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**DRAFT TREASURY MANAGEMENT STRATEGY 2015/16**

**REPORT OF CORPORATE DIRECTOR RESOURCES**

**AGENDA ITEM: 7.2**

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**PORTFOLIO: CORPORATE AFFAIRS**

**Reason for this Report**

1. To provide Audit Committee Members with the draft Treasury Management Strategy for 2015/16.

**Background**

2. The proposed strategy for 2015/16 is required to be approved as part of the Budget Report to Council in February 2015. The strategy is attached for Committee to review at Appendix 1.

**The Strategy**

3. The strategy covers the following areas:-
  - The current treasury position.
  - Economic background and prospects for interest rates.
  - Borrowing, including:-
    - Policy
    - Annual Minimum Revenue Provision (MRP) Policy Statement
    - Housing Finance Reform Settlement Amount (Self Financing Buyout) and Treasury Management Implications
    - Council borrowing requirement and choice between internal and external borrowing and
    - Borrowing Strategy
  - Treasury management indicators and limits for 2015/16 to 2017/18
  - Investment policy and strategy, including security and investments approved for use.
  - Training.
4. It should be noted by the Committee that many of the indicators are dependant on the final Capital Programme which will only be determined at

Council in February 2015. There are unlikely to be significant changes in the proposed Capital Programme. However, whilst the principle of housing finance reform has been agreed, the actual settlement value is to be based on interest rates at 31 March 2015.

**5. The main points to note in the strategy are:-**

- In order to buy itself out of the Housing Subsidy system, Council has agreed to make an estimated payment of £222 million to HM Treasury. Whilst this estimate is based on current rates, the final payment is dependant on interest rates at 31 March 2015. The Council will borrow a basket of loans from the PWLB to make the payment on 2 April 2015. Audit Committee received a report on Housing Finance Reform in June 2014 and updates in subsequent Treasury reports.
- Subject to progress on the approved Capital Programme and coupled with scheduled borrowing repayments, there is likely to be an additional borrowing requirement of circa £112 million over the next three years, excluding the payment for exiting the Housing Subsidy System.
- The timing of borrowing decisions, associated risks and financial implications will be important in order to achieve a balance between using temporary cash balances held (internal borrowing) in the short term or external borrowing. The Strategy proposes that given the higher level of borrowing rates compared to investment rates, the Council continues to use an element of internal borrowing, whilst setting aside sufficient financial provision to ensure external borrowing can be accomodated if needed.
- The priority for investments is security, with the Strategy allowing the potential use of a range of investment options to increase diversification where possible.
- Interest rates on investments are likely to remain low and this is factored into future budgets.
- Strong credit critetria are set for investments undertaken by the Council based on Fitch Credit Criteria with other factors taken into account in determining with whom to invest.
- The Strategy is consistent with the Prudential code and Welsh Government guidance on investments.
- The Strategy applies from the date of approval by Council.

**Reason for Report**

6. To note the proposed Treasury Management Strategy for 2015/16 and provide any comments as necessary that can be factored into the final strategy.

## **Legal Implications**

7. No direct legal implications arise from this report.

The Committee is reminded of its statutory functions, which are to:

- (a) review and scrutinise the authority's financial affairs,
- (b) make reports and recommendations in relation to the authority's financial affairs,
- (c) review and assess the risk management, internal control and corporate governance arrangements of the authority,
- (d) make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements,
- (e) oversee the authority's internal and external audit arrangements, and
- (f) review the financial statements prepared by the authority.
- (g) to seek assurances that the Council has complied with the Treasury Management Strategy and Practices by demonstrating effective control of the associated risks and pursuing optimum performance consistent with those risks.

## **Financial Implications**

8. The Treasury Management Strategy does have financial implications which will need to be consistent with and form part of the budget proposals for 2015/16 and the Medium Term Financial Plan which will be considered by Council in February 2015.

## **RECOMMENDATIONS**

9. That Audit Committee note the proposed Treasury Management Strategy for 2015/16 and provide comments as necessary with any amendments being considered for inclusion in the final Strategy which will be considered by Cabinet prior to approval by Council as part of the 2015/16 Budget Proposals Report.
10. That the Committee receive a full performance report at the next Audit Committee, highlighting the actual treasury management implications following the Housing Subsidy buy out settlement payment to Welsh Government.

**CHRISTINE SALTER**  
**CORPORATE DIRECTOR RESOURCES**  
**8 January 2015**

*The following appendices are attached*  
Appendix 1 – Draft Treasury Management Strategy 2015/16