

REPORT TO: **AUDIT COMMITTEE**

DATE: **30 JANUARY 2013**

REPORT BY: **HEAD OF FINANCE**

SUBJECT: **TREASURY MANAGEMENT STRATEGY 2013/14, TREASURY
MANAGEMENT POLICY STATEMENT 2013 – 2016, TREASURY
MANAGEMENT PRACTICES 2013 – 16 AND TREASURY
MANAGEMENT UPDATE 2012/13,**

1.00 PURPOSE OF REPORT

1.01 To present the draft Treasury Management Strategy 2013/14 for review prior to recommending to Cabinet in conjunction with:-

- Draft Treasury Management Policy Statement 2013 – 2016,
- Draft Treasury Management Practices 2013 -16.

1.02 To provide members with a quarterly update on matters relating to the Council's 2012/13 Treasury Management Policy and Strategy Statement up to the end of December 2012.

1.03 This report will be supplemented with training available to all Members of the Council on treasury management on 29th January 2013.

2.00 BACKGROUND

2.01 The Local Government Act 2003 requires all local authorities to have due regard to both the Chartered Institute of Public Finance and Accountancy's Treasury Management in Public Services: Code of Practice (The CIPFA Code of Practice) and Welsh Government guidance on Local Authority Investments.

2.02 The Council adopted the 2011 edition of The CIPFA Code of Practice in March 2012 which requires:-

- The Council to create and maintain a Treasury Management Policy Statement which states the Council's policies, objectives and approach to risk management of its treasury management activities.
- The Council to create and maintain suitable Treasury Management Practices (TMPs) and accompanying schedules, stating how those policies and objectives will be achieved and prescribing how those activities will be managed and controlled.
- The Council to receive reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close, in the form prescribed in its TMPs.

- Responsibility for Treasury Management to be clearly defined. The Council delegates responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Cabinet, and for the execution and administration of treasury management decisions to Head of Finance, who will act in accordance with the organisation's policy statement and TMPs and, CIPFA's *Standard of Professional Practice on Treasury Management*.
- A body to be responsible for the scrutiny of Treasury Management Policy, Strategy and Practices. The Council has nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management function. The Audit Committee has previously agreed to include treasury management as a standing item on each quarterly agenda to receive an update.

2.03 The Welsh Government guidance on Local Authority investments requires that the Council prepares an Investment strategy before the start of each financial year which sets out the Council's policies for the prudent management of its investments, giving priority, firstly to the security of those investments (protecting the capital sum from loss), and secondly liquidity (keeping money readily available for expenditure). The generation of investment income is distinct from these prudential objectives, however provided that proper levels of security and liquidity are achieved, it may (but only then) be reasonable to seek the highest yield consistent with those priorities.

The guidance stipulates that the investment strategy must also include the following:

- Specified Investments
- Non-specified Investments
- Credit Risk Assessment
- Investment Consultants
- Investment Training
- Investment of money borrowed in advance of need

2.04 On 1st March 2012 the Council approved the Treasury Management Policy and Strategy Statement for 2012/13, following the recommendation of the Cabinet and consideration by Audit Committee.

2.05 The Council's treasury management advisors have changed to Arlingclose Ltd, as detailed in paragraph 3.06.

3.00 CONSIDERATIONS

2013/14 and onwards Treasury Management Documentation

3.01 In previous years members have been asked to approve a combined Treasury Management Policy and Strategy Statement which included the Policy Statement, the annual Strategy and as an appendix, detailed Treasury Management Practices and accompanying Schedules.

3.02 Following discussions with Arlingclose, the Council's Treasury Management advisors, the conclusion was drawn that it would be clearer if separate treasury management documents were provided.

- 3.03 Attached in Appendix 1 for review and discussion is the Treasury Management Policy Statement to cover the 3 year period from 2013/14 to 2015/16. Once approved, this document will only be reported to members during its lifetime in the event of any significant changes. The content of the Policy Statement remains unchanged from its approval in 2012/13; defining the Council's treasury management activities, setting out the Council's criteria to measure the effectiveness of treasury management activities and includes the Council's high level policies for borrowing and investments.
- 3.04 The Treasury Management Practices (TMPs) and accompanying schedules to cover the 3 year period from 2013/14 to 2015/16 are attached in Appendix 2 and Appendix 3 for review and discussion. Again, once approved, this document will only be reported to members during its lifetime in the event of any significant changes.

The TMPs and schedules state how treasury management policies and objectives will be achieved and give specific details of the systems and routines employed and the records to be maintained including:-

- TMP 1 Risk Management
- TMP 2 Performance measurement
- TMP 3 Decision-making
- TMP 4 Approved instruments, methods and techniques
- TMP 5 Organisation, clarity and segregation of responsibilities and dealing Arrangements
- TMP 6 Reporting requirements and management information arrangements
- TMP 7 Budgeting, accounting and audit arrangements
- TMP 8 Cash and cash flow management
- TMP 9 Money laundering
- TMP 10 Training and qualifications
- TMP 11 Use of external service providers
- TMP 12 Corporate Governance

The contents of the practices and schedules have been changed to reflect the transfer of responsibility of the treasury management function from the Funds section to the Strategy and Technical section of Corporate Finance following the Finance Function Review.

Treasury Management Strategy 2013/14

- 3.05 The 2013/14 Treasury Management Strategy is attached in Appendix 4 for review and discussion. The Strategy will be updated and reported annually to members in accordance with the CIPFA Code of Practice and the Welsh Government guidance.

The Treasury Management Strategy details the approach the Council will take for investing and borrowing over the next year, including the budgetary implications of the planned investment and borrowing strategy and a number of treasury management indicators that the CIPFA Code requires.

The contents of the 2013/14 Strategy has not materially changed from that of the 2012/13 Strategy. Following the transfer of the treasury management function as described in paragraph 3.03 above and discussions with Arlingclose, the Council's Treasury Management advisors, the layout of the Strategy has been amended to make plans clearer and easier to follow.

The few minor changes that have been made to the 2013/14 Treasury Management Strategy and the rationale behind the changes made are listed below:-

- In defining 'high credit quality' investments the Council will only use Long Term credit ratings and will no longer use Short Term ratings to simplify and strengthen the Council's counterparty list.
- Time limits on investments have been introduced to differentiate between the grades awarded by the credit rating bodies. For example, previously there was no distinction made between an investment made with a counterparty rated as the highest credit quality AAA, and high credit quality A. The Strategy now reflects the lower credit risk associated with counterparties awarded higher credit quality by placing a higher time limit on investments with those counterparties. An investment could be made for up to 4 years for a counterparty rated as AA / Aa2, but only up to 1 year for a counterparty rated as A / A2.
- Following discussion with Arlingclose, the Council's Treasury Management advisors, investments rated as A-/A3 will be defined as high credit quality. This is a reduction from the A/A2 current position, which does introduce a higher level of credit risk; however this has been mitigated by placing a time limit of 6 months on such investments and is considered to be a measured risk that will introduce more counterparties to spread the risk.

3.06 A training session open to all Members on treasury management will be run by Arlingclose, the Council's treasury management advisors on the morning of the 29th January. Further explanation of the content of the Policy Statement, Practices and Strategy will be covered in this training session.

Treasury Management 2012/13 Update

3.07 A statement setting out the Council's investments as at 31st December 2012 is attached as Appendix 5. Members are requested to note the following:

- The investment balance was £66.4m across 22 counterparties.
- Our self-imposed low risk strategy of investing for a maximum of 3 months with banks and building societies, with consideration given to suitable longer term investments as appropriate, continued.
- Given sustained improvements in monitored credit risk, with credit ratings being more stable and some banks' profitability improving, steps banks have taken towards strengthening their balance sheets, and central bank intervention both in the UK and the Eurozone increasing liquidity the risk of a bank that the council deals with defaulting has reduced and consideration was given to relaxing the self imposed rule of investing for a maximum of 3 months with banks and building societies. Discussions took place with Arlingclose, the Council's treasury management advisors. All though the economic outlook is somewhat mixed, with significant risks still being posed by the US public finance 'fiscal cliff' and a sustainable solution to the Eurozone crisis being some way off, as can be see from the economic context in Appendix 4 – 2013/14 Treasury Management Strategy, the decision has been made that the time is right to invest with banks and building societies for longer.
- One long-term investment was made - £3 million with Bank of Scotland at an interest rate of 1.6%, maturing on 5th December 2013.

- The Council's treasury management advisor, Sterling Consultancy Services was acquired by Arlingclose Limited in October 2012. The terms of the contract remain unchanged and Arlingclose continues to provide advice and information on the Council's investments and borrowing activities.
- Arlingclose revised their base interest rate forecast from that included in the 2012/13 Strategy, with the rate now remaining at 0.50% until at least the end of 2015. The financial implications of this change of rate will be reported in the Central Loans and Investment Account in the revenue budget monitoring report.
- A £1.5 million PWLB loan matured on 22nd November 2012, and due consideration was given to either repay or refinance the loan with new borrowing. Given the Council's high level of cash balances, the current cost of debt being higher than returns on investments the prudent decision was made, following discussion with the Arlingclose, to reduce interest risk and credit risk and repay the loan.
- The transfer of responsibility for the treasury management function from the Funds section to Strategy and Technical team in Corporate Finance continues, and is expected to be completed by the end of the 2012/13 financial year.

Landsbanki

- 3.08 Previous reports to the Audit Committee have updated members with the latest position regarding the reimbursement of our investments with Landsbanki and an estimate of associated legal costs.
- 3.09 A further £217k was received from Landsbanki on 9th October 2012. The total received to date is now £1.76 million. The total outstanding is £1.94 million, approximately 52.4%. In March 2012, the Winding up Board announced that recoveries in the Landsbanki administration would now likely be 100% of deposits, subject to potential future exchange rate fluctuations, although this is only a forecast and not guaranteed. The pattern of future distributions is not yet known.
- 3.10 The Local Government Association have recently written to advise that Flintshire's share of the associated legal costs between 18th December 2011 and 17th December 2012 is £2,607. A budget of £3,700 has been set to cover our anticipated legal fees for 2012/13 within the Central Loans and Investment Account.

4.00 RECOMMENDATIONS

- 4.01 That members review the draft Treasury Management Strategy 2013/14 and identify any matters to be drawn to the attention of Cabinet on 19/02/2013.
- 4.02 That members review the draft Treasury Management Policy Statement 2013-2016 and identify any matters to be drawn to the attention of Cabinet on 19/02/2013.
- 4.03 That members review the draft Treasury Management Practices 2013-2016 and identify any matters to be drawn to the attention of Cabinet on 19/02/2013.
- 4.04 That members note the Treasury Management 2012/13 quarterly update.

5.00 FINANCIAL IMPLICATIONS

5.01 As set out in the report.

6.00 ANTI-POVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None directly as a result of this report.

10.00 CONSULTATION REQUIRED

10.01 Arlingclose Limited.

11.00 CONSULTATION UNDERTAKEN

11.01 Arlingclose Limited.

12.00 APPENDICES

- 12.01 Appendix 1 – Draft Treasury Management Policy Statement 2013 – 2016
Appendix 2 – Draft Treasury Management Practices 2013 - 2016
Appendix 3 – Draft Treasury Management Practices Schedules 2013 - 16
Appendix 4 – Draft Treasury Management Strategy 2013/14
Appendix 5 – Investments as at 31/12/2012

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: Treasury Management Policy Statement 2013 – 2016
Treasury Management Practices 2013 - 2016
Treasury Management Strategy 2013/14

Contact Officer: Liz Thomas
Finance Manager – Strategy & Technical

Telephone: 01352 702289

E.mail: liz.thomas@flintshire.gov.uk