

**REPORT OF THE CORPORATE COMMITTEE No. 03/2014-15**  
**COUNCIL 23 February 2015**

Chair:  
Councillor George Meehan

Vice-Chair:  
Councillor Eddie Griffith

**INTRODUCTION**

- 1.1 This report to Full Council arises from the report entitled 'Treasury Management Strategy Statement 2015/16 – 2017/18'.

**ITEMS FOR NOTING**

- 2.1 Treasury Management Strategy Statement 2015/16 – 2017/18  
(Attached at Appendix 4 to the Financial Planning report on this agenda)
- 2.1.1 At our meeting on 29 January 2015 we considered the report on the proposed Treasury Management Strategy Statement for 2015/16 to 2017/18 (TMSS). The TMSS had been updated since the draft version presented to us in November 2014, with the document being considered by the Council's Overview and Scrutiny Committee in the intervening period, and we were asked to recommend the final version of the Strategy to Full Council for final approval.
- 2.1.2 We noted that in 2015/16 a continuation of very low short term interest rates compared to medium and long term rates is expected throughout the year. This means that there will be an on-going "cost of carry" if funds are borrowed in advance of capital expenditure being incurred. Therefore the Council plans to continue to run a strategy of keeping cash balances low and invested short term using local authority borrowing to cover temporary liquidity requirements.
- 2.1.3 We were further informed that there are £8 million of loans due to mature during 2015/16 and projected debt financed capital expenditure of £36 million. As the Council has already maximised its internal borrowing position, new borrowing will be required, although this will be reduced by utilising existing cash balances. Short term borrowing rates remain extraordinary low starting at 0.5% making funding via short term debt attractive. Longer rates are close to all time lows but expected to increase gradually over the next three suggesting that locking in longer term debt may have a short term carry cost but overall benefit.
- 2.1.4 It was reported that discussions with Arlingclose, the Council's treasury management advisers, have indicated that it may be possible to continue to utilise short-term debt for the next three years but lock in today's longer term rates by forward dealing thereby protecting against rate increases.
- 2.1.5 We noted that the Local Government Association has established the Municipal Bonds Agency (MBA) in collaboration with local authorities. The

MBA, which aims to offer debt at costs below the PWLB, has been included as a borrowing counterparty.

- 2.1.6 We were informed that in regard to the investment strategy, the main consideration has been the continued weakness of banks credit ratings. The ability of governments to require non-protected deposit holders, such as local authorities, to convert deposits into capital, has increased the anticipated loss should a default occur. We noted that the appropriate response is to minimise the use of deposit facilities with weaker rated clients and rely on more secure investments e.g. covered deposits, tradable instruments and high quality overseas banks and to increase diversification within the portfolio.
- 2.1.8 The counterparty list (annex 5) to the Strategy Statement includes three highly rated overseas banks that are active in accepting sterling deposits. RBS/NatWest has been excluded as its credit rating has dropped below A-, but Santander UK and Coventry Building Society are re-instated. Arlingclose advises on the maximum maturity of banks deposits. Banks rated AA- or better have seen their maximum maturities reduced from 13 to 6 months. For banks with single A, the reduction has been from 6 months to 100 days. The Council has followed this guidance.
- 2.1.9 We noted that although the minimum criterion for the Council's lending list is set with reference to credit ratings, the Council will review a range of information in addition to credit ratings when determining credit worthiness. Within the strategy statement, the proposed limits for time and amounts are maximum limits, and the list of counterparties is the broadest range which can be used. However, operationally the limits applied and counterparties used are reviewed regularly and where necessary restricted in response to any concerns about creditworthiness to ensure security of investments remains the priority for the Council. In particular, maximum maturities recommended by Arlingclose will be followed.
- 2.1.10 Officers further informed us that the policy to minimise debt by fully using internal balances means that investment balances will also be minimised and therefore will be kept short-term (it is unlikely that new deposit maturities will exceed three months) and dominated by money market funds and the DMO, and that balances with individual counterparties will be much lower than the limits contained within the Strategy.

## **WE RECOMMEND**

The approval of the Treasury Management Statement for 2015/16 to 2017/18, attached at Appendix 4 of the Financial Planning report, to Council.