Paper L142

REPORT FROM OVERVIEW AND SCRUTINY (STEWARDSHIP) COMMITTEE - TREASURY MANAGEMENT STRATEGY 2012/13

OVERVIEW OF KEY ASPECTS/CHANGES

1. Purpose of Report

1.1 To provide a simple summary of the key aspects and changes to the Council's proposed Treasury Management Strategy for 2012/13.

1.2 To enable Members to focus on this, which captures the key features of Paper L132 that was considered by the Overview and Scrutiny (Stewardship) Committee on the 24 January 2012. This paper has now been updated (L132R) to reflect latest information.

2. Background

2.1 The Treasury Management Strategy (TMS) is set against a backdrop of continuing stresses and strains in the global economy.

2.2 The causes are numerous but, put simply, there is too much debt. Where banks have got into difficult their debt has been transferred onto government (sovereign) balance sheets adding to affordability as economic growth has diminished.

3. Treasury Management Policy Statement and 2012/13 Strategy

3.1 The Treasury Management Policy sets out the policies and objectives relating to treasury management activities and needs formal approval – see Appendix B of Paper L132.

3.2 The Treasury Management Strategy for 2012/13 includes:

- The overall estimated borrowing requirements for the next 3 years
- The borrowing and investment strategy
- Key details relating to the above
- Risks and reporting arrangements
- A range of prudential indicators showing, for example, the impact of capital investment plans/decisions on Council Tax and Council House rents and borrowing limits

4. Investments

Credit Rating Thresholds

4.1 The TMS and the Annual Investment Strategy for 2012/13 propose a minimum credit rating threshold for UK institutions of A-, this is two notches lower on the credit rating scale than the minimum of A+ that was approved in 2011/12.

4.2 The primary reason for this change is to allow the Council to invest in institutions such as the Royal Bank of Scotland and Lloyds Group who have suffered rating downgrades to A- but who both have significant levels of state ownership. They remain, in the view of the Council's Treasury management advisors, Arlingclose, systemically important institutions.

Counterparty Limit

4.3 It is proposed that the Council continues with a maximum investment of up to £2m with any institution that meets the credit criteria. This includes the use of AAA rated Money Market Funds which are essentially a unit trust with investments held in a range of high quality, short dated, money market instruments reflecting high security and liquidity attributes.

5. Borrowing

4.1 The Council will have an additional estimated borrowing requirement of £x.xm over the next 3 years in order to fund its General Fund capital programme. It will also need to borrow an estimated £84m as part of the new self-financing reforms for Council Housing.

6. Changes in the CIPFA Treasury Management Code of Practice and Prudential Indicators (see Appendix D of Paper L132R)

6.1 **Credit Risk Performance Indicator** – The council is required to state how it selects investment counterparties and what information is used (Prudential Indictor 13)

6.2 **The Use of Financial Instrument for the Management of Risks** – The Localism Act may allow for the use of derivatives for the management of financial risks and the Council is now required to state its policy towards their use. See Treasury Management Strategy (Appendix C).

6.3 **The Reform of Housing Finance** – The Council will be borrowing approximately £84m on 26 March from the Public Works Loan (PWLB) to fund the HRA Self Financing Settlement. Details of the accounting arrangements associated with this transaction are included in the TMS. The Government has provided for local authorities to have access to special low levels of PWLB interest rates.

6.4 **Gross and Net Debt Prudential Indicator** – A new indicator has been included with effect from 2012/13 - Prudential Indicator 10.

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