SUBJECT:	Treasury Management Strategy 2013/2014
REPORT OF:	Officer Management Team - Director of Resources Prepared by – - Principal Accountant

1. Purpose of Report

1.1. To advise the Portfolio Holder on the Treasury Management Strategy & Annual Investment Strategy that should be adopted by the Council for 2013/2014.

2. Links to Council Policy Objectives

2.1. The Council's Treasury Management Strategy is a key element to the Financial Strategy, which in turn feeds into the prudent use of Resources, one of the Council's Management Principles.

3. Background

3.1. The Council adopted the CIPFA code of practice on Treasury Management in June 2002, which includes the creation of a Treasury Management Strategy, which sets out the policies, and objectives of the Council's treasury management activities for the year ahead.

3.2. The Local Government Act 2003 requires the Council to have regard to the Prudential code and to set Prudential Indicators for the next 3 years to ensure that the Council's capital investments plans are affordable, prudent and sustainable.

3.3. The Act requires the Council to set out its Treasury Strategy and to prepare an Annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.4. It is a statutory requirement under section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, section 32 requires a local authority to calculate its budget requirements for each financial year to include the revenue costs that flow from capital financing decisions. This, therefore, means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:

- Loss of investment interest caused by the use of capital receipts to finance additional capital expenditure.
- Any increases in running costs from new capital projects.

Are limited to a level which is affordable within the projected income of the Council for the foreseeable future as part of the Council's overall Financial Strategy.

3.5. The DCLG's investment guidance states that authorities could combine the Treasury Strategy Statement and the Annual Investment Strategy (AIG) into one report. The Treasury Management Strategy 2013/14 document is attached to this report.

3.6. Following discussions with Sector Treasury Services, the Council's treasury management advisors, the proposed target figure for investment returns for 2013/2014 is £775K. This reflects the latest interest rate forecasts. This report seeks approval to the Strategy to achieve this target.

4. Treasury Management Strategy 2013/14

4.1. The Treasury Management Strategy 2013/14 attached to this report sets out the target for investment returns for 2013/14 and how this will be achieved against the background for the economy and the prospects for interest rates.

4.2 The Strategy sets out the economic background and prospects for interest rates in 2013/14.

4.3 The majority of interest is currently generated by Officers placing money in fixed deposits. The current policy is to stay relatively short on these investments in order to have liquid funds available to take advantage of investment opportunities and when interest rates begin to rise.

4.4 Current market returns on cash investments are historically low. This is primarily a result of the Funding for Lending Scheme and the Quantitative Easing strategy followed by the Bank of England which has depressed interest rates, The current forecasts of interest rates do not foresee any material increase in rates before 2015.

4.5 Alongside this effect, rating agencies have been taking a defensive stance on the credit rating of all financial institutions and virtually all have seen their ratings reduced. The Council has therefore had to adjust its counterparty criteria in order to continue to be able to make investments beyond one year.

4.6 The depressed interest rate market and the issues around having a range of acceptable counterparties led officers and members to consider alternative investment approaches for part of the cash portfolio which were discussed at the December meeting of this Pag following a presentation from Sector. The options considered are detailed in 4.7 of the attached Treasury Management Strategy 2013/14 along with the conclusion for officers to investigate diversifying part of the investment portfolio into corporate bonds/bond fund and adopting a revised counterparty matrix for the remaining element of the portfolio which is also shown in 4.7 of the attached TMS 2013/14.

5. Resources, Risk & Other Implications

5.1. The budget for investment interest was set as £800,000 for 2012/13.Current estimated returns shows that there is likely to be an underachievement for the year of £25K.

5.2. For 2013/14 investment income will be based on total core cash reserves of £20m in line with the medium term financial strategy. In addition officers invest surplus cash flow during the year and estimated returns are based on short-term interest rates remaining within the range of 0.50% to 1.50%.

5.3. Based upon the recommendations outlined in the Treasury Management Strategy 2013/14 attached the estimated investment returns for 2013/14 is £775K.

5.4. This target for investment income reflects the latest forecasts for interest rates. It is regarded as realistic and achievable, but is predicated on the assumption that the reinvestment of investments will be able to achieve a rate equal to that of the maturing investments. Loss of £35K of investment income is equal to £1 Council Tax on a band D property

5.5. As stated the investment returns are based upon a level of balances for 2013/14 of £20m. The estimated capital programme shows that this is realistic based on the latest programme. It is because of the level of balances that the Council hold that it will remain a debt free authority.

5.6. As with any budget based on forecasts of future interest rates there is a risk of variation due to factors outside of the Council's control. This risk will need to be taken into account in determining the level of reserves held by the authority.

6. Summary

6.1. The PAG is requested to:

1. Advise the Portfolio Holder to recommend the Treasury Management Strategy 2013/14 to the Cabinet, including :

   (i) Investigating the diversification of £5 million of the investment portfolio into corporate bonds/bond fund or interest linked gilts, and for the remaining part of the portfolio adopting the counterparty matrix shown in 4.7 of the Treasury Management Strategy 2013/14 document.

   (ii) Approving the following appendices:

   - Appendix B the Annual Investment Strategy.
   - Appendix E the Prudential Indicators, including the borrowing limits.
   - Appendix F approve the MRP method to be used in 2013/14.

2. Advise the Portfolio Holder that because of the level of capital balances held that the Council remain a debt free authority.

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Background Papers:	**None**