AGENDA ITEM TBC

REPORT

SUBJECT:	**Treasury Management Policy Statement & Strategy Statement, MRP Policy Statement and Investment Strategy 2016/17**
DIRECTORATE:	**Chief Executive's Unit**
MEETING:	**Council**
DATE:	**10th March 2016**
DIVISION/WARDS AFFECTED:	**Countywide**

1. PURPOSE:

1.1 This proposed Strategy and Policy has been considered by Audit Committee 3rd March 2016, and no adverse comments received.

1.2. To adopt the annual Treasury Management Policy Statement and the Treasury Management Strategy Statement including the Investment and Borrowing Strategies for 2016/17 to 2019/20 and the Minimum Revenue Provision (MRP) Statement for 2016/17 at Annex C.

2. RECOMMENDATIONS:

2.1 It is recommended that the proposed Treasury Management Policy Statement for 2016/17 (Appendix 2) and proposed Treasury Management Strategy and Investment & Borrowing Strategies 2016/17 to 2019/20 (Appendix 1), including the Minimum Revenue Provision (MRP) Statement for 2016/17 at Annex C, 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 & Borrowing 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. These indicators were submitted with the capital budget proposals that were approved by Council at its meeting dated 21st January 2016.

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 6-11, Appendix 1 contains the Councils proposed investment strategy. With regards to investments the Codes and Guidance emphasise 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 The Council's contract with Arlingclose as Treasury Management advisors comes to an end on the 31st March 2016. This contract is currently being retendered for 2016-2020 with an option to extend for a further 2 years. Responses are due by the 19th February, with a view to appointing the successful applicant by the 31st March 2016. The Council is clear as to the services it expects and requires to be provided under the new 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 over the years to which benefit is provided. 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.

3.12 During 2015/16 a substantial exercise has been carried out with Arlingclose, the Authority's treasury advisors. This has been undertaken to establish whether changes should be made to the current practice of providing MRP payments. The majority of MRP payments relating to unsupported borrowing, were previously made and budgeted on the basis of equal annual installments. A conclusion has been reached and agreed by Council on the 17th December 2015, that these payments could have prudently been spread using an annuity principal. The annuity method tends to evidence a trend of smaller payments in early years and larger payments in later years and has the advantage of linking MRP to the flow of benefits from an asset where the benefits are expected to increase in later years. An annuity can be structured to pay out funds for a fixed amount of time so like straight line this approach is designed to pay off a liability in a set period. Cipfa's Guidance states '*the informal commentary on the statutory guidance suggests that the annuity method may be particularly attractive in projects where revenues will increase over time. However, it is arguably the case that the annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years' time is less of a burden than paying £100 now. The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, taking into account the real value of the amounts when they fall due. The annuity method would then be a prudent basis for providing for assets that provided a steady flow of benefits over their useful life'*. By applying this amendment to MRP payments made from 2006/07 to 2015/2016, a reduction in MRP payable in 2016/17 of £2,136,000 materialises. No compromising issues have been raised specifically in relation to this change by external audit and it has been included in the approved 2016/17 budget.

3.13 Work progresses to review the Minimum revenue provision calculation associated with Supported Borrowing considerations, reflecting upon recent guidance provided by WAO colleagues. This will be subject to a separate paper in due course.

Changes influencing proposed amendments to the strategy

3.14 Bail-in legislation, which ensures that large unsecured investors including local authorities will rescue failing banks instead of taxpayers in the future, has now been fully implemented in the UK, USA and Germany. The rest of the European Union will follow suit in January 2016, while Australia, Canada and Switzerland are well advanced with their own plans. Meanwhile, changes to the UK Financial Services Compensation Scheme and similar European schemes in July 2015 mean that most private sector investors are now partially or fully exempt from contributing to a bail-in. The credit risk associated with Local Authorities making unsecured bank deposits has therefore increased since early 2015.

3.15 These changes have resulted in the loss of Government support for failing banks and have therefore affected the ratings given to these banks by the ratings agencies. Alongside the effects of bail in however, many banks have strengthened their own core capital position and are therefore less likely to fail. Thirdly, the Ratings agencies, Fitch, Moody's and Standard and Poors have adapted their rating methodologies to give an uplift to institutions which have other factors such as parent companies which could assist them with the absorbency of losses either externally or from within.

3.16 As a result of these changes the number of counterparties with a rating of A- or higher which the Authority can invest with is similar to 2015/16. It is recognized however that it is not prudent to invest large sums of money with any one counterparty so that the effect of any one bail in will be relatively small. Due to the expectation that we will maximize internal borrowing and our investment balances will therefore remain low, this is not expected to be an issue, but in order to be prudent and to encourage diversification across a larger number of counterparties, an absolute limit of £2m per counterparty has been set for unsecured investments with banks and building societies whose rating is A- or above. This approximates to 12.5% of the Authority's revenue reserves which is considered prudent. This category represents the majority of our investments. Other limits have been set (see Appendix 1) for other types of investments.

3.17 The Authority's current account provider is Barclays bank. At the time of writing, Barclays currently has a minimum rating of (A-). An additional limit of £1m has been set to allow for the total of overnight credit balances held in the Authority's current accounts even if the bank's rating should fall to (BBB) or it should be put on credit watch negative. This is to allow for the total of all credit balances as the Authority does not have the right to a legal offset of its current account balances. The total of all positive and negative account balances are reduced to a practical minimum level at the end of each day.

5. REASONS:

5.1 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").

5.2 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.

6. RESOURCE IMPLICATIONS:

6.1 There are no resource implications directly arising from this report. The medium-term treasury budgets contained within the 2016-2017 revenue budget proposals presented to Council on 21st January 2016, were constructed in accordance with the strategy documents appended to this report.

6.2 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 materialise or are significantly delayed.

- 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 2016/17 or later 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.

7. EQUALITY IMPACT ASSESSMENT:

There is no equality impact arising directly from this report.

8. SUSTAINABLE DEVELOPMENT IMPLICATIONS:

None

9. BACKGROUND PAPERS:

Appendix 1 – Treasury Management Strategy Statement & Investment Strategy 2016/17 (including MRP policy statement)
Appendix 2 – Treasury Management Policy Statement 2016/17
Appendix 3 – Prudential Indicators (Previously Distributed with Revenue and Capital budget proposals, Council 21st Jan 16)

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