

Revisions to the Treasury Management Strategy Statement and Investment Strategy 2015/16 to 2019/20

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SUMMARY

Audit Committee considered the draft Annual Treasury Management Strategy Statement and Investment Strategy for 2015/16 to 2019/20 at the meeting on 16 December 2014. This was in advance of the final Statement being agreed at Cabinet and Council in February 2015.

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 2015/16 to 2019/20

Since the draft TMSS was considered at Audit Committee in December a number of minor changes have been made to the final document to reflect updates to the Council's Capital Programme and to amend a few minor errors.

1. Paragraph 1.3 the interest rate increase projection has been updated to reflect changes in economic development as a result of low inflation caused by a fall in oil prices. The first increase is not now forecast until early 2016.
2. The Council's projection for its capital financing requirement has been updated to take into effect the final changes in the Capital programme. The expected opening CFR for 2015/16 has reduced to £407m from £412m due to a reduction in prudential borrowing required under the 2014/15 Capital programme. Future year projections have also been revised as a result of amendments in the programme, this change is reflected in paragraph 2.1 and Tables 1, 7 and 8
3. The Council has been advised that HM Treasury (HMT) are taking the necessary legislative steps to abolish the Public Works Loan Board (PWLB) in the near future however HMT have confirmed its lending functions will continue to be unaffected under a different body. This has resulted in a change to paragraph 3.3 to include the PWLB successor body as an approved source of borrowing.

4. Paragraph 4.7 and Table 12 have been amended to take into effect the change in the legal structure of Nordea Bank. Nordea Group has moved its London branch, which facilitates UK local authorities' investments, from being under Nordea Bank Finland Plc to be under Nordea Bank AB – the Swedish parent company. This change helps reduce the councils exposure to the eurozone as any investment in Nordea Bank will be held with a Swedish counterparty.
5. Paragraph 4.8 and table 12 have been amended to include an additional UK counterparty Coventry Building Society which is an A- rated institution. After a recent capital injection Coventry Building Society is now better capitalised than any other medium or large UK bank or building society and has been added as a recommended counterparty to help reduce Bail-in risk to the Council.
6. As a result of final amendments to the Council's agreed Capital programme the Authorised Limit and the Operational Boundary, detailed in tables 3 and 4, have been updated. In addition the prudential indicators in Appendix B have all been refreshed following these programme changes.
7. Table 6 showing upper limit for principle sums invested over 365 has been amended on the approved limit for 2014/15 as a result of a typo, to reflect the approved 2014/15 strategy. The estimated upper limit for 2015/16 has been increased from £30m to £32m as a result of rephrasing of the capital programme.
8. Table 12 for limits for specific investments has been amended to reflect the reduced confidence in unsecured deposits compared to secured deposits. Exposure to unsecured deposits has been reduced to 5% per institution, down from 10% the 2014/15 strategy assigned to Secured deposits and the 2014/15 strategy. This change brings the strategy in line with risk parameters suggested by the Treasury advisors.
9. The recommended Pooled Fund [SWIP] Sterling Investment Cash Fund has been updated to its new title Aberdeen Sterling Investment Cash Fund, due to the change in ownership of the fund. The change in ownership does not affect the decision to include this counterparty, as there is no change to the fund composition or controls.
10. In addition there have been minor amendments to wording and grammar throughout.

A copy of the final version of the strategy report is attached.