

**Report To:** Corporate Governance Committee

**Date of Meeting:** 28 January 2015

**Lead Member / Officer:** Cllr Julian Thompson-Hill

**Report Author:** Head of Finance and Assets

**Title:**

1. Treasury Management Strategy Statement (TMSS) 2015/16 and Prudential Indicators 2015/16 to 2017/18 (Appendix 1)
2. Treasury Management (TM) Update Report 2014/15 (Appendix 2)

## **1 What is the report about?**

- 1.1 The TMSS (Appendix 1) shows how the Council will manage its investments and its borrowing for the coming year and sets the policies within which the TM function operates. The report also outlines the likely impact of the Corporate Plan on this strategy and on the Prudential Indicators. The TM Update Report (Appendix 2) provides details of the Council's TM activities during 2014/15.
- 1.2 It should be noted that the figures contained in the TMSS are draft and will be updated prior to approval by Council based on the latest Capital Plan in February 2015.

## **2 What is the reason for making this report?**

- 2.1 The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management (the "CIPFA TM Code") requires the Council to approve the TMSS and Prudential Indicators annually. The Corporate Governance Committee is required to review this report before it is approved by Council on 24 February 2015. Furthermore, part of the Committee's role is to receive an update on the TM activities twice a year.

## **3 What are the Recommendations?**

- 3.1 That the Committee reviews the TMSS for 2015/16 and the Prudential Indicators for 2015/16, 2016/17 and 2017/18 (Appendix 1).
- 3.2 That members note the TM update report (Appendix 2).

## **4 Report details**

### **Background**

- 4.1 TM involves looking after the Council's cash which is a vital part of the Council's work because approximately £0.5bn passes through the Council's bank account every year.
- 4.2 At any one time, the Council has at least £20m in cash so we need to make

sure that we achieve the best rate of return possible without putting the cash at risk which is why we invest money with a number of financial institutions.

When investing, the Council's priorities are to:

- keep money safe (security);
- make sure that we get the money back when we need it (liquidity);
- make sure we get a decent rate of return (yield).

### **TMSS 2015/16**

- 4.3 The TMSS for 2015/16 is set out in Appendix 1. This report includes Prudential Indicators which set limits on the Council's TM activity and demonstrate that the Council's borrowing is affordable.

### **Prudential Indicators**

- 4.4 The Council Fund indicators are based on the latest proposed capital bids and block allocations and these will be updated before the report is submitted to Council for approval on 24 February 2015.
- 4.5 The Housing Revenue Account indicators have been calculated based on the latest estimates from the Housing Stock Business Plan.
- 4.6 The individual Prudential Indicators recommended for approval are set out in Appendix 1 Annex A.

### **Housing Revenue Account Subsidy (HRAS) Buy-Out**

- 4.7 The Welsh Government has concluded negotiations with HM Treasury regarding the reform of the HRA subsidy system in Wales. We will need to borrow between £39m and £55m on 02/04/15 to buy ourselves out of the subsidy scheme to become self-financing. The impact of this has been built in to the HRA prudential indicators and further details of the buy-out can be found in Appendix 1 Section 8. In addition to this, appendix 3 includes a risk and sensitivity analysis relating to the HRA buy-out.

### **Investment Strategy Changes**

- 4.8 The TM update report (Appendix 2) highlights the changes which have been implemented to our investment strategy (see Appendix 1 Section 3) as a result of bail-in risk which will mean that banks will not be able to rely on government support if they get into difficulty and will be required to bail themselves out by taking a proportion of investors' deposits to build up their capital.
- 4.9 These changes involve moving away from conventional bank deposits to secured investments such as reverse repurchase agreements (REPOs) and covered bonds.

## **5 How does the decision contribute to the Corporate Priorities?**

- 5.1 An efficient TM strategy allows the Council to minimise its borrowing costs and release funding for its investment priorities.

## **6 What will it cost and how will it affect other services?**

- 6.1 There are no cost implications arising as a result of the setting of Prudential Indicators. The point of the TM Strategy is to obtain the best return within a properly managed risk framework.

## **7 What are the main conclusions of the Equality Impact Assessment (EqIA) undertaken on the decision?**

- 7.1 This is not required as a part of this report.

## **8 What consultations have been carried out?**

- 8.1 The Council's Capital Plan and Revenue Budget have been prepared in consultation with Heads of Service, Corporate Directors, Scrutiny Committees, Cabinet and Council.

- 8.2 The Housing Stock Business Plan, revenue and capital budgets will be presented to members. Denbighshire Tenants and Residents Federation will also be consulted on the proposals.

- 8.3 The Council has consulted with its TM consultants, Arlingclose Ltd.

## **9 Chief Finance Officer Statement**

- 9.1 TM involves looking after significant sums of cash so it is a vital part of the Council's work. It requires a sound strategy and appropriate controls to safeguard the Council's money, to ensure that reasonable returns on investments are achieved and that debt is effectively and prudently managed.

- 9.2 Council adopted the revised CIPFA Code of Practice on TM (Nov 11) at its meeting on 28 February 2012. It is a requirement of that Code for Council to approve a TMSS each financial year.

- 9.3 The Council has approved an ambitious Corporate Plan that involves investing approximately £124m in delivering its priorities over a five year period. It is vital that the Council has a robust and effective TM function underpinning this investment and all other activities.

## **10 What risks are there and is there anything we can do to reduce them?**

- 10.1 TM is inherently risky as outlined in the Strategy Statement. The Council has a risk management policy but it is impossible to eliminate these risks completely.

## **11 Power to make the Decision**

11.1 The Local Government Act 2003 determines the requirement for local authorities to set Prudential Indicators and requires the Council to comply with the Prudential Code of Capital Finance for Local Authorities that has been produced by the Chartered Institute of Public Finance and Accountancy (CIPFA).