

PART 1 - PUBLIC

Decision Maker: Resources Portfolio Holder
Council

Date: For pre-decision scrutiny by Executive and Resources PDS Committee
on 4th February 2015
Council meeting 23rd February 2015

Decision Type: Urgent Non-Executive Key

Title: TREASURY MANAGEMENT - ANNUAL INVESTMENT
STRATEGY 2015/16

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Chief Officer: Director of Finance

Ward: All

1. Reason for report

- 1.1 This report presents the Treasury Management Strategy and the Annual Investment Strategy for 2015/16, which are required by the CIPFA Code of Practice for Treasury Management in the Public Services (revised in 2009 and updated in 2011) to be approved by the Council. The report also includes prudential indicators and the MRP (Minimum Revenue Provision) Policy Statement, both of which require the approval of the Council.
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RECOMMENDATION(S)

The PDS Committee, the Portfolio Holder and full Council are asked to:

2.1 Note the report and

- 2.2 Agree to adopt the Treasury Management Statement and the Annual Investment Strategy for 2015/16 (Appendix 1 on pages 6-30 of this report), including the prudential indicators (summarised on page 30) and the Minimum Revenue Provision (MRP) policy statement (page 10).**

Corporate Policy

1. Policy Status: Existing policy. To maintain appropriate levels of risk, particularly security and liquidity, whilst seeking to achieve the highest rate of return on investments.
 2. BBB Priority: Excellent Council.
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Financial

1. Cost of proposal: N/A
 2. Ongoing costs: N/A.
 3. Budget head/performance centre: Interest on balances
 4. Total current budget for this head: £1.591m (net investment income) in 2014/15; currently forecast to be £1.1m over budget; draft budget for 2015/16 £2,741k
 5. Source of funding: Net investment income
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Staff

1. Number of staff (current and additional): 0.25 fte
 2. If from existing staff resources, number of staff hours: 9 hours per week
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Legal

1. Legal Requirement: Non-statutory - Government guidance.
 2. Call-in: Call-in is applicable The Annual Investment Strategy and Prudential Indicators require Council approval
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Customer Impact

1. Estimated number of users/beneficiaries (current and projected): n/a
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Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A.
2. Summary of Ward Councillors comments:

3. COMMENTARY

General

- 3.1 Under the requirements of the CIPFA Code of Practice on Treasury Management, the Council is required to approve an annual treasury strategy in advance of the year, a part-year review report and an annual report following the year describing the activity compared to the strategy. In practice, the Director of Finance has reported quarterly on treasury management activity for many years and has always met the requirements with regard to the annual strategy, the part-year review and the annual report. The part-year review for 2014/15 was reported to this PDS Committee in November and was approved by Council in December. This report presents the annual strategy (Appendix 1), including the MRP Policy Statement (page 10) and prudential indicators (summarised on page 30) for 2015/16 to 2017/18. Details of treasury management activity during the quarter ended 31st December 2014 and the period 1st April 2014 to 31st December 2014 are included in a report elsewhere on the agenda.

Treasury Management Strategy Statement and Annual Investment Strategy 2015/16

- 3.2 Appendix 1 sets out the Treasury Management Strategy Statement and Annual Investment Strategy for 2015/16. This combines the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services (revised in 2009 and updated in 2011) and the Prudential Code. The Strategy includes throughout details of proposed prudential indicators, which are summarised in Annex 3 (page 30) and will be submitted for approval to the February Council meeting. Many of the indicators are academic as far as the Council is concerned, as they seek to control debt and borrowing (generally not applicable for Bromley), but they are a statutory requirement.
- 3.3 Members will be aware that, since the Icelandic bank crisis in October 2008, the Council has approved a number of changes to the eligibility criteria and maximum exposure limits (both monetary and time) for banks and building societies. The rating criteria use the **lowest common denominator** method of selecting counterparties and applying limits. This means that the application of the Council's minimum criteria will apply to the lowest available rating for any institution. For instance, if an institution is rated by two agencies, one of which meets the Council's criteria while the other does not, the institution will fall outside the lending criteria. The Council also applies a minimum sovereign rating of AA+ to investment counterparties.
- 3.4 While the Council effectively determines its own eligible counterparties and limits, it also uses Capita Treasury Solutions as an advisor in investment matters. Capita use a sophisticated modelling approach that combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes indicate Capita's recommendations on the maximum duration for investments. The Council will use its own eligibility criteria for all investment decisions, but will also be mindful of Capita's advice and information and will not use any counterparty not considered by Capita to be a reasonable risk. In line with the requirements of the CIPFA Treasury Management Code of Practice, the Council will always ensure the security of the principal sum and the Council's liquidity position before the interest rate.
- 3.5 As is highlighted in the Treasury Performance report elsewhere on the agenda, a number of UK banks have been the subject of credit ratings downgrades in recent years, which has resulted in reductions to the number of eligible counterparties and to monetary and duration limits on our lending list. It should be emphasised that the downgrades were, in most cases, relatively minor and were not an indication of a likely bank default, but, nevertheless, they were enough to impact on our lending list. As a result, the total of investments placed with money market funds has increased significantly in recent years.

Regulatory Framework, Risk and Performance

3.6 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions have been made to date);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities;
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

3.7 The Council has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.

4. POLICY IMPLICATIONS

4.1 In line with government guidance, the Council's policy is to maintain appropriate levels of risk, particularly with a view to ensuring security and liquidity, and to seek to achieve the highest rate of return on investments within these risk parameters.

5. FINANCIAL IMPLICATIONS

5.1 A rate of 1% was assumed in the 2014/15 budget for interest on new investments and the budget for net interest earnings was set at £1,591k. Interest rates still show no real sign of increasing and Capita now expect the Bank of England base rate to begin to rise slowly from the end of 2015. There have been no improvements to counterparty credit ratings, which means that the restrictions to investment opportunities that followed ratings downgrades in recent years have still been in place. However, the increases in the limits for the two part-nationalised banks (Lloyds and RBS) approved by the Council in October, together with higher rates from longer-term deals placed with other local authorities, higher average balances than anticipated and the strong performance of the CCLA Property Fund investment, has resulted in a considerable improvement in interest earnings in 2014/15. At this stage, it is estimated that the 2014/15 outturn for interest earnings will be around £1.1m above budget.

5.2 With regard to 2015/16, the draft budget has been increased to £2,741k to reflect higher interest earnings from investments placed in 2014/15 and higher average balances in that year. These are explained in more detail in the treasury management performance report elsewhere on this agenda.

Non-Applicable Sections:	Legal and Personnel Implications
Background Documents: (Access via Contact Officer)	CIPFA Code of Practice on Treasury Management CIPFA Prudential Code for Capital Finance in Local Authorities CLG Guidance on Investments External advice from Capita Treasury Solutions