Agenda item:

Decision maker:	Cabinet City Council
Subject:	Treasury Management Policy for 2013/14
Date of decision:	4 March 2013 (Cabinet) 14 March 2013 (Governance and Audit and Standards Committee – information only) 19 March 2013 (City Council)
Report by:	Chris Ward, Head of Financial Services and Section 151 Officer
Wards affected:	All

Key decision: Yes
Budget & policy framework decision: Yes

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1. Summary

This report includes the Treasury Management Policy, the Annual Revenue Provision for Debt Repayment Statement and the Annual Investment Strategy.

2. Purpose of report

The purpose of this report is to obtain the Council's approval for 2013/14 to the following (attached):

- Treasury Management Policy Statement
- Annual Minimum Revenue Provision for Debt Repayment Statement
- Annual Investment Strategy

3. Background

The City Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice. The Code of Practice requires the City Council to approve a Treasury Management Strategy before the start of the financial year.

In addition the Government has issued statutory guidance that requires the Council to approve an Annual Minimum Revenue Provision for Debt Repayment Statement and an Annual Investment Strategy before the start of the financial year.

The Treasury Management Strategy, the Annual Minimum Revenue Provision for Debt Repayment Statement and the Annual Investment Strategy are all contained within the attached Treasury Management Policy Statement.

4. Recommendations

4.1a the Head of Financial Services and Section 151 Officer and officers nominated by him is given authority to lend surplus funds as necessary in accordance with the Treasury Management Policy;

4.1b the use of all capital resources including supported capital expenditure, usable capital receipts, and grants and contributions be maximised

4.1c the Head of Financial Services and Section 151 Officer is given delegated authority to either replace maturing debt or repay it depending on the outlook for long term interest rates that exists at the time

4.1d the upper limits for fixed interest exposures are set as follows:

2012/13	**£342m**
2013/14	**£320m**
2014/15	**£336m**
2015/16	**£348m**

4.1e the upper limits for variable interest exposure are set as follows:

2012/13	**(£342m) – Investments up to £342m**
2013/14	**(£320m) – Investments up to £320m**
2014/15	**(£336m) – Investments up to £336m**
2015/16	**(£348m) – Investments up to £348m**

4.1f the following limits be placed on principal sums invested for periods longer than 364 days:

31/3/2013	**£150m**
31/3/2014	**£218m**
31/3/2015	**£208m**
31/3/2016	**£198m**

4.1g the City Council set upper and lower limits for the maturity structure of its borrowings as follows:

Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Upper Limit	Lower Limit
Under 12 Months	25%	0%
12 months & within 24 months	25%	0%
24 months & within 5 years	25%	0%
5 years & within 10 years	25%	0%
10 years & within 20 years	30%	0%
20 years & within 30 years	30%	0%
30 years & within 40 years	30%	0%
40 years & within 50 years	70%	0%

4.1h authority to reschedule debt during the year is delegated to the Head of Financial Services and Section 151 Officer subject to conditions being beneficial to the City Council;

4.1i **no restriction be placed on the amount that can be borrowed in sterling from an individual lender provided it is from a reputable source and within the authorised limit for external debt approved by the City Council;**

4.1j **the principals upon which the apportionment of borrowing costs to the Housing Revenue Account (HRA) should be based are as follows:**

- **The apportionment is broadly equitable between the HRA and the General Fund, and is detrimental to neither;**

- **The loans portfolio is managed in the best interests of the whole authority;**

- **The costs and benefits of over and under borrowing above or below the capital financing requirement (CFR) are equitably shared between the General Fund and the HRA;**

4.1k **the regulatory method of calculating Minimum Revenue Provision (MRP) be applied to pre 1 April 2008 debt and new government supported debt other than finance leases and service concessions (including Private Finance Initiative schemes);**

4.1l **the asset life (equal instalment) method of calculating MRP is applied to post 1 April 2008 self financed borrowing other than finance leases, service concessions (including Private Finance Initiative schemes) and borrowing to fund finance leases;**

4.1m **MRP on finance leases and service concessions including Private Finance Initiative (PFI) arrangements equals the charge that goes to write down the balance sheet liability;**

4.1n **the principal element of the rent receivable from finance leases be set aside to repay debt if the asset was financed through self financed borrowing with effect from 2012/13 in order that the repayment of the debt is financed from the capital receipt;**

4.1o **£224,672 of capital receipts be set aside in 2012/13 for the repayment of debt relating to the purchase of refuse collection vehicles in 2011/12;**

4.1p the Housing Revenue Account (HRA) provide for the Self Financing Payment over 30 years;

4.1q investments should only be placed with institutions based in either the United Kingdom or states with a AA+ credit rating;

4.1r the bodies meeting the criteria of categories 1 to 7 in paragraph 16.10 be approved as repositories of specified investments of the City Council's surplus funds;

4.1s credit ratings be reviewed monthly and that any institution whose credit rating falls below the minimum level stated in paragraph 16.10 of the Treasury Management Policy be removed from the list of specified investments;

4.1t institutions that are placed on negative watch or negative outlook by the credit rating agencies be reassigned to a lower category;

4.1u non-specified investments are limited to the following:

	£
Financial institutions that are domiciled in the UK & have very limited exposure to the Euro zone periphery & investment banking	72m
Investments in MMD (Shipping Services) Ltd including funds lodged to guarantee the company's banking limits. MMD is a wholly owned subsidiary of the City Council.	2m
Long term investments	108m
Investments denominated in foreign currencies to hedge against contracts priced or indexed against foreign currencies	5m
Total	**187m**

4.1v the total amount that can be invested with any organisation at any time should be limited as follows (see paragraph 16.10):

	Maximum Investment in Single Organisation
Category 1	Unlimited for up to 1,825 days
Category 2	£20m for up to 1,825 days
Category 3	£20m for up to 732 days
Category 4	£15m for up to 732 days
Category 5	£13m for up to 366 days
Category 6	£10m for up to 366 days
Category 7	£6m for up to 366 days
Category 8	£10m for up to 366 days
Category 9	£6m for up to 366 days
Category 10	£6m for up to 95 days
MMD (Shipping Services) Ltd including sums lodged to guarantee the company's banking limits	£2m for up to 366 days

4.1w the Head of Financial Services and Section 151 Officer be given delegated authority to revise the total amount that can be directly invested with any organisation at any time

4.1x that the following investment limits be applied to sectors:

Money market funds	**£80m**
Building societies	**£107m**

4.1y that the following investment limits be applied to regions outside the United Kingdom:

Asia & Australia	**£40m**
Americas	**£40m**
Continental Europe	**£25m**

4.2 the Head of Financial Services and Section 151 Officer submits the following:

(i) an annual report on the Treasury Management outturn to the Cabinet by 30 September of the succeeding financial year;

(ii) A Mid Year Review Report to the Cabinet;

(iii) the Annual Strategy Report to the Cabinet in March 2014;

(iv) quarterly Treasury Management monitoring reports to the Cabinet and the Governance and Audit and Standards Committee.

5. Reasons for recommendations

The Council has financed the purchase of a fleet of refuse collection vehicles through self financed borrowing. The Council has passed these vehicles to its waste collection contractor through a finance lease. Under this lease the risks and rewards of asset ownership rest with the lessee and the assets are not shown on the City Council's balance sheet. These leases are therefore in effect a form of lending. A part of the rent receivable will be taken to reduce the loan asset on the balance sheet rather than being credited to the revenue account. This part of the rent receivable generates a capital receipt. Capital receipts can principally be used to finance new capital expenditure or repay debt. It is recommended that the principal element of the rent receivable be set aside to repay the borrowing that financed these assets and that this policy is applied in any similar circumstances. This will enable this contract and other similar contracts to go ahead without increasing the amount of revenue provision required for the repayment of debt.

As part of the Treasury Management Mid Year Review for 2012/13 the Council approved the use of unrated building societies as repositories for investments of the Council's surplus funds. As at 31 December 2012 £15.5m was invested in unrated building societies at an average return of 1.02%. However at 31 December 43% of the Council's investments were still placed with other local authorities which are currently offering less than 0.6% for an investment of a year's duration. The interest rates offered by the Council's current approved counter parties are not expected to increase in the near future.

It is therefore recommended that the number approved investment categories be increased. The proposed new categories will allow higher investment limits and longer durations for some institutions (particularly building societies), allow the use of 95 day notice accounts with institutions that are not deemed suitable for investments of up to 366 days including the Co-operative Bank, and allow investments in corporate bonds with a high credit rating. Corporate bonds are tradable loan capital in commercial companies. This will allow the Council to lend its surplus funds to commercial companies in addition to financial institutions.

6. Options considered and rejected

Returns could also be improved by increasing the duration of investments or increasing investment limits with individual institutions to a greater extent than that proposed in the recommendations.

Increasing the duration of investments further would not be prudent given the current economic and political uncertainties in the world which could affect the credit worthiness of institutions over time. This is evidenced by the fact that most financial institutions have had their credit ratings cut over the last few years and some have even required government rescues.

The maximum approved individual investment limits are up to £20m, with the exception of the UK government which is unlimited. A loss on this scale would have severe consequences on the Council's finances and it would not be prudent to increase the investment limits further.

The Council could buy collective investments such as shares in unit trusts in equities or property. However because such investments are open ended and linked to tradable assets their value could decrease as well as increase. Therefore they do not secure the Council's capital and if such investments had to be sold for less than was paid for them, the resulting loss would be charged to the revenue account.

7. Implications

The net cost of Treasury Management activities and the risks associated with those activities have a significant effect on the City Council's overall finances. Effective Treasury Management will provide support to the organisation in the achievement of its business and service objectives.

8. Equality impact assessment (EIA)

This report has undergone an effective equalities impact assessment and no issues were arising.

9. City Solicitor's Comments

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2011 to ensure that the Council's budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

10. Head of Finance's comments

All financial considerations are contained within the body of the report and the attached appendices

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Signed by Head of Financial Services & Section 151 Officer

Appendix: Treasury Management Policy Statement, Annual Minimum Revenue Provision for Debt Repayment Statement and Annual Investment Strategy 2013/14

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
1 Treasury Management Files	Financial Services
2	

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the Cabinet on 4 March 2013.

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Signed by: the Leader

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by the City Council on 19 March 2012.

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Signed