

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**

DATE: **28 JANUARY 2015**

REPORT BY: **CORPORATE FINANCE MANAGER**

SUBJECT: **TREASURY MANAGEMENT STRATEGY 2015/16 AND
TREASURY MANAGEMENT UPDATE 2014/15**

1.00 PURPOSE OF REPORT

- 1.01 To present the draft Treasury Management Strategy 2015/16 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 2014/15 Treasury Management Strategy up to the end of December 2014.
- 1.03 This report was supplemented by training available to all Members of the Council on treasury management on 21st January 2015.

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 18th February 2014, the Council approved the Treasury Management Strategy 2014/15 following the recommendation of the Cabinet and consideration by Audit Committee. On 1st March 2013, the Council approved the Treasury Management Policy Statement 2013-2016 and Treasury Management Practices 2013-2016, following the recommendation of the Cabinet and consideration by the Audit Committee.

3.00 CONSIDERATIONS

2015/16 Treasury Management Strategy

- 3.01 The 2015/16 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.
- 3.02 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.
- 3.03 The contents and layout of the 2015/16 Strategy have not materially changed from that of the 2014/15 Strategy.

Changes made and matters needing to be brought to Members attention are summarised below along with the supporting rationale:-

- 3.04
- Section 4 – Local context.

This section summarises the anticipated treasury position in 2015/16. A new graph called the liability benchmark has been included (Table 4) which shows the net requirement for borrowing after considering resources available from reserves and working capital over the next 50 years. Treasury Management activity in 2015/16 will change and will focus more on borrowing and less on investments than in recent years.

- 3.05
- Section 5 – Housing Revenue Account; Subsidy Reform and introduction of self financing

Preparations continue to be made for the abolition of the Housing Revenue Account Subsidy (HRAS) system in Wales and the introduction of 'Self Financing' for the Housing Revenue Account on 31st March 2015. The treasury impact will be to increase the Council's debt position. Section 5 of the report provides further information.

- 3.06
- Section 6 – Investment Strategy.

Changes have been made to the format of the Investment criteria and limits detailed in table 5. The changes are necessary to ensure that the Council's exposure to credit risk is minimised. This is as a consequence of the recently introduced legislation (commonly referred to as 'bail-in') to reform procedures should financial institutions fail in the future.

The reforms end potential support available from the government and require investors / creditors classed as unsecured bondholders (such as Councils) to be bailed-in to secure the future financial stability in the event of a default.

3.07 • Section 7 – Borrowing Strategy.

Changes have been made to the planned borrowing strategy in 2015/16 from that of 2014/15 which can be seen in Section 7 – Borrowing Strategy. In 2014/15 the strategy was to create short term revenue savings by not undertaking any new borrowing. In 2015/16 the Council will need to borrow to fund the capital programme.

3.08 A training session open to all Members on treasury management was run by Arlingclose, the Council's Treasury Management advisors on the morning of 21st January. The aim of the workshop was to aid Members' understanding of the Treasury Management Strategy.

3.09 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 were 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 2014/15 Update

3.10 A statement setting out the Council's investments as at 31st December 2014 is attached as Appendix 2. The investment balance at this time was £52.4m across 19 counterparties with an average interest rate of 0.55%.

3.11 The Council has opened a 'custody account' with King & Shaxson (London). This enables the Council to invest in UK Government Treasury Bills, Certificate of Deposits, Bonds and other tradable instruments. The pooled nature of some of these financial instruments potentially enables investments to be made with counterparties who are not ordinarily active in the deposit market which the Council uses to make investments. This will assist with diversification of the Council's investment portfolio, and to date two £1m investments have been made in UK Treasury Bills.

3.12 A statement analysing the Council's long-borrowing portfolio as at 31st December is attached as Appendix 3. There has been no change since the last update reported with total long-term borrowing stands at £172.1m with a weighted average interest rate of 5.4%.

3.13 During the quarter debt rescheduling was considered as part of 2015/16 budget setting. Current market conditions have led to very low gilt yields which result in premiums being payable should the Council seek early repayment of debt which continue to be cost prohibitive.

4.00 RECOMMENDATIONS

4.01 Members review the draft Treasury Management Strategy 2015/16 and identify any matters to be drawn to the attention of Cabinet on 17th February 2015.

4.02 Members note the Treasury Management 2014/15 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 2015/16
Appendix 2 – Investment portfolio as at 31.12.14
Appendix 3 – Borrowing portfolio as at 31.12.14

LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985 BACKGROUND DOCUMENTS

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