

Treasury Strategy Statement 2014/15

Audit Committee

Date: 4th February 2014

Author:	Cabinet Member for Finance Board Director Resources
Wards:	All
Locality Affected:	All
Parishes Affected:	All

1. Purpose and Reasons

- 1.1 To report the Treasury Management Strategy for 2014/15, including Prudential Indicators up to 2015/16, the Annual Investment Strategy, and the Minimum Revenue Provision Policy Statement.

2. Recommendations

Cabinet is recommended to:

- 2.1 Recommend the Treasury Management Strategy, Minimum Revenue Provision Policy and Prudential Indicators for approval by Full Council on 24th February 2014.
- 2.2 Note the position with regard to the Council's bankers, the Co-Operative Bank, as detailed at Section 4.

3. Detail

Treasury Strategy

- 3.1 Treasury management is defined by the CIPFA Code of Practice for Treasury Management 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 Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Available cash (resulting from the Council's day to day cash management processes) is invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- 3.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing needs of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of

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longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses temporarily in lieu of new loans (e.g. related to reserves held for future purposes and working capital surpluses). On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives, subject to the cost of so doing.

3.4 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised before being recommended to the Council. Under the Council's constitution, the Audit Committee scrutinises the treasury management activities undertaken by the Director of Finance and his team, including compliance with agreed policies.

- **A Treasury Management Strategy Statement** (This report) - The first, and most important report covers:
 - the capital spending plans (including prudential indicators) based on Cabinet and Council decisions;
 - a Minimum Revenue Provision (MRP) Policy (which details how capital expenditure funded by borrowing is charged to the revenue budget over time);
 - the Treasury Management Strategy, which details how the investments and borrowings are managed overall, including treasury indicators; and
 - an Investment Strategy, which sets the parameters around how investments are to be managed on a day to day basis.
- **A Mid-Year Treasury Management Report** – This updates Members on Treasury Management performance for the first half of the financial year.
- **An Annual Treasury Management Report** – This details the full year Treasury activity and performance.

3.5 The Treasury Management Strategy for 2014/15 covers two main areas:

- **Capital Issues:**
 - the capital plans and the prudential indicators;
 - the MRP strategy.
- **Treasury Management Issues:**
 - the current treasury position;
 - the treasury indicators which will limit the treasury risk and activities of the Council;
 - the prospect for interest rates;
 - the borrowing strategy;
 - the policy on borrowing in advance of need;
 - debt rescheduling;

Further information on the subject of this report can be obtained from Paul Smith on Direct Dial No.463976, or Email psmith2@swindon.gov.uk.

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- the investment strategy;
 - the creditworthiness policy; and
 - the policy on use of external service providers.

3.6 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

4 Banking and Co-op

- 4.1 In common with many local authorities, the Council currently uses the Co-Operative Bank (the Co-Op) as its main banker, with the current contract running until March 31st 2015. The bank's recent financial difficulties have been well documented in the national press. As a result, the bank has agreed a strategy to re-focus its activities which includes withdrawing from the local authority market and its creditors approved a bailout deal before Christmas, which was subsequently approved by the Courts.
- 4.2 In terms of the effect this may have on the Council's banking facilities, Officers have been in regular contact with the bank relationship manager. These discussions have confirmed that although the Co-Op has stated its intent to pull completely out of Local Authority banking, it plans to honour its current contracts to the end of their term. However, it is also happy to terminate early if authorities find alternative facilities.
- 4.3 As the Swindon Borough Council contract is due to end in March 2015, officers have already started the procurement process to secure arrangements beyond that date. Our intention is to progress this faster in order to reduce any risk around any further changes in the Co-Op's circumstances.
- 4.4 In parallel with this procurement process, officers are in the process of opening additional bank accounts that could be used in an emergency situation to ensure business as usual continued. In addition, no surplus funds are being placed in the deposit account that the Council holds with the Co-Op.
- 4.5 In terms of Council exposure should the bank fail, the Council's bank accounts are managed to as close a net nil position as possible at the end of every day as part of the Treasury Management function, with any surplus funds invested elsewhere. Therefore the only exposure would be to income that is in the process of clearing at the point the bank ceased trading, should this situation arise. The Council's Treasury advisors have advised that they believe this risk is extremely unlikely to arise.

5 Alternative Options

- 5.1 Any alternative options for specific areas are set out within the report.

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6 Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

6.1 These have been reflected in the body of the report.

Legal and Human Rights Implications

6.2 All legal and human rights considerations have been taken fully into account in compiling this report. It is considered that the recommendations of this report are compatible with Convention rights.

All Other Implications (including Staff, Sustainability, Health, Rural, Crime and Disorder)

6.3 There are no such direct implications.

Links to One Swindon, Strategic Objectives, Plans and Policies

6.4 The effective management of financial resources through robust financial management processes underpins the Council's ability to achieve its plans and priorities.

Diversity Impact Assessment

6.5 A Diversity Impact Assessment (DIA) is not relevant to this report as this is a regulatory report which covers the Council's treasury management processes and doesn't directly affect any services.

7 Consultees

7.1 The Board Director Finance, Revenues, Benefits and Property (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

8 Background Papers and Appendices

8.1 Appendix 1 – Treasury Management Strategy

9 Key Decision/Decision in Forward Plan

9.1 This is not a key decision for the Cabinet (as the approval of the full Council is required) and is included in the Cabinet Forward Plan.