AGENDA ITEM 5		AGENDA ITEM 5

WEST DEVON BOROUGH COUNCIL

AGENDA ITEM 5

NAME OF COMMITTEE	**AUDIT**
DATE	**11 FEBRUARY 2014**
REPORT TITLE	**TREASURY MANAGEMENT STRATEGY FOR 2014/15 TO 2016/17, MINIMUM REVENUE PROVISION POLICY STATEMENT AND ANNUAL INVESTMENT STRATEGY FOR 2014/15**
Report of	**HEAD OF FINANCE**
WARDS AFFECTED	**ALL**

Summary of report:
This report seeks approval of the proposed Treasury Management and Investment Strategies together with their associated prudential indicators.

Financial implications:
The primary objective of this strategy would be to maximise the return **on** the Council's investment activities, in proportion with acceptable risk. However we have been in exceptional circumstances with the global economy going through turbulent times, therefore the focus has changed to that of protecting our capital and getting the return **of** the Council's investments.

RECOMMENDATIONS:

That the Audit Committee resolves to RECOMMEND to Council approval of the following:

1. The Prudential Indicators and Limits for 2014/15 to 2016/17 contained within Appendix A of the report.
2. The Minimum Revenue Provision (MRP) Statement contained within Appendix A which sets out the Council's policy on MRP.
3. The Treasury Management Strategy 2014/15 to 2016/17 and the treasury Prudential Indicators contained within Appendix B.
4. The Investment Strategy 2014/15 contained in the treasury management strategy (Appendix B), and the detailed criteria included in Appendix C.

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1. BACKGROUND

1.1 The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The Chartered Institute of Public Finance & Accountancy (CIPFA) defines treasury management as:

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

2. REPORTING REQUIREMENTS

2.1 The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals. These reports are required to be adequately scrutinised by Committee before being recommended to Council. This role is undertaken by the Audit Committee.

Prudential and Treasury indicators and Treasury Strategy (this report) – The first and most important covers:

- The capital plans (including prudential indicators);
- A Minimum Revenue Provision (MRP) Policy (how residual capital expenditure is charged to revenue over time)
- The Treasury Management Strategy (how the investments and borrowings are to be organised) including treasury indicators; and
- An Investment Strategy (the parameters on how investments are to be managed).

A Mid Year Treasury Management Report – This will update members on whether the treasury function is meeting the strategy or whether any policies require revision.

An Annual Treasury Report – This provides details of the treasury indicators and actual treasury operations compared to the estimates within the strategy.

3. TREASURY MANAGEMENT FOR 2014/15

The strategy for 2014/15 covers two main areas:

3.1 **Capital Issues**

- The capital plans and the prudential indicators
- The minimum revenue provision (MRP) policy

3.2 **Treasury management issues:**

- The current treasury position
- Treasury indicators which will limit the treasury risk and activities of the Council
- Prospects for interest rates
- The borrowing strategy
- Policy on borrowing in advance of need
- Debt rescheduling
- The investment strategy
- Creditworthiness policy; and
- Policy on use of external service providers

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CLG MRP Guidance, the CIPFA Treasury Management Code and the CLG Investment Guidance.

4. LEGAL IMPLICATIONS

4.1 The CIPFA Code of Practice states that Members receive and adequately scrutinise the treasury management service. The Council nominated the Audit Committee to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. This was agreed at Council on 25th February 2010 and formed part of the revision to the Council's Constitution in April 2010.

5. FINANCIAL IMPLICATIONS

5.1 In 'general' economic conditions, the primary objective would be to maximise the return on the Council's investment activities, in proportion with acceptable risk. Effective treasury management strives to maximise investment returns whilst minimising risk and protecting capital. However we have been through exceptional circumstances, therefore the focus has changed to that of protecting our capital and getting the return of the Council's investments.

5.2 The unprecedented financial crisis has resulted in significant interest cuts around the world and interest rates are currently at a record low level with the bank base rate at 0.5%. This, coupled with adopting a risk adverse investment strategy, has meant a significant drop in the level of investment income that supports the revenue budget.

5.3 To illustrate how falling interest rates are affecting the Council, in 2007/08 we had investment income of £720,000. For 2014/15 it is estimated to be £25,321, a reduction of £694,679 since 2007/08.

6. RISK MANAGEMENT

6.1 The risk management implications are shown at the end of this report in the Strategic Risks Template.

7. OTHER CONSIDERATIONS

Corporate priorities engaged:	Sound financial management underpins all of the Council's corporate priorities.
Statutory powers:	Local Government Act 1972, s148(5)
Considerations of equality and human rights:	N/A
Biodiversity considerations:	N/A
Sustainability considerations:	N/A
Crime and disorder implications:	N/A
Background papers:	Treasury Management and Investment Strategy for 2013/14 to 2015/16 Treasury Management Monitoring – April to December 2013 Capital Programme 2014/15 and Prudential Indicators for 2013/14
Appendices attached:	Appendix A – The Capital Prudential Indicators Appendix B - Treasury Management Strategy 2014/15 – 2016/17 Appendix C -Treasury Management Practice (TMP) 1 – Credit and Counterparty Risk Management Appendix D – Treasury Management Scheme of delegation

			Strategic Risk Assessment					
No	**Risk Title**	**Risk/Opportunity Description**	**Inherent risk status**				**Mitigating & Management actions**	**Ownership**
			Impact of negative outcome	**Chance of negative outcome**	**Risk score and direction of travel**			
1	Security	Risk of failure of counterparty	5	3	15	⇔	The Council has adopted the CIPFA Code of Practice for Treasury Management and produces an annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines. The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported to SMT and Scrutiny quarterly .The Audit Committee has a scrutiny role over the Treasury Management operation. The Council's 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 demonstrates a low risk approach.	Head of Finance and Audit

			Strategic Risk Assessment					
			Inherent risk status					
No	Risk Title	Risk/Opportunity Description	Impact of negative outcome	Chance of negative outcome	Risk score and direction of travel		Mitigating & Management actions	Ownership
2	Liquidity	Liquidity constraints affecting interest rate performance	3	2	6	⇔	See above	Head of Finance and Audit
3	Yield	Volatility of interest rates/inflation	4	4	16	⇔	See above	