Treasury Strategy Statement 2015/16

Audit Committee **Date: 21st April 2015**

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 2015/16, including Prudential Indicators up to 2016/17, the Annual Investment Strategy, and the Minimum Revenue Provision Policy Statement.

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

2. Recommendations

Audit Committee is recommended to:

2.1. Endorse the Treasury Management Strategy, Minimum Revenue Provision Policy and Prudential Indicators, as set out in Appendix 1.

2.2. Note the position with regard to the Council's bankers, as detailed at paragraphs 3.11 and 3.12,

2.3. Note the position on investment returns detailed in paragraphs 3.13 to 3.16, and increase investment periods to a maximum of 2 years as detailed in the Treasury Management Strategy.

3. 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.

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.

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 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 polices, 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 Board Director Resources and his team, including compliance with agreed policies.

3.5. **A Treasury Management Strategy Statement** (This report) - The first, and most important report covers:

3.5.1. The Capital spending plans (including prudential indicators) based on Cabinet and Council decisions;

3.5.2. A Minimum Revenue Provision (MRP) Policy (which details how capital expenditure funded by borrowing is charged to the revenue budget over time);

3.5.3. The Treasury Management Strategy, as set out in Appendix 1, which details how the investments and borrowings are managed overall, including treasury indicators; and

3.5.4. An Investment Strategy, which sets the parameters around how investments are to be managed on a day-to-day basis.

3.6. **A Mid-Year Treasury Management Report** – This updates Members on Treasury Management performance for the first half of the financial year.

3.7. **An Annual Treasury Management Report** – This details the full year Treasury activity and performance.

3.8. The Treasury Management Strategy for 2015/16 covers three main areas:

- Capital Issues:
- the capital plans and the prudential indicators;
- the MRP strategy.

3.9. 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;
- the investment strategy;
- the creditworthiness policy; and
- the policy on use of external service providers.

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

Banking Arrangements

3.11. In reported to Cabinet previously, the Council has been using the Co-Operative Bank (the Co-Op) as its main banker, with the current contract running until March 31st 2015.

3.12. Officers have carried out a full procurement to secure new banking arrangements as soon as practicable and Lloyds Bank was appointed as the preferred supplier in late 2014. At the time of writing the report, some Lloyds accounts were up and running with the intention that the full service is operational by March 2015.

Investment Returns

3.13. The annual Investment Strategy details priorities when making Investments of surplus funds as security first, liquidity second, followed by return on investment. These priorities follow both CIPFA and DCLG guidance.

3.14. The impact of this guidance is that the potential return on investments is secondary to security and liquidity and these parameters have a significant impact on the interest rate achieved by the Council in comparison with some other bodies and individuals as it restricts both to whom the Council can lend, and for how long.

3.15. The current Investment Strategy currently restricts investments to a maximum of one year, which was a move to mitigate the volatile bank situation over the last few years. This situation has eased somewhat and therefore the 2015/16 strategy proposed in this report extends the maximum investment period to 2 years. Whilst this will not affect the quality of the counterparties to whom the Council can lend, it may enable improved investment returns. It is not recommended to increase this maximum limit beyond this period as interest rates are likely to rise. The Policy also recommends that investments > 1 year are limited to £20m in total (approximately 1/3rd of the average portfolio) and £10m to any one Counterparty. The exact length of any investment will, as always, be based on rates available at that time, interest rate forecasts, and forward liquidity requirements.

3.16. The Council is part of a benchmarking club, which consists of around 12 to13 other public bodies in the West and Wales, including a variety of Local Authorities, Fire Authorities etc. As at the date of the last benchmarking exercise, approximately half of these bodies had investments out for a period in excess of 12 months. Capita Asset Services, our treasury advisors have advised that it is fairly typical for authorities to lend beyond one year, but it is of course at the discretion of individual authorities to set their own policies around this.

4. Alternative Options

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

5. Implications, Diversity Impact Assessment and Risk Management

Financial and Procurement Implications

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

Legal and Human Rights Implications

5.2. 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)

5.3. There are no such direct implications.

Diversity Impact Assessment

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

6. Consultees

6.1. The Board Director, Resources (Section 151 Officer) and Director of Law and Democratic Services (Monitoring Officer) are consulted in respect of all reports.

7. Background Papers and Appendices

7.1. Appendix 1 – Treasury Management Strategy

8. Key Decision/Decision in Forward Plan

8.1. This is not a key decision for the Cabinet (as the approval of the full Council is required) it is included in the Cabinet Work Programme and Forward Plan for February 2014.

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