BLACKPOOL COUNCIL

REPORT

of the

DIRECTOR OF RESOURCES

to the

EXECUTIVE

on

9th FEBRUARY 2015

TREASURY MANAGEMENT STRATEGY 2015/16

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1. Purpose

1.1 The Council is required by statute to publish an annual Treasury Management Strategy incorporating its Investment Strategy.

1.2 In essence the Treasury Management Strategy is an annual plan of how Blackpool Council will manage its investments and cashflows. It identifies the Council's borrowing needs and shows how it will invest temporary surplus cash balances, and how it will control its banking, money market and capital market transactions.

1.3 The Scale of Operations at Annex A shows the levels of capital expenditure, long-term borrowing and temporary investments and also the impact that spending on new capital schemes has on average council tax levels.

2. Definition

2.1 CIPFA defines Treasury Management as *"The management of the organisation's investments and cashflows, 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. Background

3.1 Blackpool's Capital Programme for 2015/16–2017/18 continues on a reduced scale following the reduction in capital grants received from central government. Nevertheless, total cash moving annually through the Council's bank account including the reinvestment of temporary cash surpluses remains over £750m in the current year.

3.2 Large capital regeneration schemes such as the development of the Central Business District and the improvements to the highways infrastructure through Project 30 are either complete or nearing completion. Other schemes are being undertaken but on a much smaller scale and only where they are fully funded.

3.3 The Treasury Management Panel, which comprises the Director of Resources, Chief Accountant and representatives from Corporate Finance, has the responsibility for managing the risks associated with treasury management activities on an operational basis. The Panel recognises the need to balance investment risk against achieving an acceptable return on temporary surplus cash balances. The balance sought is to maximise the security and liquidity of the Council's investments, with higher yields being obtained only where they are consistent with those desired levels of security and liquidity.

4. Objectives

4.1 The objectives of the Treasury Management Strategy are as follows:

- To set the framework for the Council's treasury management operations
- To manage the Council's investments and cashflows
- To control banking, money market and capital market transactions
- To plan and secure appropriate borrowing in order to finance the Capital Programme at the lowest overall cost to the Council
- To achieve the best rates of return from the investment of temporary surplus cash balances commensurate with risk, subject to the overriding principle of maintaining an acceptable level of security
- To monitor and control effectively the risks associated with these transactions
- To comply with appropriate codes and regulations including the International Financial Reporting Standards as they apply to Treasury Management.

4.2 In delivering the above objectives the Council is required to:

- Determine its own borrowing limits taking into account its financial situation, long-term plans and in particular what it thinks is affordable now and sustainable in the future
- Monitor its borrowing limits using performance measures called Prudential indicators, these are set out in detail in Annex C to this report
- Consider annual and six-monthly reports on Treasury Management which contain Prudential indicators via the Executive.

5. Economic Outlook

5.1 The outlook for the UK economy continues to improve but analysts expect only a slight increase in gross domestic product in the short-term. This slow rate of improvement means continuing risk and so it is important that the Council's treasury and investment affairs continue to be managed in a cautious and prudent manner.

5.2 The interest rate environment has remained static since the previous Treasury Management Strategy in February 2014. The Bank of England has maintained the Base Rate at 0.5% and current market expectations are that the base rate will not rise before the first quarter of 2016 with money market investment rates for temporary surplus cash balances staying at present levels. The current rate for a three-month fixed-term deposit with a high street bank is typically 0.5% and analysts anticipate that this will only change marginally during the next 12 months.

5.3 Long-term borrowing rates, influenced by gilt yields, are generally stable. The recovery in the UK economy and continued decline in the Euro Zone has reduced the interest rate that the

Government has to pay on its overseas borrowing. Therefore, long-term borrowing rates have decreased gradually during the year by 0.7% to just under 3.6% and the market expects these longer term rates to remain at this level for the next 12 months.

6. Treasury Management Strategy - Key Principles

6.1 A summary of the key principles upon which the strategy is based is set out below and is expanded in more detail in Annex B:

- Temporary investments will be restricted to UK Banks and Building Societies unless non-UK institutions satisfy the stringent requirements set out in the Investment Counterparty and Liquidity Framework (Annex B, section 5).

- Short-dated Gilts (UK government securities with a life of less than one year) will continue to form part of our approved list of investments.

- Fixed-term cash deposits are currently restricted to terms of not more than three months (subject to review by the Treasury Management Panel) except the approved Lend a Hand Mortgage Guarantee Scheme.

- Temporary cash surpluses will continue to be applied to reduce the Council's need to borrow.

- New long term borrowing to support capital expenditure will only be taken in favourable conditions.

- The Treasury Management Panel will remain alert to market intelligence through the financial press, contacts in the financial markets and contacts in other local authorities.

- Treasury management advisers will only be engaged on an ad-hoc basis, retaining responsibility in-house for all treasury management activities.

- Long-term debt will be repaid in advance of redemption date where there is demonstrable financial advantage to the Council.

- The Policy for allocating borrowing costs to the Housing Revenue Account for 2015/16 and future years will be the same as in previous years and will be based on the Housing Revenue Account share of the Capital Financing Requirement (HRACFR). The charge will be made up of the interest payable on long-term loans in the Housing Revenue Account pool and an additional charge or credit where the HRA pool of loans is either below or above the HRACFR.

- Prudentially funded capital schemes will be charged a Minimum Revenue Provision (MRP) and interest at the pooled borrowing rate for the General Fund except in exceptional circumstances when the Director of Resources deems it appropriate to use an alternative rate. In cases where the interest rate is lower than the pooled rate there must be clear evidence that the use of the lower rate is affordable. The policy on charging Minimum Revenue Provision is set out in Annex D. This policy is reviewed annually.

6.2 During the last 12 months the Council has taken no additional long-term borrowing. Capital spending has been financed by using internal balances and by using short-term loans which are currently available at very low interest rates.

6.3 Where the Council makes business loans, it takes into account its own cost of borrowing, the likelihood of future interest rate movements, the risks of the venture and any state aid implications in ensuring that it at least covers its own costs.

7. Recommendations

The Executive is asked to recommend to Council that it:

i) Adopts the Elements of the Treasury Management Strategy 2015/16 and approves the Prudential Indicators and Limits for 2015/16 - 2017/18 which are set out in Annex B to this report;

ii) Approves the Prudential Indicators and Limits for 2015/16 - 2017/18 which are set out in Annex C to this report; and

iii) Approves the Minimum Revenue Provision Policy Statement for 2015/16 within Annex D to this report.

STEVE THOMPSON

DIRECTOR OF RESOURCES