

Agenda Item No: 9 **Report No:** 14/15
Report Title: Annual Treasury Management Strategy Statement and Investment Strategy 2015/2016 to 2017/2018
Report To: Audit and Standards Committee **Date:** 26 January 2015
Ward(s) Affected: All
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Purpose of Report:

To present the draft Treasury Management Strategy Statement and Investment Strategy 2015/2016 to 2017/2018.

Officers Recommendation:

1. To receive the draft Treasury Management Statement and Investment Strategy 2015/2016 to 2017/2018 and make comments to Cabinet as the Committee sees fit.
2. To note the contents of this report.

Reasons for Recommendations

- 1 The Council has adopted the CIPFA Code of Practice on Treasury Management. In accordance with the Code of Practice, the Cabinet approves an updated Annual Treasury Strategy Statement before the start of each financial year. This includes an Investment Strategy for the year ahead (which Government guidance notes should be adopted by full Council) as well as 'Prudential Indicators' which are required to be set in order to comply with the 'Prudential Code for Capital Finance in Local Authorities' (The Prudential Code).
- 2 It is appropriate for the Audit and Standards Committee to review and comment on the draft Strategy before it is approved by Cabinet as part of the overall budget cycle, rather than to carry out this function after the Strategy has been formally adopted.

Information

1 Purpose of the Strategy Statement

- 1.1 The draft Strategy Statement is attached at Appendix 1. It sets out the background to the Council's treasury management activity both in terms of

the wider economy and the Council's own current and projected financial position. It sets out the approach which will be taken to borrowing and the investment of cash balances. It explains the risks which are inherent in treasury management and how these are to be mitigated. The Strategy Statement specifies the Prudential Indicators which the Council is to set in order to meet the requirements of the Prudential Code; contains an 'MRP Statement' which defines the approach that the Council will take to make prudent provision for debt redemption; and establishes the policy for the separate management of General Fund and Housing Revenue Account borrowing.

- 1.2 The content of the draft Strategy Statement follows the requirements of CIPFA's revised Code of Practice which was published in November 2011 and has been prepared with the support of Arlingclose, the Council's Treasury advisers.

2 2015/2016 Strategy Statement in context

- 2.1 As explained to Councillors by the Council's Treasury advisers, Arlingclose, at a briefing meeting held in September 2014, the transposition of two European Union directives into UK legislation will place the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors. The combined effect is to leave public authorities and financial organisations as the only senior creditors likely to incur losses in a failing bank after July 2015. The credit risk associated with making unsecured bank deposits will increase relative to the risk of other investment options.
- 2.2 Given the increasing risk and continued low returns from short-term unsecured bank investments, the Strategy enables the Council to diversify into more secure and/or higher yielding asset classes during 2015/2016. Diversification is of increasing importance in the context of the Council's reserves and balances reducing as they are called on to support the Council's organisational change programme. With diminishing reserves, the impact of a single counterparty default would be greater. This diversification represents a substantial change in strategy over the coming year.

3 Proposed Changes to Investment Strategy

- 3.1 The current minimum credit rating for investments (long-term 'A') will remain in place unless the credit rating agencies downgrade the ratings of major UK banks in response to the bail-in provisions of the EU Bank Recovery and Resolution Directive. Credit rating agencies have stated they plan to review EU banks' ratings in line with each country's implementation of the directive. Many UK banks have standalone ratings in the 'BBB' category, with uplifts for potential government support taking them into the 'A' category.
- 3.2 In Arlingclose's view there is therefore a realistic risk that some major UK banks' credit ratings will fall below 'A-' this financial year if this uplift is removed. In the event that widespread downgrading does take place, it is proposed that unsecured deposits can be made with banks with a rating of 'A-' (maximum duration 6 months) or 'BBB+' (maximum duration 100 days).

Unsecured deposits with a bank rated at 'BBB' or below would be restricted to overnight deposits at the Council's current account bank only.

- 3.3** Appendix C (page 22) of the Strategy sets out approved counterparty types and limits for 2015/2016 in detail. It should be noted that the presence of a counterparty type on the list does not necessarily mean that it will be used by the Council. A limit of £2m per counterparty will apply (lower than the £3m limit in 2014/2015), with the exception of investments with Government bodies (unlimited) and pooled funds, for example Money Market Funds, for which the individual limit will be £3m (currently £1m).

4 Borrowing Strategy

- 4.1** The current approach of 'internal borrowing' (ie using cash held as balances, reserves and working capital as an alternative to long-term borrowing) as a means of funding capital expenditure will continue in 2015/2016
- 4.2** The Council will remain open to the possibility of debt rescheduling (ie replacing an existing loan with a new loan or loans, or repaying a loan without replacement) where this is expected to lead to an overall saving or reduction in risk.

5 Prudential Indicators

A number of the Prudential Indicators relate to elements of the Capital Programme and General Fund and Housing Revenue Account budgets which are to be considered by Cabinet in February 2015 as a full 'budget package'. It has not been possible to include future values for these Prudential Indicators at this stage, and they will be outside the scope of the Audit and Standards Committee's review.

- 6 Financial Implications** - All relevant implications are referred to in the Draft Strategy Statement.

- 7 Legal Implications** - The legislative context is set out in the Draft Strategy Statement.

- 8 Sustainability Implications** - I have not completed the Sustainability Implications Questionnaire as this Report is exempt from the requirement because it is a budget/financial monitoring report.

- 9 Risk Management Implications** - The risk management implications associated with this activity are explained in the Draft Strategy Statement.

- 10 Equality Screening** - The contents of this report is technical in nature, relating to the management of the Council's investments and borrowing. As such, Equality Screening was not required.

Appendix 1 – Draft Treasury Management Statement and Investment Strategy
2015/2016 to 2017/2018

Background Papers – Treasury Strategy Statement 2014/2015
<http://www.lewes.gov.uk/council/20987.asp>