CABINET

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TREASURY MANAGEMENT STRATEGY 2014/2015

Portfolio Holder:	Councillor Jarrett, Finance and Deputy Leader
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Summary

This report seeks the scrutiny of the Council's Treasury Management Strategy for the 2014/2015 financial year. The Treasury Management Strategy incorporates within it the Treasury Management Policy Statement, Annual Investment Strategy and Minimum Revenue Provision policy.

Please note the appendices to this report are included within Supplementary Agenda No. 1.

1. Budget and Policy Framework

1.1. Business Support Overview and Scrutiny is currently responsible for the scrutiny of the Council's Treasury Management, Investment Strategy and Minimum Revenue Provision Policy Statement. Section 16 of this report proposes that the Audit Committee undertakes the future scrutiny of the Treasury Management Strategy.

1.2. Cabinet is asked to consider the strategy taking into account the comments from the Business Support Overview and Scrutiny Committee. Final approval of the policy and the setting of prudential indicators is a matter for Council.

1.3. The decision as to approve the Treasury Management Strategy for 2014/2015 falls within the policy and budget framework.

2. Background

2.1. The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

2.2. The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

2.3. CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

3. Reporting Requirements

3.1. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised November 2011) was adopted by this Council on 24 January 2013.

3.2. The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices, this has been delegated to Cabinet and for the execution and administration of treasury management decisions has been delegated to the Chief Finance Officer
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, this has been delegated to the Business Support Overview and Scrutiny Committee.

3.3. The suggested strategy for 2014/2015 in respect of the following aspects of the treasury management function is based upon the treasury officers' views on interest rates, supplemented with leading market forecasts provided by the Council's treasury adviser, Capita Asset Services.

3.4. In exercising the delegations to fulfil the responsibilities set out in the Treasury Management Strategy, the Council will establish a set of standards to govern the manner in which these responsibilities are exercised. These standards are referred to as the Treasury Management Practice statements and are supported by the requisite Schedules that flow from the exercise of those Practices. These documents were approved by Cabinet on 12 February 2013, and have been updated to reflect the amendment to Treasury practices flowing from this report as well as external sources. All amendments to the practices are shown in Appendix 10 to this report.

3.5. Specifically the elements that are changing are:
- Approved Countries
- Treasury and Prudential Indicators.
- The Authorised Limit and Operational Boundary for 2014/2015.

3.6. The strategy for 2014/2015 covers two main areas:

Capital issues
- the capital plans and the prudential indicators
- the Minimum Revenue Provision (MRP) policy

Treasury management issues
- the current treasury position
- treasury indicators which will limit the treasury risk and activities of the Council
- prospects for interest rates
- the borrowing strategy
- policy on borrowing in advance of need
- debt rescheduling
- the investment strategy
- creditworthiness policy
- policy on use of external service providers.

3.7. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, CLG MRP Guidance, the CIPFA Treasury Management Code and CLG Investment Guidance.

4. Treasury management consultants

4.1. The Council uses Capita Asset Services, Treasury Solutions (formerly Sector) as its external treasury management advisors.

4.2. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.

4.3. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

5. The Prudential and Treasury Indicators 2014/2015 – 2016/2017

5.1. The Council’s capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist Members’ overview and confirm capital expenditure plans.

5.2. Capital prudential indicators are summarised within Appendix 3. These indicators are a summary of the Council’s capital expenditure and financing plans, currently reflecting the 2013/2014 approved programme but will need to be adjusted to accommodate additional resources for 2014/2015 and beyond as they become clear.

5.3. It is a statutory duty for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the “Affordable Borrowing Limit”. In England and Wales the authorised Limit represents the legislative borrowing limit.

5.4. The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits and, in particular, that the impact upon its future council tax and council rent levels is ‘acceptable’.

5.5. Whilst termed an “Affordable Borrowing Limit”, the capital plans to be considered for inclusion incorporate financing by both external borrowing and other forms of liability, such as credit arrangements. The Authorised Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years; details of the Authorised Limit can be found in Appendix 3 of this report.

5.6. The Prudential and Treasury indicators are set out in Appendix 3 to this report and are relevant for the purposes of setting an integrated treasury.

6. Treasury Management Strategy

6.1. The capital expenditure plans set out in Section 5 and Appendix 3 provide details of the service activity of the Council. The treasury management function ensures that the Council’s cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

7. Borrowing Requirement

7.1 No borrowing (with the possible exception of HRA or any new prudential schemes) is envisaged for the foreseeable future because of the relative position of investment returns and rates for new borrowing. With regard to any new borrowing, an assessment of the business and treasury position will be undertaken prior to deciding whether any borrowing will be carried out from internal or external sources. This is the policy that has been followed for a number of years now and as a consequence the Council is deemed to be significantly ‘under-borrowed’ (paragraph 10.1 refers). It is possible that this policy may need to be adapted to accommodate cash flow requirements i.e. if there is a consistent need to borrow to cover potential overdrafts then the internally funded capital investment will need to be substituted by external resource.

8. Prospects for interest rates

8.1. The Council has appointed Capita Asset Services as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Appendix 1 draws together a number of current City forecasts for short term (Bank Rate) and longer term fixed interest rates. The following table gives the Capita Asset Services central view.

Annual Average %	Bank Rate %	PWLB Borrowing Rates % (including certainty rate adjustment)		
		5 year	25 year	50 year
Mar 2014	0.50	2.50	4.40	4.40
Jun 2014	0.50	2.60	4.50	4.50
Sep 2014	0.50	2.70	4.50	4.50
Dec 2014	0.50	2.70	4.60	4.60
Mar 2015	0.50	2.80	4.60	4.70
Jun 2015	0.50	2.80	4.70	4.80
Sep 2015	0.50	2.90	4.80	4.90
Dec 2015	0.50	3.00	4.90	5.00
Mar 2016	0.50	3.10	5.00	5.10
Jun 2016	0.75	3.20	5.10	5.20
Sep 2016	1.00	3.30	5.10	5.20
Dec 2016	1.00	3.40	5.10	5.20
Mar 2017	1.25	3.40	5.10	5.20

8.2. Until 2013, the economic recovery in the UK since 2008 had been the worst and slowest recovery in recent history. However, growth has rebounded during 2013 to surpass all expectations, propelled by recovery in consumer spending and the housing market. Forward surveys are also currently very positive in indicating that growth prospects are strong for 2014, not only in the UK economy as a whole, but in all three main sectors, services, manufacturing and construction. This is very encouraging as there does need to be a significant rebalancing of the economy away from consumer spending to construction, manufacturing, business investment and exporting in order for this start to recovery to become more firmly established. One drag on the economy is that wage inflation continues to remain significantly below CPI inflation so disposable income and living standards are under pressure, although income tax cuts have ameliorated this to some extent. This therefore means that labour productivity must improve significantly for this situation to be corrected by the warranting of increases in pay rates. The US, the main world economy, faces similar debt problems to the UK, but thanks to reasonable growth, cuts in government expenditure and tax rises, the annual government deficit has been halved from its peak without appearing to do too much damage to growth.

8.3. The current economic outlook and structure of market interest rates and government debt yields have several key treasury management implications:

- For the Eurozone, concerns have subsided considerably in 2013. However, sovereign debt difficulties have not gone away and major concerns could return in respect of any countries that do not dynamically address fundamental issues of low growth, international uncompetitiveness and the need for overdue reforms of the economy (as Ireland has done). It is, therefore, possible over the next few years that levels of government debt to GDP ratios could continue to rise to levels that could result in a loss of investor confidence in the financial viability of such countries. This could mean that sovereign debt concerns have not disappeared but, rather, have only been postponed. Counterparty risks therefore remain elevated. This continues to suggest the use of higher quality counterparties for shorter time periods;

- Investment returns are likely to remain relatively low during 2014/2015 and beyond;

- Borrowing interest rates have risen significantly during 2013 and are on a rising trend. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this needs to be carefully reviewed to avoid incurring even higher borrowing costs, which are now looming ever closer, where authorities will not be able to avoid new borrowing to finance new capital expenditure and/or to refinance maturing debt, in the near future;

- There will remain a cost of carry to any new borrowing which causes an increase in investments as this will incur a revenue loss between borrowing costs and investment returns.

8.4 A more detailed analysis of the economic outlook is detailed in Appendix 4

9. Borrowing strategy

9.1. The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as 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 low and counterparty risk is relatively high.

9.2. Against this background and the risks within the economic forecast, caution will be adopted with the 2014/2015 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

- *if it was felt that there was a significant risk of a sharp FALL* in long and short term rates (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings will be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- *if it was felt that there was a significant risk of a much sharper RISE* in long and short term rates than that currently forecast, perhaps arising from a greater than expected increase in the anticipated rate to US tapering of asset purchases, or in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates are still lower than they will be in the next few years.

9.3. Any decisions will be reported to the appropriate decision making body at the next available opportunity.

10. Current portfolio position

10.1. The Council's anticipated treasury portfolio position at 31 March 2014, with forward projections are summarised below. The table shows the external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Year End Resources	2013/14 Anticipated £'000	2014/15 Estimate £'000	2015/16 Estimate £'000	2016/17 Estimate £'000
External Debt	172,325	162,325	162,324	162,324
Debt at 1 April	162,325	162,324	162,324	162,324
Expected change in Debt	(10,000)	(1)	0	0
Other long-term liabilities (OLTL)	2,500	2,500	2,500	2,500
Expected change in OLTL	0	0	0	0
Actual gross debt at 31 March	**164,825**	**164,824**	**164,824**	**164,824**
The Capital Financing Requirement	**248,873**	**245,648**	**242,424**	**242,484**
Under / (over) borrowing	**84,048**	**80,824**	**77,600**	**77,660**

10.2. Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2014/2015 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

10.3. The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

11. Policy on borrowing in advance of need

11.1. The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

11.2. Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

12. Debt rescheduling

12.1. As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of the current treasury position and the size of the cost of debt repayment (premiums incurred).

12.2. The reasons for any rescheduling to take place will include:

- the generation of cash savings and / or discounted cash flow savings;
- helping to fulfil the treasury strategy;
- enhance the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

12.3 Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

12.4 Decisions related to rescheduling will be similarly be reported in reviews of this strategy.

13. Annual Investment Strategy

13.1. Investment policy

13.1.1. The Council's investment policy has regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA Treasury Management in Public Services Code of Practice and Cross-Sectoral Guidance Notes ("the CIPFA TM Code"). The Council's investment priorities will be security first, liquidity second and then return.

13.1.2. In accordance with guidance from the CLG and CIPFA, and in order to minimise the risk to investments, the Council has below clearly stipulated the minimum acceptable credit quality of counterparties for inclusion on the lending list. The creditworthiness methodology used to create the counterparty list fully accounts for the ratings, watches and outlooks published by all three ratings agencies with a full understanding of what these reflect in the eyes of each agency. Using our ratings service potential counterparty ratings are monitored on a real time basis with knowledge of any changes notified electronically as the agencies notify modifications.

13.1.3. Furthermore, the Council's officers recognise that ratings should not be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "credit default swaps" and overlay that information on top of the credit ratings. This is fully integrated into the credit methodology provided by the advisors, Capita Asset Services in producing its colour coding which shows the varying degrees of suggested creditworthiness.

13.1.4. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

13.1.5. The aim of the strategy is to generate a list of highly creditworthy counterparties which will also enable diversification and thus avoidance of concentration risk.

13.1.6. The intention of the strategy is to provide security of investment and minimisation of risk.

13.1.7. Investment instruments identified for use in the financial year are listed in Appendix 5 under the ‘specified’ and ‘non-specified’ investments categories. Counterparty limits will be as set through the Council’s treasury management practices schedules (Appendix 10).

13.1.8. As part of the 2013/14 mid year Treasury Management review it was agreed that fund would be withdrawn for our external Fund Manager Investec Asset Management due to continued poor performance. This process is be substantially complete by the end of the financial year with the exception of a UK Gilt valued at approximately £4m. Currently it is not financially prudent to prematurely withdraw from this investment. Our Treasury Advisors (Capita) have secured a company who will hold this Gilt to term on our behalf.

13.2. Creditworthiness policy

13.2.1. This Council applies the creditworthiness service provided by Capita Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody’s and Standard and Poor’s. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

13.2.2. This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow - 5 years *
- Dark pink - 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.25
- Light pink - 5 years for Enhanced money market funds (EMMFs) with a credit score of 1.5
- Purple - 2 years
- Blue - 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange - 1 year
- Red - 6 months
- Green - 100 days
- No colour - not to be used

13.2.3. The Capita Asset Services creditworthiness service uses a wider array of information than just primary ratings and by using a risk weighted scoring system, does not give undue preponderance to just one agency's ratings.

13.2.4. Typically the minimum credit ratings criteria the Council use will be a short term rating (Fitch or equivalents) of short term rating F1, long term rating A-, viability rating of A-, and a support rating of 1. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

13.2.5. All credit ratings will be monitored primarily via Capita Asset Services' updates by Officers on a continuous basis. The Council is alerted to changes to ratings of all three agencies through its use of our creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately.

- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a weekly basis. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

13.2.6. Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on government support for banks and the credit ratings of that supporting government Country limits.

13.3 Counterparty Limits

13.3.1 The current counterparty limits are a £20 million limit per counterparty and £25 million for counterparties with a duration rating of 12 months or above

11.3.2 No amendments are requested to these counterparty limits.

13.4 Country limits

13.4.1 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch (or equivalent), with the exception of United Kingdom, where there will be no restriction on the sovereign credit rating. The list of countries that qualify using this credit criteria as at the date of this report are shown in Appendix 6. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

13.4.2 The Country limit is reinforced by the application of a financial limit to investment such that a maximum of £40 million may be invested in any one country save the United Kingdom where no limit is imposed.

13.4 Investment strategy

13.4.1 In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months).

13.4.2 Investment returns expectations. Bank Rate is forecast to remain unchanged at 0.5% before starting to rise from quarter 2 of 2016. Bank Rate forecasts for financial year ends (March) are:

- 2013/14 0.50%
- 2014/15 0.50%
- 2015/16 0.50%
- 2016/17 1.25%

13.4.3 There are upside risks to these forecasts (i.e. start of increases in Bank Rate occurs sooner) if economic growth remains strong and unemployment falls faster than expected. However, should the pace of growth fall back, there could be downside risk, particularly if Bank of England inflation forecasts for the rate of fall of unemployment were to prove to be too optimistic.

13.5 End of year investment report

13.5.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

14. Kent County Council (KCC) Local Government Reorganisation (LGR) Debt

14.1 The charge for the share of KCC debt for which Medway Council was responsible on local government reorganisation is based on the current average cost of debt for the County Council as a whole. KCC rates had been decreasing year-on-year as the County took on cheaper new debt but this has recently marginally reversed with the loss of beneficial rates for short-term as they are repaid. Whilst the County rate at a projected 5.50% remains marginally higher than our own average debt rate of 4.23% for 2014/15, the margin between PWLB debt rates for new borrowing and restructured debt (currently 4.54% vs 3.41% for 25 year borrowing) is such that this saving would be negated by the penalty involved. The outstanding principal at 1 April 2015 will be £40 million.

Current and Historical Rates of Interest Charged on KCC LGR debt

Year	2008/09 Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Estimate	2014/15 Estimate
Rate	5.51%	5.08%	5.21%	5.30%	5.44%	5.51%	5.50%

15. Minimum Revenue Provision (MRP)

15.1 The Minimum Revenue Provision is explained and the Policy Statement for 2014/2015 is set out at Appendix 2. The MRP calculation continues to be reviewed by officers, in order to apply the most financially advantageous and yet prudent approach to MRP. The introduction of the HRA Self-financing regime leaves it open for authorities to determine an MRP for the HRA but there is no necessity for making such a provision.

16. Treasury Management Reporting

16.1 As stated in paragraph 3.1 Full Council in January 2013 adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011. The Code sets out the reporting requirements and management information arrangements for Treasury Management and these are reflected within the Council's Constitution.

16.2 These requirements include the Cabinet and Council receiving reports on its treasury management policies, practices and activities including an annual strategy and plan in advance of the year, a mid-year review and the Audit Committee receiving an annual report after its close. In addition, the Council has nominated the Business Support Overview and Scrutiny Committee to be responsible for ensuring effective scrutiny of the treasury management strategy policies.

16.3 Members on both the Business Support Overview and Scrutiny Committee and the Audit Committee have recently reconsidered the reporting of Treasury Management. This was when the Treasury Management Strategy Mid-year review Report was reported to the Audit Committee, in order to relieve pressure on the Overview and Scrutiny Committee's work programme. Members have expressed their support for transferring responsibility for scrutinizing the treasury management function to the Audit Committee.

16.4 In line with Members wishes a number of changes to the Constitution are set out in Appendix 8, which would transfer responsibility to the Audit Committee. Should Members agree to the proposal, the effect of such a change is set out below (as tracked changes).

Area of responsibility	Council/Committee	Frequency
Treasury Management Policy Statement / Treasury Management Strategy / Annual Investment Strategy / MRP policy	~~Business Support Overview and Scrutiny~~ Audit Committee, Cabinet then Full Council	Annually before the start of the year (January-February)
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	~~Business Support Overview and Scrutiny~~ Audit Committee, Cabinet then Full Council	Mid year (January-February)
Treasury Management Policy Statement / Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Full Council	As and when necessary
Treasury Management Practices	~~Business Support Overview and Scrutiny~~ Audit Committee then Cabinet	Annually before the start of the year (January-February) and as and when amendments proposed
Treasury Management Monitoring Reports	Cabinet	Part of regular financial monitoring cycle
Annual Treasury Outturn Report	Cabinet then Audit Committee	Annually by 30 September after the end of the Year

16.5 It is noted that the CIPFA guidance on Treasury Management in the Public Services and on the Prudential Code for Capital Finance in Local Authorities both state that the scrutiny function of Treasury Management may be carried out either by the Audit Committee or an Overview and Scrutiny Committee. Furthermore these changes would not require any additional meetings of the Audit Committee.

17. Business Support Overview and Scrutiny Committee

17.1 The Business Support Overview and Scrutiny Committee will consider this report on 4 February 2014. The views of the Committee will be submitted to Cabinet in an addendum report.

18. Risk management

18.1 As stated within the Treasury Strategy, a key driver for the review of the CIPFA code has been the exposure to risk evidenced by the Icelandic investments and more generally by the financial crisis. Risk and the management thereof is a feature throughout the strategy and in detail within the Treasury Management Practices 1 (Appendix 10) within the Treasury Strategy.

19. Diversity Impact Assessment

19.1 The Treasury Management Strategy does not directly impact on members of the public as it deals with the management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. Decisions are based upon the principles highlighted within the Strategy and have no impact on any one particular group. (Appendix 9)

20. Financial implications

20.1 The finance and legal positions are set out throughout the main body of the report.

21. Recommendations

21.1 Cabinet is asked to consider the comments of the Business Support Overview and Scrutiny Committee.

21.2 Cabinet is asked to recommend to Council the Treasury Management Strategy and associated policies and strategy statements as attached in Appendices 1-6 to the report.

21.3 Cabinet is asked to approve the amendments to the Treasury Management Practices as set out in Appendix 7 to the report.

21.4 Cabinet is asked to recommend the revisions to the Constitution, as set out in Appendix 8 to the report, which will transfer responsibility for scrutinising the treasury management function to the Audit Committee.

22. Suggested Reasons for Decisions

22.1 Cabinet has the responsibility to make recommendations to Full Council on the approval of the Council's Treasury Management, Investment Strategy and Minimum Revenue Provision Policy Statement along with scrutinising the Treasury Management Practices and associated schedules.

Appendices

Please note the appendices to this report are included within Supplementary Agenda No. 1.

1. Interest rate forecasts 2013-2017
2. Minimum Revenue Provision Policy Statement 2014/15
3. Prudential and Treasury Indicators
4. Economic background
5. Specified and Non-Specified Investments
6. Approved countries for investments
7. The treasury management role of the section 151 officer
8. Scrutiny of Treasury Management
9. Diversity Impact Assessment
10. Treasury Management Practices

Lead officer contact

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Background papers

Council *Treasury Management Strategy*
Mid-Year Review Report 2012/13 24 January 2013
http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=18845

Cabinet *Treasury Management Strategy 2012/2013* 14 February 2012
http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=9427

Cabinet *Treasury Management Strategy*
Mid-Year Review Report 2013/14 17 December 2013
http://democracy.medway.gov.uk/mgconvert2pdf.aspx?id=22061