

## Bath & North East Somerset Council

MEETING:	<b>Council</b>	
MEETING DATE:	<b>15<sup>th</sup> February 2011</b>	AGENDA ITEM NUMBER
TITLE:	<b>Treasury Management Strategy Statement and Annual Investment Strategy 2011/12</b>	
WARD:	All	
<b>AN OPEN PUBLIC ITEM</b>		
<b>List of attachments to this report:</b> <b>Appendix 1</b> – Treasury Management Strategy 2011/12 <b>Appendix 2</b> - Annual Investment Strategy 2011/12 <b>Appendix 3</b> –Authorized Lending List		

### 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 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.
- 1.3 The Act therefore requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy; this report sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

### 2 RECOMMENDATION

The Council agrees that:

- 2.1 the actions proposed within the Treasury Management Strategy Statement (Appendix 1) is approved.
- 2.2 the borrowing and debt rescheduling strategy as detailed in Appendix 1 is approved.
- 2.3 the Investment Strategy as detailed in Appendix 2 is approved.
- 2.4 the changes to the authorised lending lists detailed in Appendix 2 is approved.

**3 FINANCIAL IMPLICATIONS**

3.1 Included in the report and appendices.

**4 CORPORATE PRIORITIES**

4.1 This report is of a corporate and technical nature and therefore does not directly contribute to individual Corporate Priorities.

**5 THE REPORT**

**Background**

5.1 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.

5.2 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.

5.3 The suggested strategy for 2011/12 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;
•	Prudential Indicators;
•	The current treasury position;
•	The borrowing requirement;
•	Prospects for interest rates;
•	The borrowing strategy;
•	Debt rescheduling;
•	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 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

- 5.5 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 1<sup>st</sup> February 2010 meeting, following which any recommendations will be reported back verbally as an update to this report.

### **2011/12 Treasury Management & Annual Investment Strategy**

- 5.6 The Prudential Code was introduced for the first time in 2004/05. The Strategy Statement for 2010/11 set Prudential Indicators for 2010/11 – 2012/13, which included a total borrowing requirement at the end of 2010/11 of £105 million. At the end of December 2010, external borrowing was at £90 million, with no further borrowing planned in the 2010/11 financial year. There is a full provision for this borrowing within the Council's revenue budget.
- 5.7 The proposed Treasury Management Strategy is attached at Appendix 1 and includes the Prudential Indicators required by the Prudential Code. The Prudential 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 also on the agenda for this meeting. It is therefore requested that the Cabinet grant delegated authority to the Divisional Director - Finance and the Cabinet Member for Resources to agree any changes to the indicators prior to reporting for approval at Full Council on the 15<sup>th</sup> February 2011.
- 5.8 Although the Prudential 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 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.
- 5.10 Appendix 1 also details the Council's current portfolio position as at 31<sup>st</sup> December 2010, which shows after the netting off of the £76.1 million investments, the Council's net debt position was £13.9 million.
- 5.11 The potential generation of significant capital receipts of up to £100m over the next five years to invest in and implement the Public Realm & Movement Strategy and other necessary infrastructure for the future sustainable development of the area, as detailed in the Future Council report from the agenda of 3<sup>rd</sup> November 2010 Cabinet, could lead to a decrease in the future borrowing requirement of the Council as they are potentially applied to support planned capital projects.

5.12 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.

5.13 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 2010 are included in the listing in Appendix 3.

5.14 Interest rate forecasts from the Council's Treasury advisors are included in Appendix 1.

## **6 RISK MANAGEMENT**

6.1 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.

6.2 The 2009 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. In May 2010, the Council's treasury advisors provided training to the Corporate Audit Committee to carry out this scrutiny.

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

## **7 EQUALITIES**

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

## **8 RATIONALE**

8.1 The Prudential Code and CIPFA's Code of Practice on Treasury Management requires regular monitoring and reporting of Treasury Management activities.

## **9 OTHER OPTIONS CONSIDERED**

9.1 None.

## 10 CONSULTATION

10.1 Consultation has been carried out electronically with the Deputy Leader of The Council & Cabinet Member for Resources, Section 151 Finance Officer, Chief Executive and Monitoring Officer.

10.2 This report was also presented to the Corporate Audit Committee on 1<sup>st</sup> February 2011 and Cabinet on 2<sup>nd</sup> February 2011.

## 11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 This report deals with issues of a corporate nature.

## 12 ADVICE SOUGHT

12.1 The Council's Monitoring Officer (Council Solicitor) and Section 151 Officer (Divisional Director - Finance) 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>
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