

REPORT TO: CABINET

DATE: 13 NOVEMBER 2014

TITLE: TREASURY MANAGEMENT STRATEGY
STATEMENT 2014/15, MID-YEAR REVIEW

PORTFOLIO HOLDER: COUNCILLOR MIKE DANVERS

LEAD OFFICER: SIMON FREEMAN, HEAD OF FINANCE
(01279) 446228

CONTRIBUTING OFFICER: ANDREW SMITH, FINANCE MANAGER
(01279) 446212

This is not a Key Decision

This decision is not subject to Call-in procedures for the following reasons:

The decision stands as a recommendation to Council.

This decision will affect no ward specifically.

RECOMMENDED that the Mid-Year Review of the Treasury Management Strategy, attached as Appendix A to this report, including the proposal to lower the counterparty rating for banks and other organisations from A(-) to BBB+, as explained in paragraph 6 of this report, be noted and referred to Full Council for approval.

REASON FOR DECISION

- A** In complying with the CIPFA Treasury Management Code of Practice, Full Council is required to receive a mid-year report on The Treasury Management Strategy (TMS), approved annually by Full Council.
- B** A minor change to the Treasury Management Strategy is required to allow the Council to continue investing with UK banks.

BACKGROUND

1. Treasury management means the management of the Council's investments and 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.
2. In 2011, the Council adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (as revised November 2009) – "the Code".

3. The primary requirements of the Code are as follows:
 - a. Creation and maintenance of a Treasury Management Policy Statement.
 - b. Creation and maintenance of Treasury Management Practices (TMPs).
 - c. Receipt by the Full Council of an annual Treasury Management Strategy Statement (TMSS), including Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-Year Review of the Treasury Management Strategy and an Annual Report (stewardship report).
 - d. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;
 - e. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the current TMSS specifies that responsibility for the scrutiny role is delegated to the Cabinet Overview Working Group.

ISSUES

4. As part of the primary requirements for reporting to Full Council (paragraph 3 above), the mid-year review of the TMSS has been prepared in compliance with CIPFA's Code of Practice, and is attached to this report as Appendix A. Economic commentary has been provided by the Council's treasury management advisors, Arlingclose Ltd.
5. Whilst no new external borrowing has been undertaken by the Council so far in 2014/15, and existing borrowing comprises the protection and certainty of fixed-term debt, the report indicates that the financial year 2014/15 continues the challenging environment of previous years, with small investment returns and continuing levels of counterparty risk. Officers will continue to work within the scope of the TMSS in order to contain these risks as far as practically possible. Treasury management activities operate under a high-profile reporting mechanism, and any significant issues that may arise through the year are reported in accordance with protocols set out in the TMSS.
6. Finally, the UK is implementing the final bail-in provisions of the Bank Recovery and Resolution Directive (BRRD) from 1 January 2015, a year ahead of most countries. Credit rating agencies have stated they plan to review EU banks' ratings in line with each country's implementation of the directive. Many UK banks, have standalone ratings in the 'BBB' category, with uplifts for potential government support taking them into the 'A' category. There is therefore a real risk that some major UK banks' credit ratings will fall below A(-) this financial year if this uplift is removed. To safeguard against

this risk, and to allow the Council to continue investing with UK banks, it is proposed to amend current strategy to permit investments with those banks and other organisations with a credit rating of BBB+ (see Appendix A, paragraph 30).

IMPLICATIONS

Regeneration (includes Sustainability)

None specific.

Author: **Graeme Bloomer, Head of Regeneration**

Finance (Includes ICT)

As contained in the report.

Author: **Simon Freeman, Head of Finance**

Housing

None specific.

Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Equalities and Social Inclusion)

None specific.

Author: **Graham Branchett, Chief Operating Officer**

Governance (includes HR)

None specific.

Author: **Brian Keane, Interim Head of Governance**

Background Papers

Treasury Management Strategy 2014/15.

Glossary of terms/abbreviations used

BRRD – Bank Recovery & Resolution Directive

CIPFA – Chartered Institute of Public Finance and Accountancy

TMPs – Treasury Management Practices

TMSS – Treasury Management Strategy Statement

A full glossary of abbreviations used in the Treasury Management Strategy is included on pages 7-8 of Appendix A.