SUBJECT:	Treasury Management Strategy 2014/2015	
REPORT OF:	Officer Management Team Prepared by -	- Director of Resources - 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 2014/2015.

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 2014/15 document is attached to this report.

3.6. Following discussions with Capita Asset Services, Treasury Solutions (Formerly Sector Treasury Services), the Council's treasury management advisors, the proposed target figure for investment returns for 2014/2015 is £550K. This reflects the latest interest rate forecasts. This report seeks approval to the Strategy to achieve this target.

4. Treasury Management Strategy 2014/15

4.1. The Treasury Management Strategy 2014/15 attached to this report sets out the target for investment returns for 2014/15 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 2014/15.

4.3 The majority of interest is 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 and to have cash available should any opportunities in the type of corporate bonds that the Council are looking for become available.

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 Governor of the Bank of England, Mark Carney, and the MPC have indicated that an increase in interest rates will not be considered until at least unemployment reaches 7% of the workforce. Current expectations are that as the economy begins to grow an increase in interest rates is coming however this is not expected until sometime in 2015 at the earliest.

4.5 In 2013/14 the Council has a larger capital programme than it has had for many years mainly due to the capital expenditure on the new refuse & recycling arrangements and the works at Dropmore Road Depot. This capital expenditure will lead to a reduction in core capital balances that are available for investment and subsequently a reduction in future interest returns.

4.6 In summary the Council faces future falls in interest returns due to a combination of reduced capital balances available for investment and the current depressed interest rate environment. However with the economy now beginning to grow an upward movement is predicted in the near future it is unlikely that such a move will return to be of benefit to the Council in 2014/15.The recommended policy for the coming year is therefore to remain in short term cash until the position with future interest rates become clearer and look for opportunities should they arise for longer term investments particularly in corporate bonds if the return is thought to be of benefit in the later term of the investment.

5. Banking Services

5.1 The Council currently has its banking services provided by NatWest, under an agreement that had been extended to the end of 2015/16. The extension had been agreed in order to allow for a joint tendering exercise to be undertaken with Chiltern DC, whose current banking arrangements also finish at the end of 2015/16.

5.2 Chiltern DC currently has its banking services provided by the Co-oP Bank, who have recently informed their local authority clients that they will be exiting this sector of business over the coming few years as existing arrangements expire, or if local authorities wish to end them earlier.

5.3 Chiltern DC is likely to take advantage of the opportunity to exit early from their current contract. This means that a joint tender exercise could be started early in 2014 and concluded by the end of the year. NatWest have informally advised officers that they would have no objections to an earlier tendering exercise, and would not hold the Council in such circumstances to the current agreement to the end of 2015/16.

5.4 The possibility of having a single banking provider for the two Councils offers efficiency benefits if the two Councils agree in 2014 to have a shared finance team. There may also be some marginal cost benefits, current bank charges are around £26k per annum.

6. Resources, Risk & Other Implications

6.1. The budget for investment interest was set as £775,000 for 2013/14.Current estimated returns shows that there is likely to be an underachievement for the year of £75K.

6.2. For 2014/15 investment income will be based on total core cash reserves of £17.5m 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 0.30% to 1.50%.

6.3. Based upon the recommendations outlined in the Treasury Management Strategy 2014/15 attached the estimated investment returns for 2014/15 is £550K a reduction of £225,000 from the current year's original budget.

6.4. This target for investment income reflects the latest forecasts for interest rates. It is regarded as realistic and achievable. Loss of £35K of investment income is equal to £1 Council Tax on a band D property

6.5. As stated the investment returns are based upon a level of balances for 2014/15 of £17.5m. 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.

6.6. 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.

7. Summary

7.1. The PAG is requested to:

1. Advise the Portfolio Holder to recommend the Treasury Management Strategy 2014/15 to the Cabinet and Council, including :

   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 2014/15.

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

3. Advise the Portfolio Holder to recommend to Cabinet that the authority undertakes a joint tender exercise for banking services with Chiltern DC in 2014, the details of any procurement exercise being delegated to the Portfolio Holder to approve on the advice of the Director of Resources.

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Background Papers:	**None**