

Treasury Management Strategy Statement and Investment Strategy 2014/15 – Mid year review

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1. Purpose of the Report

- 1.1 This report has been prepared for Council to approve the mid-year Treasury Management Strategy Statement and Investment Strategy for 2014/15. The revised strategy has already been approved by the Audit Committee on 29th September 2014.

2. Recommendation

- 2.1 The Audit Committee recommends that Council approve the revised Treasury Management Strategy Statement and Investment Strategy for 2014/15 (Strategy attached with the amendments highlighted).

3. Introduction

- 3.1 In March 2011 the Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year.
- 3.2 In addition, the Department for Communities and Local Government (CLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Authority to approve an investment strategy before the start of each financial year. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the CLG Guidance.
- 3.3 The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy.

4. Background

- 4.1 The Treasury Management code of Practice requires three reports each year, one prior to the start of the financial year setting out the strategy, a mid year review of the strategy to ensure it is fit for purpose and considered outside of the annual budget setting timetable, and one after the close of the financial year reporting on the year's activities compared to the strategy.
- 4.2 The Treasury Management Strategy Statement and Investment Strategy for 2014/15 was reviewed by the Audit Committee on 29th September 2014, which agreed the recommendation to go forward to full Council.

5. Treasury Management Strategy Statement and Investment Strategy 2014/15

5.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code") and the Prudential Code require local authorities to determine the Treasury Management Strategy Statement (TMSS) and Prudential Indicators (PIs) on an annual basis. The TMSS also includes the Annual Investment Strategy (AIS) that is a requirement of the CLG's Investment Guidance.

CIPFA has defined Treasury Management as:

"the management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

5.2 The Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Audit Committee and for the execution and administration of treasury management decisions to the Assistant Director (Finance and Corporate Services) who will act in accordance with the organisation's policy statement and TMPs and CIPFA's standard of Professional Practice on Treasury Management.

5.3 The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Specific treasury management risks are identified in the Council's approved Treasury Management Practices. The risks include:

- Liquidity Risk (Adequate cash resources)
- Market or Interest Rate Risk (Fluctuations in the value of investments).
- Inflation Risks (Exposure to inflation)
- Credit and Counterparty Risk (Security of Investments)
- Refinancing Risks (Impact of debt maturing in future years).
- Legal & Regulatory Risk (Compliance with statutory and regulatory requirements).

5.4 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy; this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

5.5 When the strategy for 2014/15 was written it took into account the Council's current treasury position and the approved Prudential Indicators and drew upon the forecasts for interest rates provided by the Council's treasury advisers. This has been amended with the most recent forecast provided by the Council's treasury advisers.

The Strategy is attached at Appendix 1 and is split into the following main areas:

- Background
- Credit Outlook and Interest Rate Forecast
- Balance Sheet and Treasury Position
- Borrowing Requirement and Strategy

- Investment Policy and Strategy
- Policy on use of financial Derivatives
- Balanced Budget Requirement
- 2014/15 MRP Statement
- Monitoring and Reporting on Treasury Management
- Other Items

6. Financial Implications

6.1 There are no additional financial implications in reviewing the attached treasury management strategy.

7. Background Papers

Cipfa Treasury Management Code of Practice
Treasury Management Practices