

CABINET

Treasury Management Strategy 2015/16 17 February 2015

Report of Chief Officer (Resources)

| PURPOSE OF REPORT | | | | |
|---|-------------------------------------|------------------|--------------------------|----------|
| This report sets out the 2015/16 Treasury Management framework for Cabinet's approval and referral on to Council. | | | | |
| Key Decision | <input checked="" type="checkbox"/> | Non-Key Decision | <input type="checkbox"/> | Referral |
| Date of notice of forthcoming Key Decision | 20 January 2015 | | | |
| This report is public. | | | | |

OFFICER RECOMMENDATIONS:

- 1) That the Finance Portfolio Holder be given delegated authority to finalise the Treasury Management Framework, as updated for Cabinet's final budget proposals, for referral on to Council.

1 INTRODUCTION

- 1.1 The 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 To give context, and for information, the Quarter 3 monitoring report for the current year is included as Appendix D to the Corporate Performance and Financial Monitoring report elsewhere on this agenda.

2 TREASURY MANAGEMENT FRAMEWORK

- 2.1 The proposed Strategy for 2015/16 to 2017/18 is set out at **Appendix A** for Cabinet's consideration. This document contains the necessary details to comply with both the Code and Government investment guidance. Responsibilities for treasury management are set out at **Appendix B** and the policy statement is presented at **Appendix C**.
- 2.2 Key elements and assumptions feeding into the proposals are outlined below. These take account of Cabinet's existing budget proposals, as far as possible at this stage,

but there has been only limited time available to update the framework following the last Council meeting. Should there be any changes to the budget, then the treasury framework would need to be updated accordingly before being referred on to Council. For these reasons, delegated arrangements are being sought for finalising the framework, prior to it being referred on to Budget Council.

2.3 Borrowing Aspects of the Strategy

2.3.1 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. It is also projected that the HRA capital programme will not require any additional borrowing.

2.3.2 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.

2.4 Investment Aspects of the Strategy

2.4.1 Overall, the strategy put forward follows on from 2014/15 in that it is based on the Council having a comparatively low risk appetite with focus on high quality deposits. However, the parameters that are used to appraise the quality of deposits has been broadened. The 2014/15 strategy included a matrix that stated a minimum credit criteria based on the three main credit rating agencies. Therefore in order to give more flexibility whilst still maintaining security, a new system is now being proposed, which is provided by the Council's treasury advisors (Capita Asset Services). This ranks counterparties creditworthiness using the scores given by the agencies but supplements these with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- Credit Default Swaps (CDS) spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

Considering more parameters, in particular Credit Default Swaps (CDS), gives an insight into the wider market opinion on the quality of a deposit as a CDS can be viewed as an insurance policy against a counterparty defaulting on a deposit agreement.

2.4.2 The investment policy also extends the maximum term available for fixed term deposits, which runs in tandem with the suggested durations published by Capita Asset Services. Risks attached to security will be mitigated through the system outlined above. Liquidity risks will be mitigated through a limit on the percentage of the investment portfolio that can be invested for longer than 1 day. In terms of the returns, currently the opportunity cost of keeping investments in overnight deposit accounts currently stands at around £36K (based on a £6m investment with Lloyds vs the best performing Money Market Fund during 14/15).

3 CONSULTATION

- 3.1 Officers have liaised with Capita Asset Services, the Council's Treasury Advisors, in developing the proposed framework.

4 OPTIONS AND OPTIONS ANALYSIS

- 4.1 Cabinet may put forward alternative proposals or amendments to the proposed Strategy in Appendix A, 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. As such no further options analysis is available at this time.
- 4.2 Furthermore, the Strategy must fit with other aspects of Cabinet's budget proposals, such as investment interest estimates and underlying prudential borrowing assumptions, feeding into Prudential and Treasury Management Indicators.

5 OFFICER PREFERRED OPTION AND JUSTIFICATION

- 5.1 To approve the framework as attached, allowing for any amendments being made under delegated authority prior to referral to Council. This is based on the Council continuing to have a low risk appetite regarding the security and liquidity of investments particularly, but recognising that more flexibility should help improve returns, whilst still effectively mitigating risk. It is stressed in terms of treasury activity, there is no risk free approach. It is felt though that the measures set out above provide a better, more flexible framework within which to work over the coming year.

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

None

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