CT/15/10
Corporate Services Scrutiny Committee
22 January 2015

TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2015-16

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: That the Committee consider whether it wishes to draw to the attention of the Cabinet any observations on the proposals contained within the Treasury Management and Investment Strategy.

1. Introduction

1.1 In February 2012 the Council, in accordance with the revised CIPFA Code of Practice for Treasury Management in the Public Services, adopted a Treasury Management Policy Statement together with a statement of its 'Treasury Management Practices' (TMPs). No changes are proposed to these policies for 2015/16.

1.2 The policy requires the Council to consider a treasury strategy report, setting out the strategy and plans to be followed in the coming year, as part of the budget process.

2. Treasury Management and Investment Strategy

2.1 The Treasury Management and Investment Strategy is shown in draft at Appendix 1. It sets out the current treasury position, debt and investments; prospects for interest rates; the borrowing strategy; prudential indicators on fixed/variable borrowing and maturing debt; limits to debt; and the investment strategy.

2.2 Since 2009 the Council has followed a policy of containing the capital programme, taking out no new external borrowing and repaying debt whenever this can be done without incurring a financial penalty. Capital expenditure new starts have been limited to those that were financed from sources other than borrowing.

2.3 This strategy has worked well in a period of austerity. The Council's external borrowing level has reduced by £102 millions to £508 millions from 2008/09, whilst budgeted Capital Financing Charges have reduced from £56.9 millions in 2011/12 to £53.6 millions in 2014/15. However, recently there have been indications that it may be time to review if not change this policy, whilst interest rates are historically low.

2.4 The Council's Treasury Management strategy should balance demand with cash flow and affordability. A review of each of these components was undertaken and it was found that the current Medium Term Capital Plan will see the cash levels increase probably beyond what is required to facilitate some early repayment of loans and there is therefore some flexibility in the future but not at the current time. There is no expectation that government funding will deviate from its current downward trajectory. The authority faces significant challenges in balancing its budget in the coming years and it is difficult to see how significant additional borrowing could be financed.

2.5 However, the need to invest in Capital has been recognised. Consequently, a process to identify the highest priority schemes across the Authority has been undertaken and a programme of New Starts are being recommended within the capital programme, funded from Corporate Capital Receipts over the Capital Programme timescale.

2.6 Applying Capital Receipts as the funding source enables the capacity to undertake additional Capital investment without the adverse impact of creating additional capital financing cost burdens on the Revenue budget or adversely affecting the authority's cash balances. This presents an element of risk. If required receipts are not generated, other capital funding sources will need to be identified to finance required capital spending at the approved level.

2.7 Opportunities to reduce external debt will be monitored. Under their current policy the Public Works Loan Board (PWLB) sets premature repayment rates, and where the interest rate payable on a current loan is higher than the repayment rate, the PWLB imposes premium penalties for early repayment. With current low rates of interest this has represented a significant cost which would impair the benefit of repayment. There may be an opportunity to repay around £19 millions over the next couple of years as interest rates rise, but the availability of cash means that the ability to repay more than this small proportion of the Council's external debt will be limited.

2.8 The target return for investments will remain at 0.65% reflecting the current interest rate environment.

3. Conclusion

3.1 The Treasury Management and Investment Strategy will be considered by Cabinet along with the draft budget for 2015/16 on 13 February, and will become part of the budget book to be approved by Council at its budget meeting on 19 February.

3.2 The Committee is invited to make observations on these proposals prior to their consideration by the Cabinet on 13 February.

Mary Davis

Electoral Divisions: All
<u>Local Government Act 1972</u>
<u>List of Background Papers – Nil</u>
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