

**Treasury Management and Investment Strategy 2014/15 & Prudential Indicators****Report by Gary Fairley, Head of Finance and Integrated Service Support****1 Purpose of Report**

The purpose of the report is to seek the agreement of Council to the Treasury Management and Annual Investment Strategies for 2014/15 and the Prudential and Treasury indicators contained therein.

**2 Background****2.1 Treasury Management & Investment Strategy 2014/15**Treasury Management Code of Practice

The revised Treasury Management Code of Practice, updated by CIPFA in 2011, requires the Council to receive and approve, in advance of each financial year a Treasury Management and Investment Strategy. The strategy encompasses the Council's capital plans and prudential indicators, indicates how the borrowings and investments for the Council are to be organised for the forthcoming year in light of these plans/indicators, and sets parameters on how investments are to be managed for the forthcoming financial year. Investment in each type of instrument must be approved by Council as "permitted" otherwise it will be deemed to be ultra vires.

A detailed document covering the Treasury Management and Investment Strategy for financial year 2014/15 has been included as Appendix 3 to this report. The key points from this strategy are:-

Capital Financing Requirement (CFR)

The Council has an underlying need to borrow over the period 2014/15-2016/17 as follows:-

	2012/13 Actual £000	2013/14 Estimate £000	2014/15 Estimate £000	2015/16 Estimate £000	2016/17 Estimate £000
<b>Capital Expenditure</b>					
General Services	29,525	25,753	15,208	13,549	28,156
HRA	17,723	18,286	15,962	26,846	17,076
<b>Total</b>	<b>47,248</b>	<b>44,039</b>	<b>31,170</b>	<b>40,395</b>	<b>45,232</b>
<b>Financed by:</b>					
Capital receipts	970	1,108	1,085	1,360	1,485
Capital grants	26,616	7,842	8,707	7,113	6,267
Reserves	0	0	0	0	0
Developer/Other Contributions	1,481	3,788	2,956	2,345	4,583
<b>Available Financing</b>	<b>29,067</b>	<b>12,738</b>	<b>12,748</b>	<b>10,818</b>	<b>12,335</b>
<b>Capital Expenditure less available financing</b>	<b>18,181</b>	<b>31,301</b>	<b>18,422</b>	<b>29,577</b>	<b>32,897</b>
Principal debt repayments	-6,722	-6,767	-7,348	-7,775	-8,428
<b>Underlying need to borrow</b>	<b>11,459</b>	<b>24,534</b>	<b>11,074</b>	<b>21,802</b>	<b>24,469</b>
<b>Expected Change in Gross Debt</b>	<b>5,219</b>	<b>-2,026</b>	<b>-2,377</b>	<b>19,589</b>	<b>22,975</b>

The difference between the projected underlying need to borrow and the expected change in gross debt in the table above is due to:-

- In 2013/14 to 2016/17, the projected increase in the HRA reserve balance, this increase being used to offset borrowing (internally borrow) in these years;
- In 2013/14 and 2014/15, in addition to the above, the utilisation of the Council's cash balances (maturing fixed term deposits), to offset borrowing (internally borrow) in these years;

### Borrowing Strategy

The Council is expected to have an under-borrowed (internally-borrowed) position of c. £34.8 million by the end of financial year 2013/14. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as some of the cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are generally low and counterparty risk is relatively high.

It is expected that throughout the majority of 2014/15, new long term PWLB borrowing sits at somewhere between 3.5%-4.1% whilst temporary borrowing from the money markets or other local authorities is expected to remain at historically low levels of below bank base rate (i.e. sub-0.50%). If rates remain at these levels, utilisation of temporary borrowing within the Council's overall loan portfolio would continue to provide the most cost-effective solution to the Council. However, this will be viewed against the backdrop of potential long term costs if the opportunity is missed to take PWLB loans at historically low medium-long term rates, particularly given the projected gradual rise in PWLB rates from 2014/15 onwards.

Any borrowing undertaken in advance of need would be supported by a business case which will appraise the anticipated savings in borrowing costs (from expected increases in rates later in the year / in forthcoming years) against the carrying cost associated with borrowing in advance of need.

### Investment Strategy/Instruments

The Scottish Government Investment Regulations make use of many different types of treasury investment instruments available to the Council, and the recommended list of instruments for approval by Council is included in the detailed strategy and reported in Appendix 1. There are no changes from the Council's previous Investment Strategy.

In the unlikely event that any other type of treasury investment is thought to be advantageous this will be reported to Council for approval before any commitment is made.

The Council has previously set limits on the total amount of investments it can make with its approved list of counterparties, and it is proposed to retain these at their current levels.

Borrowing in advance of need will temporarily increase the Council's available cash balances, and consideration will be given to the most advantageous counterparty and term to invest these surplus monies with, while ensuring the Council's priorities of security and liquidity of these funds is upheld.

## **2.2 Prudential Indicators**

### Prudential Code for Capital Finance in Local Authorities

The Prudential Code for Capital Finance in Local Authorities requires that Councils can demonstrate that their Capital Plans are affordable, prudent and sustainable, taking into account the financial provisions made in current and future Revenue Budgets; and that Treasury Management decisions are taken in accordance with good practice.

The Prudential Indicators that Councils need to consider relate to both actual, historic outcomes, and future estimated outcomes (covering the same period as the Council's Capital Plans), as follows:-

- Original indicators and actual outcomes for 2012/13;
- Revised estimates of the 2013/14 indicators; and
- Estimates of indicators for 2014/15 to 2016/17.

The Prudential Indicators required by the Code are listed individually in Appendix 2.

### **3. Report Implications**

#### **3.1. Resources**

There are no direct resource implications arising from this report.

#### **3.2. Risk**

The strategies outlined in this report are designed to improve the overall risk management of Treasury activity. Providing the limits outlined in the strategies are observed they will enhance the controls already in place in the Treasury Management Practices within which the treasury function operates.

The Prudential Indicators contained in Appendix 2 improve the overall risk management of Capital Investment and Treasury Management.

#### **3.3. Single Midlothian Plan and Business Transformation**

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☐ Sustainable growth
- ☐ Business transformation and Best Value
- ☒ None of the above

#### **3.4 Impact on Performance and Outcomes**

The strategies to be adopted are an integral part of the corporate aim to achieve Best Value as they seek to minimise the cost of borrowing by exercising prudent debt management and investment. This in turn helps to ensure that the Council's capital expenditure is sustainable in revenue terms.

#### **3.5 Adopting a Preventative Approach**

The proposals in this report do not directly impact on the adoption of a preventative approach.

#### **3.6 Involving Communities and Other Stakeholders**

Although no external consultation has taken place, cognisance has been taken of professional advice obtained from Capita Asset Services, the Council's appointed Treasury Consultants.

#### **3.7 Ensuring Equalities**

There are no equality issues arising from this report.

#### **3.8 Supporting Sustainable Development**

There are no sustainability issues arising from this report.

### **3.9 IT Issues**

There are no IT issues arising from this report.

## **4 Summary**

The Treasury Management and Investment Strategies outlined in this document, and in the detailed document placed in the Member's Library, have been formulated to comply with the revised Codes of Practice and relevant Regulations and provide the framework for achieving best value in the management of the Council's borrowing and investment portfolios.

## **5 Recommendations**

It is recommended that the Council

- a) Approve the Treasury Management and Investment Strategy for the 2014/15 financial year, as summarised in Section 2.1 of this report and as detailed in the in-depth main report that is attached as Appendix 3;
- b) Approve the investment instruments outlined in Appendix 1;
- c) Adopt the Prudential Indicators contained in Appendix 2 of this report;
- d) Grant permission for total borrowing to be taken up to the Authorised Limit for Borrowing for 2016/17 of £336.7m (as shown in item 4.2 of Appendix 2) if market conditions indicate that this is prudent.

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### **Background Papers:-**

Appendix 1:- Permitted Investments

Appendix 2:- Prudential Indicators

Appendix 3:- Treasury Management & Annual Investment Strategy  
Statement – 2014/15 Detailed