
TREASURY MANAGEMENT STRATEGY 2013/14

Report by Chief Financial Officer

SCOTTISH BORDERS COUNCIL

7 February 2013

1 PURPOSE AND SUMMARY

- 1.1 **This report proposes the Treasury Management Strategy for 2013/14 for Council approval.**
- 1.2 The CIPFA Code requires the Council to approve an annual Treasury Management Strategy which has been through the appropriate scrutiny and is presented at the same time as the Council's Financial Plans.
- 1.3 **Appendix 1** contains the Treasury Management Strategy 2013/14, considered by the Audit Committee on 14 January, and this incorporates the Prudential and Treasury Indicators for the next three years which are summarised in paragraph 4.8.
- 1.4 The main development is the incorporation of an amended creditworthiness policy for counterparties with whom the Council invests surplus funds. This is set out in Section 5 of Appendix 1.

2 RECOMMENDATIONS

- 2.1 **It is recommended that the Council:-**
 - (a) **Approves the Treasury Management Strategy for 2013/14 contained in Appendix 1; and**
 - (b) **Approves the Prudential and Treasury Indicators set out in paragraph 4.8.**

3 BACKGROUND

- 3.1 The Council approved the Annual Treasury Management Strategy for 2012/13 at the Council on 9 February 2012. The requirements that underpin these Strategies are set out in CIPFA (Chartered Institute of Public Finance & Accountancy) *Treasury Management in the Public Services: Code of Practice and Cross-sectoral Guidance Notes* (the CIPFA Code).
- 3.2 The Local Government Investments (Scotland) Regulations 2010 require the Council by law to take into account the CIPFA Code and *The Prudential Code for Capital Finance in Local Authorities* also published by CIPFA. The Finance Circular 5/2010 contains the ministerial consent to authorities in relation to powers to invest.
- 3.3 As part of the process of developing the Treasury Management Strategy the Audit Committee have a scrutiny role prior to the Strategies being approved by Council. Audit Committee has considered, commented and recommended the attached Strategies for Council approval at their meeting on 14 January 2013. The Committee also has requested that the Strategy is kept under review in light of the ongoing uncertain economic climate.
- 3.4 In November 2012, the Council awarded a contract for Treasury Advisory Services to Sector Treasury Management.
- 3.5 During 2012, in line with the Scottish Government consent to borrow, the Council has invested £2.4m in the first phase of the National Housing Trust (NHT) initiative through the Tweedside NHT LLP. The second phase of housing development and investment will be in 2013. This expenditure will be categorised as capital expenditure for the purposes of the treasury management and prudential indicators.

4 TREASURY MANAGEMENT STRATEGY

- 4.1 The Treasury Management Strategy (the Strategy) is set out in **Appendix 1**.
- 4.2 The document follows the same format as previous years, however it includes an amendment to the creditworthiness criteria for counterparties and it is proposed to adopt the revised Investment Policy set out in Section 5 of the Strategy. The key change incorporates additional financial and market information in the assessment of the risk associated with a counterparty and groups them into coloured bandings with different investment maturity durations. The Council's Treasury Adviser, Sector, has devised this approach.

- 4.3 The Strategy covers two main areas:
- (a) Capital:
- The capital plans
 - The prudential indicators
- (b) Treasury Management:
- The current treasury position
 - Treasury indicators which provide boundaries for the treasury risk and activities of the Council
 - Prospects for interest rates
 - Borrowing Strategy
 - Policy on Borrowing in Advance of Need
 - Debt Rescheduling
 - Annual Investment Strategy
 - Creditworthiness Policy
 - Performance Indicators
 - Monitoring and Reporting
 - Treasury Management Consultants and Advisers
 - Member and Officer Training
- 4.4 The Strategy includes a list of Permitted Investments and limits for the Council, the Common Good and Trust Funds and the Pension Fund. Although for the Common Good and Trust Funds and the Pension Fund this only covers the element that is managed in-house by the Council. The externally managed Pension Funds are governed by the Statement of Investment Principles, which were approved by the Pension Fund Sub-Committee on 23 June 2010, and the Common Good and Trust Funds are covered by the Investment Strategy approved by the Council on 15 December 2011.
- 4.5 The Strategy reflects the impact of Administration's Draft Capital Financial Plan 2013/14 – 2022/23 and incorporates the impact of Waste Treatment Facility Private Finance Initiative (PFI) project on the balance sheet and the Prudential Indicators.
- 4.6 The Strategy also reflects the additional borrowing proposals for the NHT and lending to Registered Social Landlords (RSLs) which are both subject to the Scottish Government providing Consent to Borrow for this expenditure. The Consent to borrow has been secured for the NHT proposal, however the lending to RSLs is still to be formally requested and granted.
- 4.7 The implications of paragraphs 4.5 and 4.6 have resulted in updated Debt and Investment projections and revised Prudential and Treasury Indicators.

4.8 The following table summarises the updated Prudential and Treasury Indicators identified within the Strategy, and the Page references are to the pages in **Appendix 1**.

Indicator Reference	Indicator	Page Ref.	2013/14	2014/15	2015/16
PRUDENTIAL INDICATORS					
Capital Expenditure Indicator					
PI-1	Capital Expenditure Limits	5	£24.8m	£28.6m	£25.3m
PI-2	Capital Financing Requirement (CFR)	6	£276.3m	£274.6m	£285.2m
Affordability Indicator					
PI-3	Ratio of Financing Costs to Net Revenue	7	9.16%	9.13%	9.23%
PI-4	Incremental Impact of Capital Investment Decisions on Council Tax	7	0.02	0.00	0.00
External Debt Indicators					
PI-5	Actual Debt	8	£267.8m	£274.2m	£290.2m
PI-7a	Operational Boundary (inc. Other Long Term Liabilities)	9	£279.7m	£286.2m	£300.6m
PI-7b	Operational Boundary (exc. Other Long Term Liabilities)	9	£221.5m	£229.7m	£229.5m
PI-8a	Authorised Limit (inc. Other Long Term Liabilities)	9	£321.6m	£323.1m	£330.1m
PI-8b	Authorised Limit (exc. Other Long Term Liabilities)	9	£263.4m	£266.6m	£259.0m
Indicators of Prudence					
PI-6	(Under)/Over Net Borrowing against the CFR	8	(£23.9m)	(£14.0m)	(£1.1)m
TREASURY INDICATORS					
TI-1	Upper Limit to Fixed Interest Rates based on Net Debt	12	£279.7m	£286.2m	£300.6m
TI-2	Upper Limit to Variable Interest Rates based on Net Debt	12	£97.9m	£100.2m	£105.2m
TI-3	Maturity Structure of Fixed Interest Rate Borrowing 2012/13	12	Lower		Upper
	Under 12 months		0%		20%
	12 months to 2 years		0%		20%
	2 years to 5 years		0%		20%
	5 years to 10 years		0%		20%
	10 years and above		20%		100%
TI-4	Maximum Principal Sum invested greater than 364 days	20	20%	20%	20%

5 IMPLICATIONS

5.1 Financial

There are no additional financial implications in relation to this report.

5.2 Risk and Mitigations

The Treasury Management Strategy is an element of risk mitigation and has been scrutinised by the Audit Committee to ensure that they are satisfied with this element of the risk management framework for the treasury management function within the Council. This provides assurance to the Council that the parameters and guidance for making the appropriate investment and borrowing decisions are in place.

5.3 Equalities

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

5.5 Carbon Management

Several of the projects proposed will have a beneficial effect on future carbon emissions.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area, the proposals are designed to enhance public sector infrastructure in the Borders.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

6 CONSULTATION

6.1 The Head of Legal and Democratic Services, the Head of Audit and Risk, and the Clerk to the Council have all been consulted and their comments have been incorporated in the final report.

6.2 The Audit Committee received a draft copy of the Strategy to review and scrutinise at their meeting on the 14 January 2013.

Approved by

David Robertson
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Signature

Author(s)

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Background Papers:**Previous Minute Reference:**

Audit Committee, 14 January 2013

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