

**Treasury Management Framework 2014/15
26 February 2014**

Report of Cabinet

PURPOSE OF REPORT

This report seeks approval for the Council's treasury management framework for 2014/15 onwards, including all the various elements as required under relevant legislation and the associated Code of Practice.

This report is public.

RECOMMENDATIONS

- 1) **That Council approves the Treasury Management Framework and associated Prudential Indicators as set out in Appendices A to D.**

1 INTRODUCTION

- 1.1 The CIPFA Code of Practice on Treasury Management ("the Code") requires that a strategy outlining the expected Treasury activity for the forthcoming 3 years be adopted, but that it be reviewed at least annually. It needs to reflect treasury policy and cover various forecasts and activities, in order to integrate the Council's spending and income plans with decisions about investing and borrowing.
- 1.2 Responsibilities associated with the Code's requirements are set out at **Appendix A**. Those aspects that require consideration by Council are covered in the following sections.

2 TREASURY MANAGEMENT POLICY STATEMENT

- 2.1 The Code requires the Council to set out a Policy Statement outlining the definition and objectives of its treasury management activities. The Code requires a specific form of words for the Policy Statement; this is unchanged from the current policy and it is set out at **Appendix B**.

3 TREASURY MANAGEMENT STRATEGY

- 3.1 The proposed Strategy for 2014/15 to 2016/17 is set out at **Appendix C**. This document contains the necessary details to comply with both the Code and Government investment guidance.

3.2 Key elements and assumptions feeding into the Strategy are outlined below. These fit with Cabinet's budget proposals.

3.3 **Borrowing Aspects of the Strategy**

3.3.1 Based on the draft budget, for now the physical borrowing position of the Council is projected to remain fairly constant over the next three years, allowing for scheduled repayments.

3.3.2 This position is based on the Council's capital spending and its provisions, reserves and balances being in line with forecasts. If cash payments increase significantly beyond this – for example, if key rating appeals are successful, and early additional demands on reserves such as Invest to Save/Council Housing business support come through - then the debt position may need to be varied accordingly. If so, additional Council approval would be sought if appropriate.

3.4 **Investment Aspects of the Strategy**

3.4.1 Overall, the strategy put forward follows on from 2013/14 in that it is based on the Council having a comparatively low risk appetite with focus on high quality deposits.

3.4.2 As background, Council may be aware that the sovereign debt crisis has eased during 2013. The Eurozone escaped seven quarters of recession but growth is likely to remain low and will therefore dampen UK growth. Debt levels remains comparatively very high in a number of European countries (Italy, Greece, Ireland, Portugal and Cyprus) and any sharp downturn in economic growth would make these countries vulnerable to another sovereign debt crisis. This means that there is no strong argument for a significant relaxation of the measures taken post Iceland as counterparty strength is still a major risk, but there is some scope for building in more flexibility, and this has been agreed with the Finance Portfolio Holder, in line with the delegations granted at February Cabinet and following discussions with the Council's advisors.

3.4.3 Accordingly, the proposed strategy now provides up to £6M flexibility to allow investments for up to 364 days with high credit quality banks (as compared with the currently strategy, that allowed up to £3M being invested for up to 100 days). This increased flexibility will only be used if circumstances, and in particular counterparty security, warrants it. Furthermore, the Council still has significant liquidity risk, although the key element of this is now linked to rating appeals rather than capital receipts, as was the position a year or so ago. Liquidity risks will also inform future investment patterns and periods.

3.4.4 In terms of return, the opportunity cost of keeping investments with good quality counterparties very short, through using predominantly instant access accounts, is that of a relatively low yield. Markets are starting to offer significantly improved rates for longer term deposits, however, with rates of 0.95% for a 12 month deposit. This is in comparison to 0.482% being the average return for the Council's balances overall. To illustrate, placing a £6M deposit for 1 year would have a marginal yield of £28K above that for the Council 'average' investment. A reasonable balance needs to be made, however, and it is stressed that in order of priority, the objectives of investing activity remain as:

1: Security of investment

2: Liquidity, to ensure that the council can meet all its payments

3: Return, through investment rates.

4 CONSULTATION

- 4.1 Officers have liaised with Capita Asset Services, the Council's Treasury Advisors, in developing the proposed framework. The approved framework is also due to be considered by Budget and Performance Panel at its meeting on 04 March 2014, to help inform its future work programme. A training session has also been organised for then, and all Members are welcome to attend it.

5 OPTIONS AND OPTIONS ANALYSIS

- 5.1 Council may put forward alternative proposals or amendments to the proposed Strategy in **Appendix C**, but these would have to be considered in light of legislative, professional and economic factors, and importantly, any alternative views regarding the Council's risk appetite.
- 5.2 Furthermore the Strategy must fit with other aspects of the budget, such as investment interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators.

6 CONCLUSION

- 6.1 Although the Council's proposed treasury management framework remains relatively unchanged, there is case for increasing flexibility regarding investments to some limited degree, and this is reflected in the proposals.

RELATIONSHIP TO POLICY FRAMEWORK

This report seeks minor changes to the Council's Treasury Management Policy, and fits with the proposed Medium Term Financial Strategy.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

No direct implications arising.

FINANCIAL IMPLICATIONS

The Strategy is in support of achieving the borrowing cost and investment interest estimates included in the budget.

SECTION 151 OFFICER'S COMMENTS

The section 151 Officer has produced this report, on behalf of Cabinet. Her comments and advice are reflected accordingly.

LEGAL IMPLICATIONS

There are no legal implications arising from this report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments to add.

BACKGROUND PAPERS

Treasury Management in the Public Services. CIPFA Code of Practice and Cross-sector Guidance Notes (2011)

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