

**Report for:** Corporate Committee

**Item number:** 7

**Title:** Treasury Management Strategy Statement 2016/17 – 2018/19

**Report authorised by:** Tracie Evans, Chief Operating Officer (CFO)

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**Ward(s) affected:** N/A

**Report for Key/  
Non Key Decision:** Non Key decision

## **1. Describe the issue under consideration**

1.1 To present the Treasury Management Strategy Statement and Prudential Indicators for 2016/17 to 2018/19 to this Committee for review prior to seeking approval from Full Council. The TMSS was considered by Overview and Scrutiny on 25<sup>th</sup> January and comments raised are discussed in the report.

## **2. Cabinet Member Introduction**

2.1 Not applicable.

## **3. Recommendations**

3.1 That the proposed Treasury Management Strategy Statement for 2016/17 to 2018/19 is agreed and recommended to Full Council for final approval.

## **4. Reasons for decision**

4.1 The CIPFA Treasury Management Code of Practice requires all local authorities to agree a Treasury Management Strategy Statement including an Investment Strategy annually in advance of the financial year. The strategy should incorporate the setting of the Council's prudential indicators for the three forthcoming financial years.

## **5. Alternative Options Considered**

5.1 Alternative options are discussed in section 10 of the strategy.

## 6. Background information

- 6.1 The CIPFA Treasury Management Code of Practice requires that the Treasury Management Strategy Statement is formulated by the Committee responsible for the monitoring of treasury management, is then subject to scrutiny before being approved by full Council. Corporate Committee is responsible for formulating the Treasury Management Strategy Statement for recommendation to Full Council.
- 6.2 Training will be provided in advance of the meeting by Arlingclose, the Council's Treasury advisor.
- 6.3 The summary set out in Appendix 1 is to bring to members' attention the key elements of the proposed strategy being considered.

### Proposed Treasury Management Strategy Statement

- 6.4 In 2016/17 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.
- 6.5 There are £12.6 million of loans due to mature during 2016/17 and projected debt financed capital expenditure of £44.1 million. As the Council has already maximised its internal borrowing position, new borrowing will be required should the projected capital plans proceed. 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 (but slowly) over the next three years remaining well below pre 2008 levels suggesting that locking in longer term debt may have a short term carry cost but overall benefit.
- 6.6 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.
- 6.7 The Local Government Association has established the Municipal Bonds Agency in collaboration with local authorities. The MBA, which aims to offer debt at costs below the PWLB, has been included as a borrowing counterparty.
- 6.8 For 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.

- 6.9 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.
- 6.10 The counterparty list (annex 5) includes twelve highly rated overseas banks that are active in accepting sterling deposits. Higher quality investments such as covered bonds (deposits backed by collateral) and Supra National Banks are also included. Arlingclose advises on the maximum maturity of banks deposits. With banks recovering from the financial crisis Arlingclose have extended the maximum maturities for some of the higher rated banks from 6 to 13 months. The Council will follow this guidance. The prior year strategy had no allowance for deposits in excess of 12 months. This year a maximum of £10 million invested between 12- 24 months is permitted to reflect core cash balances and the addition yield available for longer dated deposits.
- 6.11 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.

#### Comments from Overview & Scrutiny Committee

- 6.12 The TMSS was considered by Overview & Scrutiny Committee. They requested that Corporate Committee consider the refinancing risks relating to using short term borrowing to finance the capital programme, in particular that with interest rates expected to increase using short term debt may lead to higher debt costs in the long term.

## **7. Contributions to Strategic Outcomes**

- 7.1 The treasury strategy will influence the achievement of the Council's financial budget.

## **8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)**

### Finance and Procurement

- 8.1 The approval of a Treasury Management Strategy Statement and prudential indicators are requirements of the CIPFA Treasury Management Code of Practice and CIPFA Prudential Code. The proposed strategy of minimising borrowing and continuing to make use of internal balances not only minimises costs, but also reduces the credit risk associated with investments, as the amount being invested is low.
- 8.2 New borrowing is projected during 2016/17 due to planned maturities and capital expenditure and it is proposed that the cost of refinancing be minimised by borrowing short term from local authorities to maintain liquidity and taking opportunities to fix borrowing rates should favourable opportunities arise.

### Legal

- 8.3 The Council must make arrangements for the proper administration of its financial affairs and its power of borrowing is set out in legislations. In addition further changes were introduced to the way the Housing Revenue Account is dealt with as a result of the Localism Act 2011. The level of HRA Capital Financing Requirement must remain within the debt cap set by the Department of Communities and Local Government.
- 8.4 The Council is required to determine and keep under review its borrowing and in complying with this requirement it must have regard to the code of practice entitled the "Prudential Code for Capital Finance in Local Authorities" as published by CIPFA from time to time. In addition, the Council adopted the CIPFA Treasury Management Code of Practice in May 2002.
- 8.5 As mentioned in this report the Code of Practice requires the Council to agree a Treasury Management Strategy Statement (TMSS) (including an Investment Strategy). In considering the report Members must take into account the expert financial advice available within it and any further oral advice given at the meeting of the Committee. In particular, members should note the need for short term borrowing.

### Equalities

- 8.6 There are no equalities issues arising from this report.

## **9. Use of Appendices**

- 9.1 Appendix 1: Summary of Treasury Management Strategy Statement  
9.2 Appendix 2: Draft Treasury Management Strategy Statement

2016/17 – 2018/19.

**10. Local Government (Access to Information) Act 1985**

10.1 Not applicable.

### Summary of Treasury Management Strategy Statement

The CIPFA Treasury Management Code of Practice requires all local authorities to agree a Treasury Management Strategy Statement and Prudential Indicators annually in advance of the financial year. The key areas of the strategy are how much borrowing the Council needs to do, where should temporary surplus cash be invested and the Prudential Indicators.

### Borrowing

The Council borrows to fund capital expenditure. As part of the financial planning process, it is determined how much capital expenditure should be funded through borrowing. The Council has an existing borrowing portfolio and the amount it is proposed to borrow is calculated by reference to capital expenditure to be funded through borrowing and the loans maturing in the year. The expected amount of borrowing is set out in tables 1a & 1b for General Fund and HRA respectively. The strategy also sets out the sources of borrowing the Council could use.

### Investments

The Council invests temporary cash surpluses on a daily basis. When considering where to invest, the Council considers security first – will the money be returned, then liquidity – how quickly will it be returned and then finally yield – what rate of interest will be earned.

The Council is required to agree a framework within which officers can make investments. This consists of a lending list of institutions with monetary and time limits (set out in Annexes 4 & 5 of the strategy) and officers cannot lend the Council's monies to any institution not on this list. The second part of the framework is the setting of a minimum credit rating - this means that if any institution on the lending list falls below the minimum, then investments would cease and if possible monies would be withdrawn immediately.

### Prudential Indicators

The Council is required to approve prudential indicators on an annual basis. There are two types – capital indicators and treasury management limits. They are shown throughout the report and summarised in Annex 2. The capital indicators are designed to indicate to members the impact of borrowing to fund capital and are set as best estimates. The treasury management limits are different – they are limits which cannot be breached and are designed to put in a level of control over treasury management activities. Corporate Committee receive quarterly monitoring reports on the indicators and limits and Council receive a mid year and year end report on them.