SURREY
COUNTY COUNCIL

Audit & Governance Committee
16 February 2015

Treasury Management 2015/16: Briefing

Purpose of the report:

The Treasury Management policy, strategy statement and prudential indicators report is required to be adequately scrutinised before being recommended to the full County Council. This briefing provides explanation as to the proposed changes to the 2015/16 Treasury Management Strategy reported in Appendix 1.

Recommendations:

It is recommended that the Committee:

1. Note the report.

Introduction:

2. Each year the County Council is required to update and approve its policy framework and ongoing strategy for treasury management in order to reflect changes in market conditions, regulation, and the Council's financial position. It is a statutory requirement that the policy framework and strategy are approved by the full County Council before the beginning of the financial year.

Position and changes incorporated for 2015/16

Internal Borrowing

3. As a result of the continuation of unprecedented low investment interest rates, and in order to help reduce counterparty risk, the use of internal funding for capital expenditure will continue where possible to minimise the cost of carry.

4. The Council will maintain the minimum deposit balance at £47m. However, officers will keep a watching brief on the financial markets with a view to reversing the current internal borrowing policy, if the market conditions change and are favourable to the Council.

5. The Director of Finance will continue to have delegated power to authorise additional borrowing.

Cash Investment Principles

6. Cash investment principles will continue to focus in order of security, liquidity and yield with the use of a permissible counterparty list. The maximum deposit period will remain at one year.

7. The strategy highlights changes to the rating of our counterparties by the main credit rating agencies. The agencies (Fitch, Moody's and Standard & Poor's) have, through much of the financial crisis, provided some financial institutions with a ratings "uplift" due to implied levels of sovereign support. More recently, in response to the evolving regulatory regime, the agencies have indicated they may remove these "uplifts". This process may commence during 2014/15 or 2015/16. The actual timing of the changes is still subject to discussion, but this does mean immediate changes to the credit methodology are required.

8. As a result of these rating agency changes, the credit element of Capita's (the Council's treasury advisor) assessment methodology will focus solely on the short and long term ratings of an institution, rather than incorporating an element of sovereign support. This is the same process currently used for Standard & Poor's, but will be a change to the use of Fitch and Moody's ratings. This will marginally affect the Council's perceived risk.

9. The Council will increase its total exposure to Money Market Funds (MMFs) from £100m to £175m with a change to its maximum exposure to £25m (from £20m) for each MMF. Each fund will be risk assessed and required to achieve a AAA rating from two of the three rating agencies.

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Borrowing

10. In order to maintain appropriate cashflow levels during 2014/15, the Council has borrowed equal to the total estimated borrowing requirement, £70m in three tranches as at 31 January 2015, all through the Public Works Loans Board.

Principal (£000)	Start Date	Duration (Years)	Interest Rate
30,000	02 September 2014	50	3.72%
20,000	15 December 2014	50	3.36%
20,000	20 January 2015	50	2.99%

11. Officers are monitoring the market with a view to taking advantage of the very low interest rate environment and the possibility of borrowing early in respect of the £90m estimated borrowing required for 2015/16

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Sources/background papers:
Annex 1: Treasury Management Strategy Statement 2015/16 and Prudential Indicators 2015-2020
Appendix 1 – 7: Treasury Management Strategy Statement 2015/16 and Prudential Indicators 2015-2020