

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**

DATE: **29 JANUARY 2014**

REPORT BY: **HEAD OF FINANCE**

SUBJECT: **TREASURY MANAGEMENT STRATEGY 2014/15 AND
TREASURY MANAGEMENT UPDATE 2013/14.**

1.00 PURPOSE OF REPORT

- 1.01 To present the draft Treasury Management Strategy 2014/15 for review prior to the Committee recommending its approval to Cabinet.
- 1.02 To provide Members with a quarterly update on matters relating to the Council's 2013/14 Treasury Management Strategy up to the end of December 2013.
- 1.03 This report is supplemented by training available to all Members of the Council on treasury management on 27th January 2014.

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 has adopted The CIPFA Code of Practice 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 2013, the Council approved the Treasury Management Strategy 2013/14 in conjunction with the Treasury Management Policy 2013 – 2016 and Treasury Management Practices 2013 - 2016, following the recommendation of the Cabinet and consideration by Audit Committee.

3.00 CONSIDERATIONS

2014/15 Treasury Management Strategy

- 3.01 The 2014/15 Treasury Management Strategy is attached in Appendix 1 for review and discussion. The Strategy is 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 that 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 2014/15 Strategy have not materially changed from that of the 2013/14 Strategy. Members will recall that changes were made to the presentation and layout of the 2013/14 Strategy.

The few minor changes that have been made and the rationale behind the changes made are listed below:-

- Section 3 – Local context.
This is a new section which brings together current levels of borrowing and investments, along with the Council's projections for capital expenditure and use of reserves in order to estimate either the level of borrowing required, or the level of investments the Council will have, over the medium term.
- Section 5 – Investment Strategy.
Additional organisations have been included in the table showing the Council's investment criteria and limits, such as Registered Providers of Social Housing. This is to increase the number of counterparties that the Council can invest with and to spread the Council's exposure to the risk of a Counterparty defaulting.
Changes have been made to the criteria and limits of investments with building societies for reasons outlined in paragraph 3.04 below.
- Section 6 – Borrowing Strategy.
Changes have been made to the planned borrowing strategy in 2014/15 from that of 2013/14 which can be seen in Section 6 – Borrowing Strategy. In 2013/14 the strategy was to create short term revenue savings by not undertaking any new borrowing and funding capital expenditure internally from reserves. In all probability the situation will remain the same in 2014/15 and possibly beyond, however this is not sustainable in the medium term. The strategy for 2014/15 will be to regularly review the level of internal borrowing against the

potential for incurring additional revenue costs by deferring borrowing into future years when long-term borrowing costs are forecast to rise.

- Minor presentational changes have been made to Section 5 – Investment Strategy and Section 6 – Borrowing Strategy to make the document easier to read.

3.02 A training session open to all Members on treasury management was run by Arlingclose, the Council's Treasury Management advisors on the morning of 27th January. The aim of the workshop was to aid Members' understanding of the Treasury Management Strategy.

3.03 On 1st March 2013 the Council approved the current Treasury Management Policy and Treasury Management Practices with both documents covering 3 financial years, 2013 to 2016. It was agreed that these documents would not require annual approval by Members, unless any significant changes was required. No changes need to be made to the Policy, and only minor changes need to be made to the Practices simply to bring them in line with changes approved to the Strategy.

Treasury Management 2013/14 Update

3.04 A statement setting out the Council's investments as at 31st December 2013 is attached as Appendix 2. The presentation and layout of this appendix has been amended from its usual format to make it easier to read and interpret the information being provided. Members are requested to note the following:-

- The investment balance was £59.7m across 17 counterparties.
- One long term investment was made - £2million with Glasgow City Council at an interest rate of 0.95%.
- The Council is gradually reducing the level of investments it has with the building society sector. This is being done 'naturally' as existing investments mature. There are two reasons for this approach:
 1. Currently the Council takes additional security from the building society regulatory framework which would result in the Council being given preferred creditor status in the unlikely event of a building society with whom it had invested, defaulting. The building society regulatory framework is being reformed, and will result in the Council no longer enjoying preferential creditor status in the unlikely event of a default.
 2. Due to the stricter regulatory framework, Arlingclose have undertaken a more rigorous analysis and review of the financial strength of individual societies to try and

avoid potential credit events. Their recommendation is that the Council review our exposure to building societies and make future investments with selected higher credit worthy institutions following their analysis.

- More use has been of the Local Authority sector with £9m invested at 31st December.

3.05 Member of the Committee will recall in previous update reports that Officers have spent time reviewing and considering an alternative Treasury Management system, Treasury Live. For the time the conclusion reached was to continue to use the existing system as the benefits in moving to a new system did not outweigh the costs and disruption to service provision that changing the system would incur.

3.06 At Members request a new appendix has been included in Appendix 3 analysing the Council's long-borrowing portfolio as at 31st December. Information provided includes;

- listing of all loans that the Council owes
- interest rate per loan
- annual interest paid on each loan
- the date each loan was taken out
- each loans maturity date (the date that the loan will be repaid or replaced by a new loan).

As reported in previous update reports total long-term borrowing stands at £172.1m with a weighted average interest rate of 5.4%.

4.00 RECOMMENDATIONS

4.01 Members review the draft Treasury Management Strategy 2014/15 and identify any matters to be drawn to the attention of Cabinet on 18th February 2014.

4.02 Members note the Treasury Management 2013/14 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 Ltd.

11.00 CONSULTATION UNDERTAKEN

11.01 Arlingclose Ltd.

12.00 APPENDICES

12.01 Appendix 1 – Draft Treasury Management Strategy 2014/15

Appendix 2 – Investment portfolio as at 31.12.13

Appendix 3 – Borrowing portfolio as at 31.12.13

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985
BACKGROUND DOCUMENTS**

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