Meeting:	**Cabinet** **Council** **Audit and Governance Committee**	**Date:**	**10th April 2013** **20th May 2013** **25th June 2013**
Subject:	**Treasury Management Strategy 2013/14**		
Report Of:	**Corporate Director of Resources**		
Wards Affected:	**All**		
Key Decision:	**No**	**Budget/Policy Framework:**	**Yes**
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Appendices:	**1. Treasury Management Strategy 2013/16**		

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 To formally recommend that Full Council approves the attached Treasury Management Strategy, the Prudential Indicators and note the treasury activities.

2.0 Recommendations

2.1 Cabinet is asked to **RESOLVE** that the recommendations to Council be noted and endorsed.

2.2 Council is asked to **RESOLVE** that

(1) The treasury management strategy which sets out how the Council's treasury service will manage external borrowing and investments in support of the capital programme be approved;

(2) The borrowing authorised borrowing limit be approved at:-
   a. 2013/14 £84m
   b. 2014/15 £86m
   c. 2015/16 £87m

(3) The Housing Revenue Account capital financing requirement be limited to £62.750m in accordance with the debt cap imposed through the HRA self financing regime.

(4) The prudential indicators set on in section two of the strategy which set out the capital plans, financing, minimum revenue provision policy statement and affordability on the Council tax and rents be approved.

2.3 Audit and Governance Committee is asked to **RESOLVE** that the Treasury Management Strategy and the treasury implications of the potential CoCo be noted.

3.0 Background and Key Issues

3.1 The treasury management strategy proposes a continuation of the existing successful strategy to move to an under-borrowing position. In previous years the Council's level of external debt exceeded the capital financing requirement. As at 31st March 2011 this over-borrowing amounted to £23.7m and the position had reduced to £18.5m at 31st March 2012.

3.2 The position at 31st March 2013 is almost level with a small under-borrowing of £0.6m. During 2013/14 the market investments will be utilised to fund the in-year capital financing requirement and by the 31st March 2014 it is forecast that external debt will have only increased by £0.3m whereas the capital financing requirement will have grown by £5.0m. The Council will then be in a fully under-borrowed position of £5.3m.

3.3 This under-borrowing reflects that the Council resources such as reserves and provisions will have reduced debt rather than be externally invested. This strategy is sensible, at this point in time, for two reasons. Firstly, there is no differential between the marginal borrowing rate and investment rate so there is nothing to be gained by investing Council resources externally. Secondly, by using the resources to reduce debt the Council will reduce exposure to investment counterparty risk.

3.4 There will be short term cashflow balances that will be invested for short periods within the year. Section 4 of the strategy outlines the Annual Investment Strategy, in particular in outlines the creditworthiness policy through the use of credit ratings.

3.5 The borrowing strategy is straight-forward, use investments to reduce short term borrowing and long term debt as it becomes repayable. Once investments have been applied it is anticipated that any new debt will be short term as the current market rates are attractive and this also maximises future flexibility. This flexibility is important because the potential creation of the CoCo will have treasury implications as the Housing Revenue Account accounts for almost 80% of external debt. The treasury implications of the CoCo will be actively considered during the negotiation and approval process.

3.6 The strategy allows for either debt rescheduling or new long term fixed rate borrowing in place of short term borrowing if circumstances were to change during 2013/14 although the decision will take account of potential CoCo position.

3.7 The strategy also includes the minimum revenue provision (MRP) policy statement. This policy continues with the practice approved last year. MRP is the revenue charge to reduce debt and is only required by the General Fund. This option provides for a reduction in the borrowing need over the approximate asset life. For clarity the options for reduction are explained and can either be through an annuity calculation (providing a consistent overall annual borrowing charge) or straight line (where the principal repayment is the same each year).

4.0 Alternative Options Considered

4.1 The Strategy considered the following options.

- The potential to borrow long term rather than sort term. This remains an option should interest rates change but at the moment short terms rates are only 0.35% whereas long term rates are over 3% (10 years plus).

- Another option which has been discounted is that internal resources such as reserves could be externally invested rather than invested internally. The income from the external investment is the same as the cost of temporary borrowing so there is nothing to be gained by externally investing reserves at this point in time. In other circumstances, usually when long term rates are lower than short term investment rates there is sometimes merit in external investment of reserves and this will be considered if circumstances change.

5.0 Reasons for Recommendations

5.1 As outlined in the legal implications the recommendations require Council approval.

6.0 Future Work and Conclusions

6.1 The treasury management strategy provides a logical basis to fund the capital financing requirement and successful move to a fully under-borrowed position. The main issue that will impact of the strategy is the CoCo and this will require future work as part of the negotiation and approval process.

7.0 Financial Implications

7.1 The expenditure and income arising from treasury management activities are included within the Council General Fund and Housing Revenue Account budgets.

8.0 Legal Implications

8.1 The Treasury Management Strategy is required to meet the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

9.0 Risk & Opportunity Management Implications

9.1 There is a risk that short term and long term interest rates increase and this will be monitored both in-house and by the Council Treasury Management Advisor, Sector. In this event the risk will be managed through the opportunities either to reschedule debt or new long term fixed rate borrowing in place of short term borrowing.

9.2 The risk of deposits not being returned by the counterparty is minimised by moving to a fully under borrowed position and then only investing short term cashflow monies with counterparties on the approved lending list. All counterparties on this list meet minimum credit rating criteria, ensuring the risk is kept extremely low although not eliminated.

9.3 The treasury management risks associated with the potential creation of the CoCo will be actively managed through the negotiation and approval processes.

10.0 People Impact Assessment (PIA):

10.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

11.0 Other Corporate Implications

Community Safety

11.1 None

Sustainability

11.2 None

Staffing & Trade Union

11.3 None

Background Documents:
Local Government Act 2003,
CIPFA Treasury Management Code
CIPFA Prudential Code,
CLG Investment Guidance
CLG MRP Guidance,