Agenda Item No:	**10.1**	**Report No:**	**17/15**
Report Title:	**Annual Treasury Management Strategy Statement and Investment Strategy 2015/2016 to 2017/2018**		
Report To:	**Cabinet**	**Date:**	**12 February 2015**
Cabinet Member:	**Councillor Andy Smith**		
Ward(s) Affected:	**All**		
Report By:	**John Magness, Director of Finance**		

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Purpose of Report:

To advise Cabinet of the proposed Treasury and Investment Strategies for 2015/2016 to 2017/2018.

To seek Council determination of (i) the 2015/2016 authorised borrowing limit (as required by section 3(1) of the Local Government Act 2003), (ii) the Council's 2015/2016 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 2015/2016 to 2017/2018 set out in Appendix 1.

b. The Council's 'Prudential Indicators' for the year are those set out in Appendix B 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:

	2015/2016	2016/2017	2017/2018
Authorised limit for external debt	£76.5m	£76.5m	£76.5m

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 13 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. 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 2015/2016 to 2017/2018

1. Introduction

1.1. The draft Strategy Statement 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. Arlingclose, the Council's Treasury advisers provided general support to the preparation of the draft Strategy Statement, and also made specific observations ahead of the review by the Audit and Standards Committee.

2. Audit and Standards Committee Review

2.1. The Audit and Standards Committee considered the draft Strategy Statement at its meeting on 26 January 2015, 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 attention of the Audit and Standards Committee was drawn to Arlingclose's observations, which were that:

- the cash limit for negotiable instruments held in a broker's nominee account should be set at £10m

- the cash limit for money market funds should be set at £10m in aggregate
- reference should be made to a successor body of the PWLB as a potential source of borrowing.

2.3. The Audit and Standards Committee had no specific comments to draw to Cabinet's attention, and the draft Strategy Statement incorporating Arlingclose's observations is attached at Appendix 1.

3. Content

3.1. The Strategy Statement is a lengthy document and includes the use of technical terms where they are unavoidable. As explained to Councillors by the Council's Treasury advisors, 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.

3.2. 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.

3.3. 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. 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.

3.4. Appendix C (page 22) of the Strategy sets out approved counterparty types and limits for 2015/2016. 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).

3.5. Section 9 of the Strategy 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 2014/2015, 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.

3.6. Section 13 of the Strategy sets out the approach that the Council will take to the provision for repayment of debt. It confirms that where borrowing is undertaken to fund projects within the capital programme (for example the installation of PV panels on housing), provision will be made to repay that borrowing over the expected lifespan of the assets acquired.

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. The legislative context is set out in the Strategy Statement.

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 – Treasury Management Strategy Statement and Investment Strategy 2015/2016 to 2017/2018.

Background Papers

10. Treasury Strategy Statement 2014/2015 http://www.lewes.gov.uk/council/20987.asp