SUBJECT:	**Treasury Management Strategy 2015/2016**
REPORT OF:	**Resources Portfolio Holder – Cllr D Smith**
RESPONSIBLE OFFICER	**Director of Resources**
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WARD() AFFECTED	**All**

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 2015/2016.

2.

The PAG is requested to

1. Advise the Portfolio Holder on the Treasury Management Strategy to recommend to Cabinet and Council, including : Approving the following appendices:

   - Appendix A the Annual Investment Strategy.
   - Appendix C the Prudential Indicators, including the borrowing limits.
   - Appendix D approve the MRP method to be used in 2015/16.

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

3. Executive Summary

3.1 The Council is required to formally review its treasury management policies each year as part of determining what level of returns will be achieved from investments. The format of the treasury management policies is defined by the Code of Practise adopted by the Council, and is required to be approved by the Council on recommendation from the Cabinet.

3.2 The level of returns will be determined in the light of assessments of interest rates and available cash balances.

4. Content

4.1. 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.

4.2. 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.

4.3. 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.

4.4. 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.

4.5. 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 2015/16 document is attached to this report.

4.6. Following consideration of relevant information officers proposed a target figure for investment returns for 2015/2016 to be £400,000. This reflects the latest interest rate forecasts. This report seeks approval to the Strategy to achieve this target.

Treasury Management Strategy 2015/16

4.7. The Treasury Management Strategy 2015/16 attached to this report sets out the target for investment returns for 2015/16 and how this will be achieved against the background for the economy and the prospects for interest rates.

4.8 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.

4.9 Current market returns on cash investments are historically low and the likelihood is that this will continue for some years to come even if rates start to rise in 2015. This was initially 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, but going forward sensitivity about the sustainability of the recovery and the weakness of growth in Europe is likely to keep rates low.

4.10 In 2013/14 and 2014/15 the Council has had 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 has led to a material reduction in core cash balances that are available for investment and subsequently a reduction in interest returns.

4.11 In summary the Council is unlikely to see any growth in its investment income due to reduced cash reserves and the fact that interest rates, even if they do increase in 2015, are likely to remain below the historic average for the foreseeable future.

4.12 The proposed policy therefore for the coming year is to extend the duration of the investment portfolio, reducing the level of short term balances if possible when the differential between short and medium term rates return more to the historic norm. The policy will also aim to increase the number of counterparties. Diversifying the number of counterparties will include considering corporate bonds and certificates of deposit. Based upon this policy it is thought to be realistic to set the estimated return from investments for 2015/16 at £400,000.

Banking Services

4.13 The Council is in the process of changing its banking services from Nat West to Barclays, and this will be completed by February 2015.

4.14 This will mean that South Bucks and Chiltern will have the same banking provider, which will support the efficiencies available from having set up a joint finance team.

5. Consultation

5.1 Consultation is with the PAG within the framework set by the Code of Practise.

6. Options

6.1 The framework set by the Code of Practise means that options effectively relate to the judgements and risk assessments made when finalising the Strategy around likely returns and the level of available cash balances.

7. Corporate Implications

7.1. The budget for investment interest was set as £550,000 for 2014/15. Current estimated returns shows that there will a shortfall against the budget of at least £100,000.

7.2. For 2015/16 investment income will be based on total core cash reserves of £12m reflecting the recent high level of capital expenditure and consequential reduction in available cash balances. 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%.

7.3. Based upon the recommendations outlined in the Treasury Management Strategy 2015/16 attached the estimated investment returns for 2015/16 is £400,000.

7.4. This target for investment income reflects the latest forecasts for interest rates. It is regarded as realistic and achievable. Loss of £37K of investment income is equal to £1 Council Tax on a band D property.

7.5. 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.

7.6. As stated the investment returns are based upon a core level of balances for 2015/16 of £14m. 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.

8. Links to Council - Business Plan

8.1. 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.

9. Next Steps

- Following views from the PAG the Strategy will be considered by the Cabinet in February.
- Cabinet will recommend to Council the Strategy
- The implementation and monitoring of the strategy and policy will be undertaken by reports to the Resources PAG.

Background Papers:	**None**