TREASURY MANAGEMENT STRATEGY 2015/16

Cabinet – 5 February 2015

Report of the:	Chief Finance Officer
Status:	For Consideration
Also considered by:	Finance and Resources Advisory Committee – 20 January 2015
	Council – 17 February 2015
Key Decision:	No

Executive Summary: The Local Government Act 2003 (the Act) and supporting regulations requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy (as required by investment guidance issued subsequent to the Act). This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

Members' particular attention is drawn to paragraph 61 of the report, which discusses an investment option in the current strategy not at present being utilised.

This report supports the Key Aim of Effective Management of Council Resources.

Portfolio Holder	Cllr. Ramsay
Contact Officer	Roy Parsons, Principal Accountant - Ext 7204

Recommendations to Finance and Resources Advisory Committee:

a) That consideration is given to utilising Enhanced Money Market Funds as an investment option; and

b) That the Treasury Management Strategy for 2015/16 be approved.

Recommendation to Cabinet: That, subject to the views of the Finance and Resources Advisory Committee, Cabinet recommends Council to approve the Treasury Management Strategy for 2015/16.

Recommendation to Council: That the Treasury Management Strategy for 2015/16 be approved.

Reason for recommendations: To ensure that an appropriate and effective annual Treasury Management Strategy is drawn up in advance of the forthcoming financial year, which meets both legislative and best practice requirements.

Background

1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

3 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

Introduction

<u>Reporting requirements</u>

4 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Finance and Resources Advisory Committee.

5 Prudential and Treasury Indicators and Treasury Strategy (This report) - The first, and most important report covers:

- the capital plans (including prudential indicators);
- a Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time);
- the Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and

- an investment strategy (the parameters on how investments are to be managed).

6 A Mid Year Treasury Management Report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.

7 An Annual Treasury Report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Treasury Management Strategy for 2015/16

8 The strategy for 2015/16 covers two main areas:

Capital Issues

- the capital plans and the prudential indicators;
- the minimum revenue provision (MRP) strategy.

Treasury management Issues

- the current treasury position;
- treasury indicators which will limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- the investment strategy;
- creditworthiness policy; and
- policy on the use of external service providers.

9 These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the Department of Communities and Local Government (CLG) MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

Training

10 The CIPFA Code requires the responsible officer to ensure that Members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. Training was last undertaken in 2010 and further training will be arranged as required.

11 The training needs of treasury management officers are reviewed periodically.

Treasury management consultants

12 The Council uses Capita Asset Services, Treasury Solutions as its external treasury management advisors.

13 The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

14 It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and subjected to review.

Capital Issues

The Capital Prudential Indicators 2015/16 – 2017/18

15 The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in prudential indicators, which are designed to assist Members' overview and confirm capital expenditure plans.

Capital Expenditure

16 This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Capital Expenditure	2,114	1,207	10,266	1,048	1,035

17 Other long term liabilities. The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

18 The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding need (borrowing).

	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000

Capital Expenditure	2,114	1,207	10,266	1,048	1,035
Financed by:					
Capital receipts	0	201	234	0	0
Capital grants	1,290	410	477	477	477
Capital reserves	185	107	5,057	57	57
Revenue	639	489	498	514	501
Net financing need for the year	**0**	**0**	**4,000**	**0**	**0**

The Council's Borrowing Need (the Capital Financing Requirement)

19 The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR.

20 The CFR does not increase indefinitely, as the minimum revenue position (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life.

21 The CFR includes any other long term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £0.1m of such schemes within the CFR.

22 The Council is asked to approve the CFR projections below:

	2013/14 Actual £000	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**
Capital Financing Requirement					
Total CFR	143	122	4,101	3,880	3,659
Movement in CFR	-21	-21	3,979	-221	-221

Movement in CFR represented by:					
Net financing need for the year (above)			4,000		
Less MRP/VRP and other financing movements	-21	-21	-21	-221	-221
Movement in CFR	**-21**	**-21**	**3,979**	**-221**	**-221**

Note:- The MRP / VRP includes finance lease annual principal payments

Minimum Revenue Provision (MRP) Policy Statement

23 The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

24 CLG Regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

25 For capital expenditure incurred before 1 April 2008 or which in the future will be Supported Capital Expenditure, the MRP policy will be based on CFR.

26 These options provide for an approximate 4% reduction in the borrowing need (CFR) each year.

27 From 1 April 2008 for all unsupported borrowing (including PFI and finance leases), the MRP policy will be the Depreciation method – MRP will follow standard depreciation accounting procedures. This provides for a reduction in the borrowing need over approximately the asset's life. Repayments included in annual PFI or finance leases are applied as MRP.

Core Funds and Expected Investment Balances

28 The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an on-going impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year end balances for each resource and anticipated day to day cash flow balances.

Year End Resources	2013/14 Actual £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Fund balances / reserves	23,350	22,019	21,674	22,066	20,367
Capital receipts	4,568	7,233	7,255	7,255	7,255
Provisions	409	409	409	409	409
Other	0	0	0	0	0
Total core funds	**28,327**	**29,661**	**29,338**	**29,730**	**28,031**
Working capital*	4,979	1,032	1,061	1,090	1,119
Under/over borrowing	0	0	0	0	0
Expected investments	**33,306**	**30,693**	**30,399**	**30,820**	**29,150**

*Working capital balances shown are estimated year end; these may be higher mid year

Affordability Prudential Indicators

29 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of Financing Costs to Net Revenue Stream

30 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs, net of investment income) against the net revenue stream.

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
	-3.00%	-2.00%	-2.00%	-3.00%	-4.00%

The estimates of financing costs include current commitments and the proposals in the budget report.

Incremental Impact of Capital Investment Decisions on Council Tax.

31 This indicator identifies the revenue costs associated with proposed changes to the three year capital programme recommended in this budget report compared to the Council's existing approved commitments and current plans. The assumptions are based on the budget, but will invariably include some estimates, such as the level of Government support, which are not published over a three year period.

	2013/14 Actual	2014/15 Estimate	2015/16 Estimate	2016/17 Estimate	2017/18 Estimate
Council tax band D	-£0.01	£0.00	£0.04	-£0.03	-£0.04

Treasury Management Issues

32 The capital expenditure plans set out above provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

Current Portfolio Position

33 The Council's treasury portfolio position at 31 December 2014 appears in Appendix A.

Borrowing

34 The above mentioned portfolio position shows that, at present, this authority does not borrow. This has been the position for a number of years. However, this may change in future and hence the strategy needs to deal with such a situation, should it arise.

35 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2015/16 and the following two financial years. This allows for some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

Treasury Indicators: Limits to Borrowing Activity

The Operational Boundary

36 This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

Operational boundary	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0
Total	**5,000**	**5,000**	**5,000**	**5,000**

The Authorised Limit for external debt

37 A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

38 This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

39 The Council is asked to approve the following Authorised Limit:

Authorised limit	**2014/15 Estimate £000**	**2015/16 Estimate £000**	**2016/17 Estimate £000**	**2017/18 Estimate £000**
Debt	5,000	5,000	5,000	5,000
Other long term liabilities	0	0	0	0
Total	**5,000**	**5,000**	**5,000**	**5,000**

Prospects for Interest Rates

40 The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix B draws together a number of current City forecasts for short term and longer fixed interest rates. Appendix C contains Capita Asset Services' latest economic background report.

Borrowing Strategy

41 At present, there are no capital borrowings. However, should this change during 2015/16, the Council would look to maintain an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement or "CFR") has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is considered a prudent one as investment returns are low and counterparty risk is relatively high.

Treasury Management Limits on Activity

42 There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive, they will impair the opportunities to reduce costs and/or improve performance. The indicators are:

a. Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position, net of investments.

b. Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates.

c. Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

43 The council is asked to approve the following treasury indicators and limits:

Interest rate exposures	**2015/16** **%**	**2016/17** **%**	**2017/18** **%**
Upper limit for variable interest rate exposure	50%	50%	50%
Upper limit for fixed interest rate exposure	100%	100%	100%

Maturity structure for borrowings:			
Upper limit for under 12 months	100%	100%	100%
Lower limit for under 12 months	0%	0%	0%
Upper limit for over 12 months	100%	100%	100%
Lower limit for over 12 months	0%	0%	0%

Policy on borrowing in advance of need

44 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

45 Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

Municipal Bonds Agency

46 It is likely that the Municipal Bonds Agency, currently in the process of being set up, will be offering loans to local authorities in the near future. It is also hoped that the borrowing rates will be lower than those offered by the Public Works Loan Board (PWLB). If the Council does borrow in the future it intends to make use of this new source of funding as and when appropriate.

Annual Investment Strategy

Investment Policy

47 The Council's investment policy has regard to the Department of Communities and Local Government (CLG) Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second, then return.

48 In accordance with the above guidance, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk.

49 Continuing regulatory changes in the banking sector are designed to see greater stability, lower risk and the removal of expectations of Government financial support should an institution fail. This withdrawal of implied sovereign support is

anticipated to have an effect on ratings applied to institutions. This will result in the key ratings used to monitor counterparties being the Short Term and Long Term ratings only. Viability, Financial Strength and Support Ratings previously applied will effectively become redundant. This change does not reflect deterioration in the credit environment but rather a change of method in response to regulatory changes.

50 As with previous practice, ratings will not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings.

51 Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

52 Investment instruments identified for use in the financial year are listed in Appendix D under the 'Specified' and 'Non-Specified' Investments categories. Counterparty limits will be as set below.

<u>Creditworthiness Policy</u>

53 This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utlilising credit ratings from the three main credit rating agencies - Fitch, Moodys and Standard and Poors. The credit ratings of counterparties are supplemented with the following overlays:

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

54 This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration for investments. The Council will therefore use counterparties within the following durational bands:

- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months

- Green 100 days
- No Colour as individually specified in the Strategy

55 The Capita Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

56 Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1 and a long term rating A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

57 All credit ratings will be monitored regularly. The Council is alerted to changes to ratings of all three agencies through its use of the Capita Asset Services creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- in addition to the use of credit ratings the Council will be advised of information in movements in Credit Default Swap against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

58 Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government.

Country limits

59 The Council has determined that it will only use approved counterparties from countries that have a minimum sovereign credit rating of AA- from Fitch and where those countries have been approved by the Finance and Resources Advisory Committee. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix E. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

Other Creditworthiness Issues

60 The Council's current investment policy further limits the one proposed by Capita Asset Services as follows:-

a. Maximum investment period of two years.

b. Investments in any single institution or institutions within a group of companies are limited to 25% of the total fund, at the time the investment is placed, except for Lloyds Banking Group plc and Royal Bank of Scotland Group plc where the limit is 30%.

c. Total investments in any one foreign country are limited to 15% of the total fund, but UK-based institutions to be used as first preference. The only country, other than the UK, approved for investment is Sweden.

d. Investments are limited to £6m per counterparty excluding call accounts and £7m including call accounts except for Lloyds Banking Group plc and Royal Bank of Scotland Group plc, where the limits are £10m for each with no distinction between fixed deposits and call accounts.

e. If the Council's own banker, Barclays, falls below Capita Asset Services' minimum credit rating requirements, it will nevertheless continue to be used, although balances will be minimised in both monetary size and duration.

f. Building Societies with assets in excess of £9bn are included in the lending list with a maximum investment limit of £2m each and a maximum duration of 100 days. If a Building Society meets Capita Asset Services' minimum credit rating requirements, the investment limit is increased to £5m with a maximum investment duration of two years.

g. Investments in Money Market Funds (MMFs) and Enhanced Money Market Funds (EMMFs) are limited to a combined maximum of £5m per provider.

61 No changes are proposed for 2015/16. EMMFs were not utilised in 2014/15 as some Members expressed concern that they carried more risk. EMMFs differ from MMFs because there tends to be a greater proportion of longer dated investments within the fund making returns more volatile. It is recommended that an investment in an EMMF is held for a minimum of 3 to 6 months so that returns are smoothed out. It is true to say that they do not have a constant net annual value (NAV) as is the case with MMFs. This means that there is a risk that the value may fall below par. However, this has not yet happened to any EMMF and their use is widespread within local authorities.

<u>Investment Strategy</u>

62 Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

63 Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2015. Bank Rate forecasts for financial year ends (March) are:

- 2015/16 1.00%
- 2016/17 1.50%
- 2017/18 2.50%

64 There are downside risks to these forecasts (i.e. start of increases in Bank Rate occurs later) if economic growth weakens. However, should the pace of growth quicken, there could be an upside risk.

65 The suggested budgeted investment earnings rates for returns on investments placed for periods up to 100 days during each financial year for the next eight years are as follows:

- 2015/16 0.90%
- 2016/17 1.50%
- 2017/18 2.00%
- 2018/19 2.50%
- 2019/20 3.00%
- 2020/21 3.00%
- 2021/22 3.25%
- 2022/23 3.25%
- Later years 3.50%

66 The Council is asked to approve the following treasury indicator limit. These limits are set with regard to the Council's liquidity requirements and to reduce the need for an early sale of an investment. They are based on the availability of funds after each year-end.

Maximum principal sums invested > 364 days	**2015/16 £000**	**2016/17 £000**	**2017/18 £000**
Principal sums invested > 364 days	10,000	10,000	10,000

67 For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits (overnight to 100 days) in order to benefit from the compounding of interest.

Icelandic Bank Investment

68 The Council had an investment of £1m frozen in Landsbanki Islands hf (later renamed as LBI). The investment was placed on 25 June 2007 at 6.32%, to mature on 25 June 2009.

69 The Council has sold its claim against the insolvent estate of LBI. The claim was sold through a sales process brokered by Deutsche Bank. The price at which the claim was sold was based on a reserve price set by the Council on the basis of legal advice received from Bevan Brittan, Solicitors and financial advice procured by the Local Government Association. The proceeds of the sale were paid in cash in Pounds Sterling. The sale means that the Council has recovered 95.9% of the amount that was originally deposited with LBI in 2007. The Council is now no longer a creditor of LBI.

70 After taking into account interest received prior to the insolvency, the full amount of the original investment has now been recovered.

71 In addition, a small repayment in Icelandic Krona remains in an escrow account in Iceland awaiting the lifting of capital controls before it can be repatriated. The GBP equivalent is approximately £7,000. It is attracting interest at a rate of around 3% or 4%.

End of Year Investment Report

72 At the end of the financial year, the Council will receive a report on its investment activity as part of the Annual Treasury Report.

Scheme of delegation

73 The guidance notes accompanying the revised Code also require that a statement of the Council's scheme of delegation in relation to treasury management is produced as part of the Annual Investment Strategy. This appears at Appendix F.

Role of the Section 151 officer

74 As with the scheme of delegation mentioned in the previous paragraph, a statement of the role of the Section 151 officer is also required. This appears at Appendix G.

Key Implications

Financial

75 The management of the Council's investment portfolio and cash-flow generated balances plays an important part in the financial planning of the authority. The security of its capital and liquidity of its investments is of paramount importance.

Legal Implications and Risk Assessment Statement

76 Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.

77 This annual investment strategy report fulfils the requirements of The Chartered Institute of Public Finance & Accountancy's Code of Practice on Treasury Management 2009.

78 Treasury management has two main risks :

- Fluctuations in interest rates can result in a reduction in income from investments; and

- A counterparty to which the Council has lent money fails to repay the loan at the required time.

Consideration of risk is integral in our approach to treasury management.

79 The movement in previous years towards having a restricted lending list of better quality institutions but higher individual limits with those institutions has reduced

the chances of a default. But if a default did occur, the potential loss would be greater. The proposal in this report does create additional risk.

80 These risks are mitigated by the annual investment strategy which has been prepared on the basis of achieving the optimum return on investments commensurate with proper levels of security and liquidity. However, Members should recognise that in the current economic climate, these remain significant risks and that the strategy needs to be constantly monitored.

<u>Equality Assessment</u>

81 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

Conclusions

82 The effect of the proposals set out in this report is to allow the Council to effectively and efficiently manage cash balances.

83 In line with the revised CIPFA Code of Practice on Treasury Management, the Annual Treasury Strategy must be considered by Council and this is planned for its meeting on 17 February 2015. Given the current uncertainties in the banking sector and financial markets, the Council may need to consider amending its strategy during the year.

Appendices:

Appendix A – Investment portfolio at 31 December 2014

Appendix B – Prospects for interest rates

Appendix C – Economic background report

Appendix D – Specified and non-specified investments

Appendix E – Approved countries for investments

Appendix F – Treasury management scheme of delegation

Appendix G – The treasury management role of the S151 officer

Background Papers: None

Adrian Rowbotham
Chief Finance Officer