Haringey Council

Report for:	Corporate Committee 29th January 2015	**Item number**	

Title:	Treasury Management Strategy Statement 2015/16 – 2017/18

Report authorised by :	Assistant Director – 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 Treasury Management Strategy Statement for 2015/16 to 2017/18 prior to its consideration by Full Council on 23rd February 2015 for final approval.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the proposed Treasury Management Strategy Statement for 2015/16 to 2017/18 be agreed and recommended to Full Council for final approval.

4. Other options considered

4.1 None.

5. Background information

5.1 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.

5.2 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 through Overview and Scrutiny Committee and in consultation with the Cabinet Member for Resources & Culture.

5.3 The strategy was discussed at the November meetings and has been revised to complete the tables including Prudential Indicators. The strategy will be reviewed by Overview and Scrutiny Committee on 26th January and finally submitted to Full Council on 23rd February. Any comments by Overview and Scrutiny will be verbally reported to the Committee. Training will be provided in advance of the meeting.

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.

6.2 New borrowing will still be required during 2015/16 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.

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

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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). 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.

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: Draft Treasury Management Strategy Statement 2015/16 – 2017/18.

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

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13. Proposed Treasury Management Strategy Statement

13.1 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.

13.2 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.

13.3 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.

13.4 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.

13.5 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.

13.6 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.

13.7 The counterparty list (annex 5) includes three highly rated overseas banks that are active in accepting sterling deposits. RBS / NatWest has been excluded as it 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.

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 dominated by money market funds and the DMO. Balances with individual counterparties will be much lower than the limits contained within the strategy.