the Authority and the forecasts for interest rates in the future, that borrowing costs are expected to rise in the medium/long term even without financing of future schools initiative. Should the balance of the £80m future schools programme be approved they will rise significantly further..

6. EQUALITY IMPACT ASSESSMENT:

There is no equality impact arising directly from this report.

7. SUSTAINABLE DEVELOPMENT IMPLICATIONS:

None

8. BACKGROUND PAPERS:

Appendix 1 – Treasury Management Strategy Statement & Investment Strategy 2014/15 (including MRP policy statement)

Appendix 2 – Treasury Management Policy Statement

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