Agenda Item No:		**Report No:**	
Report Title:	**Annual Treasury Management Strategy Statement and Investment Strategy 2014/2015 to 2016/2017**		
Report To:	**Cabinet**	**Date:**	**13 February 2014**
Cabinet Member:	**Councillor Andy Smith**		
Ward(s) Affected:	**All**		
Report By:	**Director of Finance**		

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Purpose of Report:

To advise Cabinet of the proposed Treasury and Investment Strategies for 2014/2015 to 2016/2017.

To seek Council determination of (i) the 2014/2015 authorised borrowing limit (as required by section 3(1) of the Local Government Act 2003), (ii) the Council's 2014/2015 Investment Strategy and (iii) the method of calculating the Council's Minimum Revenue Provision.

Officers Recommendation(s):

1 To recommend to Council that:

a. It adopts the Treasury Management Strategy Statement and Investment Strategy 2014/2015 to 2016/2017 set out in Appendix 1.

b. The Council's 'Prudential Indicators' for the year are those set out in Appendix C of the Strategy document.

c. The Council's level of affordable borrowing, determined in accordance with the Local Government Act 2003, is subject to the following limits:

	2014/2015	2015/2016	2016/2017
Authorised limit for external debt	£72.5m	£72.5m	£72.5m

d. The Council's approach to allocating debt and associated costs between the Housing Revenue Account and General Fund be as set out in Section 9 of the Strategy Statement.

e. The Council's Minimum Revenue Provision be calculated as set out in Section 14 of the Strategy Statement.

2 To approve the lending list as set out in Appendix D of the Strategy Statement.

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 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). The majority of these indicators are an essential element of an integrated treasury management strategy.

2. In compliance with the Code of Practice, the Council has agreed a number of Treasury Management Practices: one of these requires an updated counterparty list to be submitted to Cabinet for approval each year at the same time as the Strategy Statement is considered.

3. The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008 place a duty on local authorities to make a prudent provision for debt redemption. Guidance has been issued by the Secretary of State on determining 'Minimum Revenue Provision'.

Annual Treasury Management Strategy Statement and Investment Strategy 2014/2015 to 2016/2017

1. Introduction

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, 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. Audit and Standards Committee Review

2.1. The Audit and Standards Committee considered the draft Strategy Statement at its meeting on 27 January 2014, in line with the Code of Practice's recommendation that the annual Treasury Strategy should be subject to scrutiny. The Audit and Standards Committee's review did not encompass the Prudential Indicators, because some of these were still subject to final calculation pending the finalisation of the draft Capital Programme.

2.2. The Audit and Standards Committee took the view that there should be no change to the Investment Strategy (see paragraph 3.1 below) in respect of the £1m limit currently applicable to the amount held in a Money Market Fund (MMF), given that regulatory reforms affecting MMF's are expected to be implemented during 2014/2015, and the potential impact could not yet be determined with certainty.

2.3. In response to the Audit and Standards Committee's comments, officers are able to confirm that retaining a £1m limit, would not have a significant impact on Treasury Management activity.

2.4. The draft Strategy Statement considered by the Audit and Standards Committee contained a reference to the Council's claim with the Icelandic Bank LBI. Subsequent to that meeting, the Council sold its claim and the reference has been deleted from the draft Strategy Statement.

3. Content

3.1. The Strategy Statement is a lengthy document and includes the use of technical terms where they are unavoidable. There are three changes in the approach to borrowing or investments compared with the current Strategy. These are:

- the inclusion as potential counterparties of Registered Providers (RP's) of Social Housing (with minimum long term rating A) as potential counterparties. RP's are tightly regulated by the Homes and Communities Agency and retain a high likelihood of receiving government support if needed. RP's operating locally are excluded in order to avoid the possibility of investments being deemed capital expenditure.
- the removal of the 2013/2014 strategy requirement for Money Market Funds (MMF's) in use to carry a AAA rating. This is in response to proposed EU regulatory reforms to MMF's which will, in all probability, result in these funds moving to a variable net asset value basis and away from their current AAA credit rating wrapper. The Council would seek the advice of Arlingclose before placing funds with a MMF which is not currently in use.
- an increase in the maximum able to be held in a MMF to £2m from £1m, in order to give increased day-to-day flexibility *(see paragraph 2.2 above).*

Amendments have been made to the narrative within the Strategy Statement so that it remains current.

3.2. **Credit criteria –** the credit criteria for investments of up to one year, will be:

Long term minimum: A (Fitch) A2 (Moody's) or A (S&P) and
Short term F1 (Fitch) P-1 (Moody's) or A-1 (S&P)

If a bank has credit ratings from more than one agency, the lowest rating will apply. The Council will also take into account information on corporate developments in and market sentiment towards investment counterparties.

For operational flexibility the Council will also be able to invest with its current account bank if it fails to meet the above criteria, but with an overnight maximum exposure guideline of £1million.

3.3. **Counterparty List -** page 23 of Appendix 1 includes a list of potential counterparties which meet the Council's approved criteria for investments at the time of drafting the Strategy Statement. It should be noted that the presence of a counterparty on the list does not necessarily mean that they will be used by the Council. A limit of £3m per counterparty will apply, with an aggregate maximum exposure of 40% of the portfolio to non-UK banks.

3.4. **Duration of investments -** the 2014/2015 Strategy will continue to enable the Council to place investments with banks for more than one year, subject to a maximum maturity of three years (although for liquidity reasons, investments with a duration of less than one year only are likely to be considered at the present time) and with no more than 50% of the portfolio being invested in this way. The credit criteria which will apply are higher than those applying to short term investments.

3.5. **Interaction between the General Fund and Housing Revenue Account –** Section 9 sets out the policy for the separate management of General Fund and HRA borrowing. In order to follow CIPFA guidance, local housing authorities are required to establish a clear accounting policy for determining how loans are to be allocated between the HRA and General Fund. As in 2013/2014, this Council will continue to adopt a 'two-pool' approach. It is also necessary to determine a policy for charging interest to the HRA in respect of any internal borrowing that it incurs from the General Fund and vice-versa. In such cases, the Strategy Statement specifies that the rate of interest applicable to a one-year maturity loan from the PWLB should apply.

Risk Management Implications

4. The risk management implications associated with this activity are explained in the Strategy Statement.

Financial Implications

5. All relevant implications are referred to in the Strategy Statement.

Legal Implications

6. None arising from this Report.

Sustainability Implications

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

Equality Screening

8. 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

9. Appendix 1 – Annual Treasury Management Strategy Statement and Investment Strategy 2014/2015 to 2016/2017

Background Papers

10. Treasury Strategy Statement 2013/2014 http://www.lewes.gov.uk/council/20987.asp