

**Open Report on behalf of the Executive Director of Resources and
Community Safety**

Report to:	Councillor K J Smith, Executive Councillor for Finance and HR
Date:	22 March 2013
Subject:	Treasury Management Strategy Statement and Annual Investment Strategy 2013/14
Decision Reference:	02133
Key decision?	No

Summary:

The Treasury Management Strategy Statement is an annual statement that sets out the expected treasury activities for the forthcoming year 2013/2014. It is prepared in accordance with the 2011 CIPFA Code of Practice for Treasury Management in the Public Sector, the requirements of which are included as part of Financial Regulations within the Constitution of the Council.

The Annual Investment Strategy is an annual statement that sets out the Council's policies for investing its surplus cash for the year ahead and has been prepared in accordance with the Local Government Act 2003.

Recommendation(s):

That Executive Councillor approval is given to:

(1) The draft Treasury Management Strategy Statement for 2013/2014, as detailed in Section 2 of Appendix A to this report.

(2) The draft Annual Investment Strategy Statement for 2013/2014, as detailed in Section 3 of Appendix A to this report.

Alternatives Considered:

1. As an alternative to the draft strategy proposed to approve an Annual Investment Strategy for 2013/2014 that excludes the relaxation of the Council's AAA Sovereign Rating Minimum requirement for the UK, effective from date of decision.

2. As an alternative to the draft strategy proposed to approve an Annual Investment Strategy for 2013/14 that includes the relaxation of the Council's AA- Long Term rating minimum requirement for Barclays Bank , Santander UK Bank and Nationwide Building Society.

Reasons for Recommendation:

In order to comply with Financial Regulations.

1. Background

The Annual Treasury Management Strategy Statement and Annual Investment Strategy for 2013/14, prepared for consideration and approval, is attached as Appendix A.

Sector Treasury Services Ltd, the Council's Treasury advisors, delivered a presentation in support of the Strategy Statement and Annual Investment Strategy at the Value for Money Scrutiny Committee on 26th February 2013, which has been attached as Appendix B.

On 22nd March 2013, the UK Sovereign Rating was downgraded one notch from AAA to Aa1, reasons cited to sluggish UK economic growth with the prospect of slow world growth anticipated to be a drag on the UK economy. The Council had set a minimum Sovereign Rating limit from Fitch of AAA for all counterparty countries on its lending list with the proviso that if financial events undermine this policy then it would be reviewed within one month. As such members at the Value for Money Committee were in support of the relaxation of this minimum sovereign requirement for the UK, given the low risk this presented due to the UK being our country of domicile. Officers also support this strategy and consequently the Annual Investment Strategy for 2013/14 has been prepared on this basis. The Executive Councillor for finance is being asked to make his decision to approve the Annual Investment Strategy effective from the date of his decision, 22nd March 2013, as well as for 2013/14, to comply with the one month proviso above.

The Council's additional minimum Long Term rating requirement of –AA currently excludes the following UK institutions from the Lending List due to credit rating downgrades over the last two years:

Barclays Bank plc
Santander UK Bank plc
Nationwide Building Society

These 3 UK institutions are intrinsic to the Country's banking sector and would be very unlikely to be allowed to fail by the UK Government. The Council already make exceptions for UK Government and part UK Nationalised banks in terms of credit criteria, due to being perceived low risk. The merits of relaxing the –AA Long Term Rating for these UK counterparties against the extra risk this would present was considered by the Value for Money Committee, whose view on this issue was not to support a relaxation at this time of continued market and economic

uncertainty. Officers also support this view and consequently the Annual Investment Strategy for 2013/14 has been prepared on this basis.

All relevant guidance issued by the Secretary of State in relation to investment of surplus cash continues to be taken into account in the formulation and delivery of the Treasury Management Strategy Statement and Annual Investment Strategy for 2013/14.

2. Conclusion

The draft Treasury Management Strategy Statement, determining appropriate borrowing and investment decisions, and the Annual Investment Strategy, outlining the Council's policy for investments, has been drafted for 2013/14 in light of the anticipated economic environment and movement of interest rates for the year ahead. Based on officer recommendation supported by the views of the Value for Money Scrutiny Committee, this report is presented to the Executive Councillor with responsibility for finance for approval in order to comply with Financial Regulations.

3. Legal Comments:

The Council's Financial Regulations require the Council to annually produce a Treasury Management Strategy setting out expected treasury activities in accordance with the requirements of the CIPFA Code of Practice. The strategy statement must be submitted to the Executive Councillor with responsibility for finance for approval prior to the commencement of each financial year.

The Financial Regulations also require the production of an Annual Investment Strategy to ensure that Section 15 (1) of the Local Government Act 2003 is complied with, that is that all authorities must "have regard to guidance on investment issued by the Secretary of State" when investing their surplus cash. The strategy must be approved by the Executive Councillor with responsibility for finance.

This report enables the Council to meet its legal obligations in accordance with the Financial Regulations. The recommendations are lawful and within the remit of the Executive Councillor with responsibility for finance.

4. Resource Comments:

Appendix A to this report sets out the Treasury Management Strategy and Investment Strategy of the Council for the year ahead. The Council requires a Treasury Management Strategy and Investment Strategy for the year ahead in order to comply with Financial Regulations.

5. Consultation

a) Has Local Member Been Consulted?

n/a

b) Has Executive Councillor Been Consulted?

Yes

c) Scrutiny Comments

The Value For Money Scrutiny Committee is responsible for monitoring and scrutiny of the operation of the treasury management policies and practices and as such considered the draft strategies, at their meeting on 26th February 2013.

Members were supportive of the draft Treasury Management Strategy Statement and draft Annual Investment Strategy for 2013/2014 at Appendix A.

A clear majority of members supported the view to relax the Council's AAA Sovereign Rating requirement for the UK, given that the risks were minimal as the UK is our country of domicile. It was acknowledged that Moody's had already in fact downgraded the UK by one notch to Aa1 recently on 22nd February 2013.

A clear majority of members were not supportive of the view to relax the Council's AA- Long Term Minimum requirement for Barclays Bank, Santander UK Bank and Nationwide Building Society, that would have allowed the possibility of these counterparties back onto the Councils Authorised Lending List. This was due to the continued prevailing uncertain market and economic conditions.

d) Sector Treasury Services Ltd

This report is a technical financial document and as such external independent advice from the Council's Treasury Management Advisors, Sector Treasury Services Ltd, has been applied in its preparation.

e) Policy Proofing Actions Required

Not Applicable.

6. Appendices

These are listed below and attached at the back of the report	
Appendix A	Draft Treasury Management Strategy Statement and Annual Investment Strategy 2013/14.
Appendix B	Presentation on the Treasury Management Strategy provided by Sector Treasury Services Ltd for Value for Money Scrutiny Committee 26th February 2013.

7. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Council Budget 2013/14 to 2014/15 - 22nd February 2013	Lincolnshire County Council, Resources & Community Safety Directorate
Minimum Revenue Provision - 12th January 2009	Lincolnshire County Council, Resources & Community Safety Directorate
LCC Treasury Management Policy Statement and Treasury Management Practices	Treasury and Financial Strategy Section, Resources & Community Safety Directorate

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