

Title: **Treasury Management Strategy Statement**

Portfolio Holder: **Cllr Carbin – Finance Portfolio Holder**

Reporting Officer: **Tracey Gay – Financial Accountant**

Key Decision: **No**

1 Purpose

This report seeks Member approval for the annual Treasury Management Strategy Statement, which sets out the strategy to be pursued in the coming financial year and includes the Prudential Indicators and Annual Investment Strategy.

2 Background

This report and associated documents has been prepared in accordance with the following guidance and advice from Butlers the Council's external treasury management advisers.

- The Treasury Management Strategy Statement in accordance with the CIPFA Code of Practice on Treasury Management;
- The reporting of the Prudential Indicators as required by the CIPFA Prudential Code for Capital Finance in Local Authorities (Appendix A);
- The Annual Investment Strategy (in accordance with the ODPM investment guidance).

The Strategy should be approved by Cabinet before the start of the financial year and go to Full Council as part of the budget setting process.

3 Implications

Legal Implications: There are no legal implications arising from this report.

Human Rights Implications: The Human Rights implications of the actions recommended in this report have been considered and are acceptable and the checklist has been addressed.

4 Declarations of Interest

Members who have investments in the banks used in the Investment Strategy could be deemed to have an interest, which could restrict their ability to speak or vote on this agenda item. Members are advised to

discuss any potential conflict with the Legal and Democratic Services Manager or the Monitoring Officer. Paragraph 19.3.7 of the Constitution also refers.

5 Recommendations:

Cabinet is recommended to agree the following and recommend adoption to Full Council:

- a) Approve the Treasury Management Strategy 2006/07.
- b) Adopt the Prudential Indicators and limits for 2006/07 to 2008/09 contained within the report.
- c) Approve the Annual Investment Strategy 2006/07 contained in the Treasury Management Strategy.

 Plain English guidance given

27 January 2006

Background Papers – files held in room F31

Filename – N:\Cabinet Reports\8 Feb 2006\Treasury Management Strategy Report

**West Wiltshire District Council
Treasury Management Strategy Statement**

February 2006

1. Background

- 1.1 The treasury procedures are now firmly established. The Council has freedom over capital expenditure so long as it is prudent, affordable and sustainable. In order to show it is working within these limits the Council must approve, revise and monitor at least a basic range of prudential indicators covering the forthcoming three years. The Local Government Act 2003 requires the Council to adopt the CIPFA Prudential Code and produce prudential indicators. This report revises the indicators for 2005/06, 2006/07 and 2007/08 and introduces new indicators for 2008/09. The indicators either summarise the expected activity or introduce limits upon the activity, and reflect the underlying capital appraisal systems.
- 1.2 The Council's treasury activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council has adopted the Code of Practice on Treasury Management and as a result adopted a treasury management policy statement. This adoption meets the requirements of the first of the treasury prudential indicators.
- 1.3 The policy requires an annual strategy to be reported to Cabinet outlining the expected treasury activity for the forthcoming 3 years. A further report is produced after the year-end to report on actual activity for the year. This strategy covers:
- treasury limits in force which will limit the treasury risk and activities of the Council;
 - the current treasury position;
 - prospects for interest rates;
 - the capital borrowing strategy;
 - the annual investment strategy;
 - any extraordinary treasury issues

2. Treasury Limits for 2006/07 to 2008/09

- 2.1 It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In the Prudential Indicators this is referred to as the 'Authorised Limit' Indicator 4.
- 2.2 The Council must have regard to the Prudential Code when setting their Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in

particular, that the impact upon its future council tax levels is 'acceptable'.

- 2.3 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate those planned to be financed by both external borrowing and other forms of liability, such as credit arrangements. The affordable borrowing limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

3. Current Portfolio Position

The Council's treasury portfolio position at 31 December 2005 is:

	Principal	Average Rate
Total Investments	£13,015,000	4.56%

4. Borrowing Requirement

The Council may need to borrow on a short-term basis to cover cash flow fluctuations, but there should be no long-term borrowing requirements in 2006/07. The Council has no long term outstanding debt and will review opportunities under the Prudential Code during subsequent years. A forecast of borrowing requirement based on likely cash flows is given below:

	2006/07	2007/08	2007/09
	£	£	£
Likely borrowing	0	500,000	1,500,000

5. Prospects for Interest Rates

- 5.1 The Monetary Policy Committee cut base rates following its August meeting. However, the next move on rates is uncertain both in terms of direction and timing. Growth has been substantially weaker than anticipated as the slowdown in house price inflation and higher debt servicing costs combined to undermine consumer-spending growth.
- 5.2 The Bank of England believes that the rebound in consumer activity, together with continued strength in public sector spending and a rise in corporate investment, will encourage higher growth in the future. This is open to debate and it is clear that the forecasting of interest rates in the current climate is difficult and a cautious approach is needed in treasury activity

Medium-Term Rate Forecasts – Annual Averages %

(Butlers' forecasts - November 2005)

Percent	Base Rate%	5-year Gilt%	PWLB Borrowing%
2005/06	4.6	4.2	4.5
2006/07	4.3	4.4	4.5
2007/08	4.5	4.5	4.5
2008/09	4.8	4.8	4.5

6. Borrowing Strategy 2006/07 – 2008/09

- 6.1 The growing uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.
- 6.2 The Head of Finance, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above and the Council's requirements.
- 6.3 Temporary borrowing may be undertaken from time to time when the balances held in the savings account have been exhausted. Longer-term borrowing is unlikely to be required during 2006/07 and will be considered and reported to Cabinet in readiness for any future need.

7. Annual Investment Strategy (AIS)

The AIS sets out the general policy objective for investments and the procedures for determining which investments in the 'Specified' and 'Non-Specified' (less than 1 year) categories the Authority will use in the forthcoming financial year (Appendix B).

The Council will have regard to the ODPM's Guidance on Local Government Investments ("the Guidance") issued in March 2004 and CIPFA's Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

7.1 Investment Objectives

- 7.1.1 All investments will be in sterling. The general policy objective for this Council is the prudent investment of its treasury balances, including monies borrowed for the purpose of expenditure in the reasonably near future (i.e. borrowed 12-18 months in advance of need).
- 7.1.2 The Council's investment priorities are:

(a) the **security** of capital and

(b) **liquidity** of its investments.

The council will aim to achieve the **optimum return** on its investments commensurate with the proper levels of security and liquidity.

- 7.1.3 The ODPM maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

7.2 Security of Capital : The Use of Credit Ratings

- 7.2.1 Butlers, our Treasury Management advisers, have reviewed our Counterparty List and made some suggestions about the content:

- Remove the inconsistencies in our ratings criteria so that banks and building societies are subject to the same scrutiny.
- Remove reliance on one Ratings Agency and incorporate all ratings into our criteria.
- Incorporate short as well as long term ratings into our criteria in order to make our ratings more comprehensive.

Appendix B outlines the new method by which financial institutions would be incorporated into the Council's Counterparty List. Cabinet would therefore approve the **method** of accepting counterparties as opposed to the actual **content** of the list for the year ahead.

If the rating for an institution varies between agencies, the lowest rating from any one agency will be used to determine inclusion on the Counterparty List.

Exceptions:

- Any Money Market Funds that are used will always be AAA rated.
- UK Government, Local Authorities, Parish or Community Councils etc will not be subject to specific criteria.

7.2.2 Monitoring of Credit Ratings

All credit ratings will be monitored monthly. The Council is alerted via email by Butlers of any changes to ratings and the list updated accordingly.

7.3 Investment Balances

- 7.3.1 Based on its cash flow forecasts, the Council anticipates its fund balances in FY 2006-07 to range between £5m and £12million. This variability is largely due to the temporary in and outflows of cash expected over the year such as capital expenditure or Council Tax and Business Rates.

During the financial year, £3.3million has been earmarked for capital spending commitments during the financial year, and an additional £1.9million is earmarked for Financial Year 2007-08. It is anticipated that we may see slippage to the timing of this spend.

- 7.32 Giving due consideration to the Council's level of balances over the next 3 years, the need for liquidity, its spending commitments and provisioning for contingencies, the Council has determined that £5million of its overall fund balances can be prudently committed to longer term investments (i.e. those with a maturity exceeding a year).

7.4 Investments Defined as Capital Expenditure

- 7.4.1 The acquisition of share capital or loan capital in any body corporate is defined as capital expenditure under Section 16(2) of the Local Government Act 2003. Such investments will have to be funded out of capital or revenue resources and will be classified as 'non-specified investments'.

- 7.4.2 A loan or grant by this Council to another body for capital expenditure by that body is also deemed by regulation to be capital expenditure by this Council. It is therefore important for this Council to clearly identify if the loan has been made for policy reasons or if it is an investment for treasury management purposes. The latter will be governed by the framework set by the Council for 'specified' and 'non-specified' investments.

7.5 Provisions for Credit-related Losses

If any of the Council's investments appeared at risk of loss due to default (i.e. a credit-related loss, and not one resulting from a fall in price due to movements in interest rates) the Council will make revenue provision of an appropriate amount.

7.6 Investment Strategy to be followed In-house

The Council has previously sought to lock in longer period investments at higher rates. The Council's two 3-year investments are due to mature during the course of 2006/07. A forward deal has been agreed to invest £5million from 30 May 2006 for one year at 4.74% with DePfa plc. This has ensured a fixed rate of return for 2006/07, which compares favourably with the comparably low forecast base rates for the same period.

For cashflow generated balances, the Council will seek to utilise business reserve accounts and short dated deposits in order to maximise investment interest. The following investments are currently held:

- i) £5 million for three years maturing 3 April 2006 at a fixed rate of 4.5% with Alliance and Leicester. To be reinvested for one year with DePfa plc at a rate of 4.74% from 30 May 2006.
- ii) £3 million callable deposit for three years maturing 1 August 2006 at a fixed rate of 4.45% with National Australia Bank.
- iii) Short-term surplus cash is invested with Abbey National Business Reserve Account, which follows the base rate. Currently 4.59% for balances over £3 million.
- iv) Other short-term deposits are made when cash surpluses are above the maximum limits of the Business Reserve Accounts.

7.7 End of Year Investment Report

At the end of the financial year, the Council will prepare a report on its investment activity as part of its Annual Treasury Report.

8. Other Issues

- 8.1 The Council has awarded the Treasury Management Adviser contract to Butlers and have already benefited from a range of advice and support from their team.
- 8.2 Our investment Counterparty List criteria has been updated in line with advice from Butlers. Our current lending list is shown in Appendix C and the proposed new method for maintaining our Counterparty List is shown in Appendix B.