

<b>Bath &amp; North East Somerset Council</b>	
MEETING:	<b>Corporate Audit Committee</b>
MEETING DATE:	<b>7<sup>th</sup> February 2012</b>
TITLE:	<b>Treasury Management Strategy Statement and Annual Investment Strategy 2012/13</b>
WARD:	All
<b>AN OPEN PUBLIC ITEM</b>	
<b>List of attachments to this report:</b> Appendix 1 - Treasury Management Strategy 2012/13 Appendix 2 -Annual Investment Strategy 2012/13 Appendix 3 - Authorised Lending List Appendix 4 - Treasury Management Policy Statement	

## **1 THE ISSUE**

- 1.1 In February 2010, the Council adopted the revised CIPFA Treasury Management in Public services Code of Practice, 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 The Institute published a revised version of CIPFA Code in November 2011 in light of the additional financial freedoms available to local authorities in the Localism Act 2011. The Council is therefore asked to formally adopt the Treasury Management in the Public Services: Code of Practice 2011 Edition.
- 1.3 The new Code of Practice requires some amendments to the Council's Treasury Management Policy Statement (amendment to Treasury Indicators, and inclusion of a policy on derivatives), and the Council is asked to formally adopt the new policy statement in Appendix 4.
- 1.4 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.
- 1.5 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.
- 1.6 This report is tabled to be scrutinised by the Corporate Audit Committee at the 7<sup>th</sup> February 2012 meeting, reported to Cabinet on 8<sup>th</sup> February 2012 and presented to February Council for approval.

## **2 RECOMMENDATION**

The Corporate Audit Committee is asked to agree to:

- 2.1 recommend the actions proposed within the Treasury Management Strategy Statement (Appendix 1) to February Council for approval.
- 2.2 recommend the Investment Strategy as detailed in Appendix 2 to February Council for approval.
- 2.3 recommend the changes to the authorised lending lists detailed in Appendix 2 and highlighted in Appendix 3 to February Council for approval.
- 2.4 recommend the adoption of CIPFA's revised Code of Practice on Treasury Management, as detailed in 5.5, to February Council for approval.
- 2.5 recommend the revised Treasury Management Policy Statement, as detailed in Appendix 4 to February Council for approval.

The Corporate Audit Committee is also asked to:

- 2.6 Note the Treasury Management Indicators detailed in Appendix 1 and note that Cabinet are recommended to delegate authority for updating the indicators prior to approval at Full Council on 14<sup>th</sup> February 2012 to the Divisional Director - Finance and Cabinet Member for Community Resources, in light of any changes to the recommended budget as set out in the Budget Report elsewhere on the agenda at 8<sup>th</sup> February Cabinet.

## **3 FINANCIAL IMPLICATIONS**

- 3.1 Included in the report and appendices.

## **5 THE REPORT**

### **Background**

- 4.1 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.
- 4.2 The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual 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.
- 4.3 The suggested strategy for 2012/13 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.

4.4 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 increases in charges to revenue 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

4.5 The revised CIPFA Treasury Management in Public services Code of Practice, adopted by Council in February 2010, requires the Treasury Management Strategy and policies to be scrutinised by an individual / group of individuals or committee. This report is tabled to be scrutinised by the Corporate Audit Committee at the 7<sup>th</sup> February 2012 meeting, following which any recommendations will be reported back verbally as an update to this report.

### **2012/13 Treasury Management & Annual Investment Strategy**

4.6 The Prudential Code was introduced for the first time in 2004/05. The Strategy Statement for 2011/12 set Prudential Indicators for 2011/12 – 2013/14, which included a total borrowing requirement at the end of 2011/12 of £150million. At the end of December 2011, external borrowing was at £120million, with no further borrowing planned in the 2011/12 financial year. There is a full provision for this borrowing within the Council's revenue budget.

4.7 The proposed Treasury Management Strategy is attached as Appendix 1 and includes the Treasury Management Indicators required by the Treasury Management Code. The indicators contained within this report are currently draft and could be affected by changes made to the capital programme, following decisions on the budget report which is on the agenda for 8<sup>th</sup> February Cabinet. It is requested that the Cabinet grant delegated authority to the Divisional Director - Finance and the Cabinet Member for Community Resources to agree any changes

to the indicators prior to reporting for approval at Full Council on the 14<sup>th</sup> February 2012.

- 4.8 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.
- 4.9 The budget report, which is also on the agenda, includes full provision for the revenue costs of proposed borrowing recognising the affordability of the capital programme including the significant efficiency savings which will be generated as a result.
- 4.10 Appendix 1 also details the Council's current portfolio position as at 31<sup>st</sup> December 2011, which shows after the netting off of the £95 million investments, the Council's net debt position was £25 million.
- 4.11 The Annual 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, financial press. This has been the case in recent years, which protected the Council against losses of investment in Icelandic banks.
- 4.12 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 31<sup>st</sup> December 2011 are included in the listing in Appendix 3.
- 4.13 Interest rate forecasts from the Council's Treasury advisors are included in Appendix 1.

## **5 RISK MANAGEMENT**

- 5.1 The report author and Lead Cabinet member have fully reviewed the risk assessment related to the issue and recommendations, in compliance with the Council's decision making risk management guidance.
- 5.2 The Council's lending & borrowing list has been regularly reviewed over the past 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 Advisers Sterling.

## **6 EQUALITIES**

- 6.1 This report provides information about the Council's Treasury Management Strategy and therefore no specific equalities impact assessment was carried out.

## 7 CONSULTATION

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

## 8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 This report deals with issues of a corporate nature.

## 9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer (Divisional Director – Legal & Democratic Services) and Section 151 Officer (Divisional Director – Finance) will have had the opportunity to input to this report and have cleared it for publication.

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<b>Background papers</b>	<i>None</i>
<b>Please contact the report author if you need to access this report in an alternative format</b>	