

REVISIONS TO THE TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2013/14 TO 2015/16

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SUMMARY

Audit Committee considered the draft Annual Treasury Management Strategy Statement and Investment Strategy for 2013/14 to 2015/16 at the meeting on 6 December 2012. This was in advance of the final Statement being presented to Cabinet and Council in February 2013.

As part of the scrutiny process members requested that a further report should be brought to the March Audit Committee detailing the changes from the draft to the final version of the Statement.

RECOMMENDATIONS

That the contents of the report are noted.

INFORMATION

Amendments to the Annual Treasury Management Strategy Statement and Investment Strategy for 2013/14 to 2015/16

Since the draft TMSS was considered at Audit Committee in December a number of minor changes have been made to the final document to address recommendations made during the meeting along with general presentational improvements and updates.

Changes include:

- The removal of certain financial instruments which were deemed unnecessary in the current market environment and were not being used. These include: Variable Net Asset Value Money Market Funds (including Collective Investment Schemes); Bonds issued by multilateral development banks; and Sterling denominated bonds by non-UK sovereign governments.
- Appendices D & E have been merged with clear definitions of Specified and Non Specified Investments.
- Forecast debt and investment interest percentages have been updated to reflect latest estimates and appendix C contains the most recent market outlook.

A full list of the amendments is included in Appendix 1 attached. The revised Statement is also attached for information.

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Amendments to the Annual Treasury Management Strategy Statement and Investment Strategy for 2013/14 to 2015/16

1. 1.6 *“explains the institutions (counterparties)”* **has been updated to**
“explains the counterparties”
2. 1.6 *“The limits related to the size of individual investments”* **has been removed.**
3. 1.7 *“will maintain an extremely cautious approach in determining counterparty institutions”*
has been updated to
“will maintain an extremely cautious approach in determining counterparties”
4. 1.8 *“extensions being proposed for the 2013/14”* **has been updated to**
“extensions being proposed for the 2013/14 Strategy”
5. 1.8 *“However a number of long standing instruments have been removed as they are currently deemed unnecessary; these include multilateral development bank bonds, non UK government bonds and variable net asset value money market funds”* **has been added.**
6. 2.5 *“in general maintains a precautionary, vanilla approach”* **has been updated to**
“in general maintains a cautious, basic and transparent approach”
7. 2.6 *“The average rate of interest paid on Council borrowing for 2012/13 will be 2.96%”*
has been updated to
“The average rate of interest paid on Council borrowing for 2012/13 will be 3.00%”
8. 2.6 *“expected average rate of 0.68%”* **has been updated to**
“expected average rate of 0.67%”
9. 4.12 *“The Council currently has variable rate borrowing of £51.3m (of which £40m is HRA) at a rate of 0.62%”* **has been updated to**
“The Council currently has variable rate borrowing of £51.3m (of which £40m is HRA) at a rate of 0.54%”
10. 4.13 *“The Council has £48m, of LOBO loans (Lender’s Options Borrower’s Option)”*
has been updated to
“The Council has £48m of LOBO loans (Lender’s Option Borrower’s Option)”
11. Table 4 changed to show updated estimated benchmark levels.
12. 5.3 *“however instruments including multilateral development bank bonds, non UK government bonds and variable net asset value money market funds (including collective investment schemes) have been removed”* **has been added.**
13. 5.5 *“Debt Management Office (DMO) or UK Treasury Bills”* **has been updated to**

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“Debt Management Office (DMO) or to purchase UK Treasury Bills”

- 14.5.7 *“Credit ratings remain an important element of assessing credit risk but they are not the sole feature in the assessment of counterparty credit risk”*
has been updated to
“Credit ratings remain an important element of assessing credit risk but they are not the sole feature in the assessment of counterparties”
- 15.5.7 *“Net Debt as a Percentage of GDP”* **has been updated to**
“net debt as a percentage of GDP”
- 16.5.10 *“In order to spread an investment portfolio largely invested in cash, investments will be placed with a range of approved counterparties designed to achieve a diversified portfolio of prudent counterparties, varying investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved and this is reviewed regularly”* **has been updated to**
“In order to spread the investment portfolio, deposits will be placed with a range of approved counterparties designed to achieve a diversified portfolio of prudent counterparties, varying investment periods and rates of return. Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved and this is reviewed regularly”
- 17.5.12 **“Collective Investment Schemes (Pooled Funds):** *The Council has evaluated the use of Pooled Funds and determined the appropriateness of their use within the investment portfolio. Pooled funds enable the Council to diversify the assets and the underlying risk in the investment portfolio and provide the potential for enhanced returns. Any investment in pooled funds will be regularly monitored for both performance and to ensure their continued suitability in meeting the Council’s investment objectives”* **has been removed.**
- 18.5.13 *“The use of financial instruments for the management of risks”* **has been updated to**
“The use of financial instruments for the management of risk”
- 19.9.4 *“settlement debt of over the 30 year”* **has been updated to**
“settlement debt over the 30 year”
20. Table 7 *“Long term investments”* **has been updated to** *“Long-term Investments”*

Appendix A:

21. **Title** *“EXISTING PORTFOLIO PROJECTED FORWARD”* **has been updated to**
“EXISTING PORTFOLIO PROJECTION”

Appendix B:

22. **Title** *“Estimates of Capital Expenditure and Affordability Indicators”* **has been updated to**
“Estimates of Capital Expenditure and other Prudential Indicators”

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23. ii. *“Estimates for Capital expenditure shown in Table 8 and are estimates of likely capital cash outflows”* **has been changed to**
“Estimates for Capital expenditure shown in Table 8 are estimates of likely capital cash outflows”
24. v. *“This gives the HRA potential headroom borrowing of up to £51.5m”*
has been updated to
“This gives the HRA potential headroom borrowing of up to £50.2m”
25. vi. *“on Council Tax and Housing Rent levels and represent the impact on these”*
has been updated to
“on Council Tax and Housing Rent levels and represents the impact on these”
26. Appendix C has been updated with the latest economic and interest rate forecast from Arlingclose.
27. Appendix D and Appendix E have been amalgamated into Appendix D and updated as follows:
28. Table 14
“CNAV MMFs, VNAV MMFs (where there is greater than 12 month history of a consistent £1 Net Asset Value)” **has been updated to**
“CNAV MMFs (Constant Net Asset Value Money Market Funds)”
29. *“A maximum exposure limit of 75% has been set for Non Specified investments”*
has been added
30. Table 15 - Instruments removed include: Bonds issued by multilateral development banks, Sterling denominated bonds by non-UK sovereign governments and Money Market Funds and Collective Investment Schemes, which are not credit rated.