Haringey Council

Report for:	Overview and Scrutiny Committee 23th January 2014	**Item number**	

Title:	Treasury Management Strategy Statement 2014/15 – 2016/17

Report authorised by :	Assistant Director of Finance / Chief Financial Officer

Lead Officer:	George Bruce, Head of Finance – Treasury & Pensions George.bruce@haringey.gov.uk 020 8489 3726

Ward(s) affected: N/A	**Report for Non Key Decision**

1. Describe the issue under consideration

1.1 To present the proposed Treasury Management Strategy Statement and Prudential Indicators for 2014/15 to 2016/17 to this Committee for scrutiny before it is presented to Corporate Committee and then full Council for final approval.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the proposed Treasury Management Strategy Statement and Prudential Indicators for 2014/15 to 2016/17 at Appendix 2 is scrutinised and comments made prior to its presentation to Corporate Committee and Council for approval.

4. Other options considered

4.1 None.

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5. Background information

5.1 The CIPFA Treasury Management Code of Practice ("The Code") requires all local authorities to agree a Treasury Management Strategy Statement ("TMSS") 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. The Code also requires that the TMSS is subject to scrutiny before being approved by full Council.

5.2 An initial draft of the TMSS for 2014-15 to 2016-17 was considered and agreed by the Corporate Committee on 26th November 2013. This was in advance of Cabinet agreeing the capital programme and so the Committee approved the TMSS subject to the figures being updated, including the Prudential Indicators. The changes to the figures do not alter the strategy agreed by the Corporate Committee.

5.3 All the figures in this document are based on current plans for the revenue budget and capital programme. This means they are subject to any further changes to these plans and, therefore, the statement will be updated for required adjustments before submission to full Council.

6. Comments of the Chief Financial Officer and Financial Implications

6.1 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. Given that the current low short-term interest environment is expected to continue throughout 2014-15 and beyond, the interest rate risk associated with delaying borrowing is assessed as low although not insignificant.

7. Head of Legal Services and Legal Implications

7.1 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.

7.2 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.

7.3 As mentioned in this report the Code of Practice requires the Council to agree a Treasury Management Strategy Statement (TMSS) (including an Investment Strategy). This TMSS was first approved by Corporate Committee on 26 November 2013 but has since been updated and these updates are to go before the Corporate Committee for approval on 28 January 2014.

7.4 In considering the report, Members must take into account the expert financial advice available and any further oral advice given at the meeting of the Committee.

8. Equalities and Community Cohesion Comments

8.1 There are no equalities issues arising from this report.

9. Head of Procurement Comments

9.1 Not applicable.

10. Policy Implications

10.1 None applicable.

11. Use of Appendices

11.1 Appendix 1: Summary of Treasury Management Strategy Statement

11.2 Appendix 2: Revised Draft Treasury Management Strategy Statement 2014/15 – 2016/17.

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Proposed Treasury Management Strategy Statement

13.1 The proposed Treasury Management Strategy Statement set out in Appendix 2 was considered by Corporate Committee on 26th November 2013 before being presented to this Committee for scrutiny in advance of being approved by Corporate Committee on 28th January and presented to full Council in February 2014 as part of the Financial Planning report for 2014/15 to 2016/17.

13.2 All the figures in this document are based on current plans for the revenue budget and capital programme. This means they are subject to any changes to these plans and, therefore, the statement will be updated for required adjustments before submission to full Council. Any such adjustments are expected to be minor.

13.3 The summary set out in Appendix 1 is to bring to members' attention the key elements of the proposed strategy being considered.

13.4 In 2014/15 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 and to borrow only when required.

13.5 As there are loans due to mature during 2014/15, and the Council has already maximised its internal borrowing position, new borrowing will be required. It is proposed that short term loans are taken from other local authorities to maintain liquidity, and that opportunities to obtain PWLB fixed rate loans at reasonable rates are taken as they arise on the advice of the Council's treasury management advisers.

13.6 For the investment strategy, the definitions of specified and non-specified investments have been redefined to recognise that some existing counterparties do not meet the definition of the highest credit quality. It is proposed that credit ratings below AA- (previously A-) are deemed non-specified. There is one exception to the minimum long term credit rating of A- for NatWest, which will continue to be used for overnight and weekend maturities while it continues to provide banking services to the Council if other investment opportunities are not available. Although the bank is currently rated A or A- by the three ratings agencies, there is a risk of ratings deterioration.

13.7 The counterparty list (annex 5) continues to restrict investments to the existing UK banks and building societies and the DMO. Money market funds are no longer listed by name as the credit quality is derived from the underlying investments and not the name of the manager. A new asset class, enhanced cash funds is discussed in detail (annex 4). No overseas banks have been included in the proposed counterparty list although some have higher credit quality than the listed UK banks and their use is supported by Arlingclose. It is planned to discuss the future use of selected overseas banks with this Committee in conjunction with training to the January meeting, which may lead to a revised counterparty list when the TMSS is next updated.

13.8 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.

13.9 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 balances with individual counterparties will be much lower than the limits contained within the strategy.

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Appendix 1

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.