Treasury Management Strategy Statement 2008/09

Full Council

Committee:	**Council**	**Agenda Item** **13A**
Date:	**19th February 2008**	
Title:	**Treasury Management Strategy Statement 2008/09**	
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Summary

As part of CIPFA'S Prudential Code and the CIPFA Code of Practice on Treasury Management, Members are requested to consider the treasury management strategy for 2008/09 which includes both the investment and borrowing strategy for the forthcoming year.

Recommendations

That the treasury management strategy outlining the Council's annual investment strategy and its borrowing requirement for 2008/09 be approved.

Background Papers

- CIPFA Code of Practice on Treasury Management
- Interest rate forecasts and other guidance provided by the Council's external treasury consultants
- Treasury management working papers held within Financial Services

Impact

Communication/Consultation	None
Community Safety	None
Equalities	None
Finance	The report sets out the parameters for the forthcoming year's investments which will impact on the investment interest earned by the Council on its cash balances
Human Rights	None
Legal implications	The setting of this strategy complies with the Local Government Act 2003
Ward-specific impacts	None
Workforce/Workplace	None

Treasury Management Strategy Statement 2008/09

Full Council

Situation

Background

1 The Council considers its annual Treasury Management Strategy Statement in line with the requirement of the CIPFA Code of Practice on Treasury Management, which was adopted by the Council in March 2002.

2 The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable.

The Act therefore requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy that sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

The suggested strategy for 2008/09 in respect of the following aspects of the treasury management function is based upon the views of officers on interest rates, supplemented with leading market forecasts provided by the Council's external treasury advisor. The strategy covers:

- Treasury limits in force which will limit the treasury risk and activities of the Council;
- Prudential Indicators
- Current treasury position;
- Borrowing requirement
- Prospects for interest rates;
- Investment strategy.

Treasury Limits for 2008/09 – 2010/11

3 It is a statutory duty under S.3 of the Local Government Act 2003 and supporting regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". In England and Wales this 'authorised' limit represents the legislative limit specified in section 3 of the Local Government Act 2003.

4 The Council must have regard to the Prudential Code when setting its Affordable Borrowing Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is 'acceptable'.

5 Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements or finance leases. A credit

arrangement is where a council obtains, or is taken to have obtained, the benefits of expenditure without paying for it in full at the time when the arrangement starts. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years.

Prudential Indicators for 2008/09 – 2010/11

6 The following prudential indicators are relevant for the purposes of setting an integrated treasury management strategy. These indicators will be considered in the following agenda item 13B as part of the overall budget process.

7 The Council is also required to indicate if it has adopted the CIPFA Code of Practice on Treasury Management. This was adopted in March 2002 by Full Council.

PRUDENTIAL INDICATOR	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000
Capital Expenditure				
Non - HRA	2,209	1,588	1,236	988
HRA	2,898	1,996	2,041	1,987
TOTAL	5,106	3,584	3,277	2,975
Ratio of financing costs to net revenue stream				
Non – HRA (note 1)	-7.29%	-4.48%	-4.48%	-4.48%
HRA (note 2)	-0.41%	-0.37%	-0.37%	-0.37%
Net borrowing requirement				
General Fund	0	0	0	0
HRA	0	0	0	0
TOTAL	0	0	0	0
Capital Financing Requirement as at 31 March				
Non – HRA	0	0	0	0
HRA	0	0	0	0
TOTAL	0	0	0	0

Note 1 to be agreed at MTFS March2008

Note 2 No HRA forecast for years 2 and 3

PRUDENTIAL INDICATOR	2007/08	2008/09	2009/10	2010/11
	£000	£000	£000	£000
Incremental impact of capital investment decisions	£ p	£ p	£ p	£ p
Increase in council tax	1.44	1.24	0.95	0.74
Increase in average housing rent per week	0.37	0.33	0.34	0.35

PRUDENTIAL INDICATOR	2007/08	2008/09	2009/10	2010/11
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£000	£000	£000	£000
Authorised limit for external debt -				
Borrowing	5,000	6,000	6,000	6,000
Other long term liabilities	400	400	400	400
TOTAL	5,400	6,400	6,400	6,400
Operational boundary for external debt -				
Borrowing	2,000	4,000	4,000	4,000
Other long term liabilities	0	0	0	0
TOTAL	2,000	4,000	4,000	4,000
Upper limit for fixed interest rate exposure:				
Net principal re fixed rate borrowing / investments	15,000	11,000	11,000	11,000
Upper limit for variable rate exposure:				
Net principal re variable rate borrowing / investments	12,000	11,000	11,000	11,000
Upper limit for total principal sums invested for over 364 days	0	0	0	0

Maturity structure of fixed rate borrowing during 2008/09	Upper limit	Lower limit
Under 12 months	0	0
12 months and within 24 months	0	0
24 months and within 5 years	0	0
5 years and within 10 years	0	0
10 years and above	0	0

Current Portfolio Position

8 The Council's treasury portfolio position as at 04/02/08 comprised:

		Principal	Average. rate 2007/08
DEBT		£m	%
Fixed rate funding	PWLB	0	
	Money Market	0	
		0	0
Variable rate funding	PWLB	0	
	Money Market	0	
		0	0
Other long-term liabilities			
TOTAL DEBT			
INVESTMENTS			
	In-house:	14,863	5.73
	External	0	
		14,863	
TOTAL INVESTMENTS			

Borrowing Requirement

	2007/08 Revised Estimate	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate
	£000	£000	£000	£000
New borrowing	0	0	0	0
Alternative financing arrangements	500	500	500	500
Replacement borrowing	0	0	0	0
TOTAL	**500**	**500**	**500**	**500**

As per the revised capital programme for 2008/09 – 2010/11

Prospects for Interest Rates

9. The Council has appointed Butlers as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. The table below shows their current forecast for Short & **Medium**-term or variable (the base rate) and longer-term interest rates.

Interest Rate Forecasts – 2007 - 2009 (Source Butlers as at February 2008)

		Money Rates				Gilt Yields		
Year	End Period	Bank Rate	3mth	6mth	12-mth	5 yr	20 yr	50 yr
2007	Dec	5.50	6.0	5.9	5.6	4.4	4.5	4.3
2008	Mar	5.25	5.5	5.4	5.3	4.3	4.5	4.3
	Jun	5.00	5.2	4.9	4.7	4.3	4.5	4.4
	Sep	4.75	4.8	4.7	4.6	4.3	4.5	4.5
	Dec	4.75	4.8	4.7	4.6	4.3	4.6	4.6
2009	Mar	4.75	4.8	4.7	4.7	4.4	4.7	4.6

Medium-Term Rate Forecasts (averages – Source Butlers as at February 2008)

	Bank Rate	1-year LIBOR	5-year Gilt	20-yr Gilt	50-yr Gilt
2006/07	4.8	5.3	4.9	4.4	4.0
2007/08	5.6	6.0	5.3	4.9	4.5
2008/09	4.8	4.7	4.7	4.8	4.6
2009/10	4.8	4.8	4.8	4.7	4.6
2010/11	5.0	5.3	4.9	4.8	4.8
2011/12	5.2	5.5	5.3	5.2	5.1

*PWLB borrowing is normally between 0.10% - 0.15% above the equivalent gilt yield

Expected Movement in Interest Rates

10 The uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.

11 The risks associated with long-term fixed interest rates are expected to be for higher rates over the medium term. The Acting Chief Finance Officer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that longer term fixed rates will be considered earlier if borrowing rates deteriorate.

Borrowing Strategy

12 Currently it is not envisaged that the Council will undertake any long term borrowing during 2008/09 to finance its capital spending plans. However the finance lease as set up within 2006 will continue.

13 Both the prudential indicators and the proposed capital programme assume there will be no need to borrow during 2008/09. The revenue budget report earlier at this meeting of Council reflects this.

14 By the end of 2011/12 it is anticipated that the Council will have used all of its capital receipts / reserves and will need to borrow £1 million per year to part finance any future schemes from 2012/13.

15 It is also possible that the Council may need to borrow in the short term to cover any deficit in its cash flow. In such an event, monies would be borrowed from the money market through the Council's brokers.

Annual Investment Strategy

Investment Policy

16 The Council needs to have regard to the ODPM's Guidance on Local Government Investments 2004 and CIPFA's Treasury Management in Public Services Code of Practice, and the contents of these are used to inform the following paragraphs.

17 The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration. After this main principle the Council will ensure:

- It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may be prudently committed. These procedures also apply to the Prudential Indicators covering the maximum principal sums invested.
- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

- The Council will ensure all investments are made in Sterling
- The Council acknowledges the borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

18 This Annual Investment Strategy states the categories of investments the Council may use for the prudent management of its treasury balances during the financial year, split between specified and non specified investments, explanations of which are outlined below:

19 a. Specified Investments

Specified investments are those investments offering high security and high liquidity. Local authorities are free to rely on these with minimal procedural formalities. All such investments must be in sterling and with a maturity of less than one year. Investments made with the UK Government and UK local authorities will automatically count as specified investments. In addition, investments with bodies or investment schemes with 'high' credit ratings will count as specified investments. The ODPM has left each Local Authority to determine their own definition of 'high' credit rating and therefore their definition of a specified investment.

This Council will rely on the credit ratings published by Fitch Ratings, Moody's Investors Service and Standard and Poor's Ratings to establish the credit quality of its counter parties when investing through the money markets. The Council has determined the minimum long-term, short-term and other credit ratings it deems to be 'high' for investments purposes. These are:

	Fitch Ratings	Moody's	Standard and Poors
Short Term	F1	P1	A1
Long Term	AA-	AA3	AA-
Support Rating	3 or higher	Not applicable	Not applicable

Given that the ODPM's investment guidance states that specified investments must have a maturity of less than one year, this Council will ensure that all such investments comply with the short- term ratings of at least one of the credit ratings agencies listed above.

The specified investment instruments identified for potential use by the Council's treasury management function in 2008/09 are listed below:

	Minimum 'High' credit criteria
Term deposits – UK Government	-
Term deposits – UK local authorities	-
Term deposits – banks and building societies	Short term F1 or P1 or A1, Support rating 3 or above
Certificates of deposits issued by banks and building societies	Short term F1 or P1 or A1, Support rating 3 or above

b. Non-specified Investments

These investments must be dealt with in more detail given the greater potential risk. The general types of non-specified investments that may be used during the course of 2008/09 have been identified and a limit has been set on the overall amount that may be held in such investments at any time during the year.

20 Internally Managed Funds

Non-specified investments for in-house purposes are restricted to investments with a maturity date of greater than 364 days placed with institutions through the money market and which meet the long-term ratings of at least one of the 3 credit rating agencies listed above.

21 Monitoring of Credit Ratings

Credit ratings will be monitored by the Council each time a new investment is placed with a financial institution in-house through its money market brokers. Monthly listings of institutions' credit ratings are issued by the councils treasury advisers 'Butlers' and these will be used to determine the suitability of a potential 'deposit taker'. The Council is also alerted to changes in counterparties' credit ratings through regular updates from Butlers. If a downgrade results in a counter party no longer meeting the Council's minimum criteria, its further use will be withdrawn immediately, subject to any investments already placed, being allowed to continue to maturity.

22 **Investment Strategy**

This Council generally invests its surplus cash balances in short-term investments through the money market or places deposits in its Bank of

Scotland Base Plus Account and Allied Irish Treasury Account. These are generally made with reference to its cash flow requirements.

23 Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of the current 5.25% Bank Rate falling over the next 12 months. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's and advisers own forecasts. It is likely that investment decisions will be made for longer periods with fixed investments rates to lock in good value and security of return if opportunities arise, subject to over riding credit counterparty security. The Acting Chief Finance Officer, under delegated powers, will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.

24 End of Year Investment Report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report. This complies with the CIPFA Code of Practice on Treasury Management.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Likelihood that Treasury Officer's forecasts of movements in base rate differ from actual movements	2	2	Interest receivable on the Council's investments is monitored on a regular basis and amendments to the interest receivable will be made accordingly.