

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	26 th March 2015	
TITLE:	Treasury Management Strategy Statement and Investment Strategy 2015/16	
WARD:	All	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Appendix 1 - Treasury Management Strategy 2015/16 Appendix 2 - Investment Strategy 2015/16 Appendix 3 - Authorised Lending List		

1 THE ISSUE

- 1.1 In February 2012, the Council adopted the revised CIPFA Treasury Management in Public services Code of Practice 2011 Edition, which requires the Council to approve a Treasury Management Strategy before the start of each financial year and for this to be scrutinised by an individual / group of individuals or committee.
- 1.2 In addition, the Department for Communities and Local Government (CLG) issued revised guidance on local authority investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.
- 1.3 This report fulfils the Council's legal obligation under the *Local Government Act 2003* to have regard to both the CIPFA Code and the CLG Guidance.
- 1.4 This report was on the agenda at February 2015 Cabinet and Council, and any recommended amendments to this strategy will be reported back to Cabinet.

2 RECOMMENDATION

The Corporate Audit Committee agree that:

- 2.1 the actions proposed within the Treasury Management Strategy Statement (Appendix 1) are approved.
- 2.2 the Investment Strategy as detailed in Appendix 2 is approved.
- 2.3 the changes to the authorised lending lists detailed in Appendix 2 and highlighted in Appendix 3 are approved.

3 RESOURCE IMPLICATIONS (FINANCE, PROPERTY, PEOPLE)

3.1 The resource implications are included in the report and appendices.

4 STATUTORY CONSIDERATIONS AND BASIS FOR PROPOSAL

4.1 These are detailed in paragraphs 1.1 – 1.3 above.

5 THE REPORT

Background

5.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Treasury Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

5.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

5.3 The suggested strategy for 2015/16 in respect of the following aspects of the treasury management function is based on the Treasury Officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury advisor.

The strategy covers:

•	Treasury limits in force which will limit the treasury risk and activities of the Council;
•	Treasury Management Indicators;
•	The current treasury position;
•	The borrowing requirement;
•	Prospects for interest rates;
•	The borrowing strategy;
•	The investment strategy.

5.4 It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby the impact on the revenue budget from: -

1. increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
2. any increases in running costs from new capital projects, and
3. increases in the Minimum Revenue Provision for capital expenditure

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

- 5.5 The revised CIPFA Treasury Management in Public services Code of Practice 2011 Edition, adopted by Council in February 2012, requires the Treasury Management Strategy and policies to be scrutinised by an individual / group of individuals or committee, and the Corporate Audit Committee have been nominated by Council to carry out this function

2015/16 Treasury Management & Investment Strategy

- 5.6 The Strategy Statement for 2014/15 set Treasury Indicators for 2014/15 – 2016/17, which included a total borrowing requirement at the end of 2014/15 of £179 million. At the end of December 2014, external borrowing was at £98 million, which may increase before the end of the 2014/15 financial year should a review of the daily cashflow highlight additional liquidity funding is required.
- 5.7 The proposed Treasury Management Strategy is attached as Appendix 1 and includes the Treasury Management Indicators required by the Treasury Management Code.
- 5.8 Although the indicators provide for a maximum level of total borrowing, this should by no means be taken as a recommended level of borrowing as each year affordability needs to be taken into account together with other changes in circumstances, for example revenue pressures, levels and timing of capital receipts, changes to capital projects spend profiles, and levels of internal cash balances.
- 5.9 The budget report, which is also on the agenda, includes appropriate provision for the revenue costs of the capital programme in accordance with this Treasury Management Strategy.
- 5.10 Appendix 1 also details the Council's current portfolio position as at 31st December 2014, which shows after the netting off of the £22.1 million investments, the Council's net debt position was £75.9 million.
- 5.11 The 2015/16 Investment Strategy is attached at Appendix 2. This sets 'outer limits' for treasury management operations. While the strategy uses credit ratings in a "mechanistic" way to rule out counterparties, in operating within the policy Officers complement this with the use of other financial information when making investment decisions, for example Credit Default Swap (CDS) prices, Individual Ratings, and the financial press. This has been the case in recent years, which protected the Council against losses of investment in Icelandic banks.
- 5.12 The Counterparty listing in Appendix 3 includes credit ratings from three agencies, as well as a sovereign rating for each country. Counterparties who now meet the minimum criteria as recommended in Appendix 2 as at 31st December 2014 are included in the listing in Appendix 3.
- 5.13 Interest rate forecasts from the Council's Treasury advisors are included in Appendix 1.

6 RATIONALE

- 6.1 This report is a statutory requirement.

7 OTHER OPTIONS CONSIDERED

7.1 None.

8 CONSULTATION

8.1 Consultation has been carried out with the Cabinet Member for Community Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

8.2 Consultation was carried out via e-mail.

8.3 This report was also on the agenda at February Cabinet.

9 RISK MANAGEMENT

9.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

9.2 The Council's lending & borrowing list is regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management consultants Arlingclose.

9.3 The 2011 edition of the CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. The Corporate Audit Committee carry out this scrutiny.

9.4 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

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Background papers	<i>2014/15 Treasury Management & Investment Strategy</i>
Please contact the report author if you need to access this report in an alternative format	