

# Accounts, Audit and Risk Committee

## Treasury Management Report

27 June 2012

### Report of Head of Finance and Procurement

#### PURPOSE OF REPORT

To receive information on treasury management performance and compliance with treasury management policy for Quarter 1 2012/13 as required by the Treasury Management Code of Practice.

This report is public

Appendices 1a and 1b to this report are exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972

#### Recommendations

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The Accounts, Audit and Risk Committee is recommended to:

- (1) Note the contents of the report

#### Summary

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- 1.1 As part of our investment strategy and governance arrangements this committee considers the investment performance to date and our compliance with counterparties being used.
- 1.2 The Code of Practice on Treasury Management approved by the Chartered Institute of Public Finance and Accountancy (CIPFA) and adopted in full by the Council in 2004, requires that a Treasury Management Strategy is produced prior to the beginning of the financial year to which it relates. The Treasury Management Strategy is the cornerstone of proper treasury management, and is central to the operation, management reporting and performance assessment. The 2012/13 strategy for Cherwell District Council was approved at full Council on 19 March 2012.
- 1.3 The highest standard of stewardship of public funds remains of the utmost importance to the Council. This document details the Council's management of investments and treasury management activities during the first 2 months of 2012/3.

## Background Information

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### 2012/13 Performance

2.1 The Council has £10.5m and £11.7m respectively invested with fund managers Tradition UK and Investec. In addition it has around £51m managed in-house (including Eco Town funds of £12m) which fluctuates during the year. The Council regularly reviews each of these funds in light of the current economic climate, reducing balances in investments planned to fund the Capital Programme and the need to contribute to efficiency savings.

### Update on Cherwell's Treasury Performance

2.2 The Treasury Management Strategy for 2012/13, which includes the Annual Investment Strategy, was approved by the Council on 19<sup>th</sup> March 2012. It sets out the Council's investment priorities as being:

- Security of Capital; Liquidity; and Yield

2.3 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions, using Sector's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Sector: this applies in particular to nationalised and semi nationalised UK banks.

2.4 Given the turmoil in peripheral Europe, our investments list does not have direct exposure to any sovereign debt of Portugal, Ireland Greece, Spain or Italy and that includes their national banks,. However, indirectly the banks on our lending list, in all probability do have exposure in some shape or form to either or both. Our lending criterion is very stringent and only the very largest banks are considered through negotiable securities, providing us with the greatest liquidity and flexibility.

2.5 Investment rates available in the market have continued at historically low levels. The average level of funds available for investment purposes was £72.5m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme and ECO Bicester.

2.6 Investment performance at 31st May 2012 was:

<b>Fund</b>	<b>Amount at</b>	<b>Interest Budget</b>	<b>Actual Interest</b>	<b>Variance</b>	<b>Rate of return %</b>
TUK	10,500,000	22,634	34,697	12,063	1.98%
Investec	11,742,224	14,375	22,813	8,438	1.17%
In House	51,849,369	108,583	122,767	14,184	1.47%
<b>Total</b>	<b>74,091,594</b>	<b>145,593</b>	<b>180,278</b>	<b>34,685</b>	<b>1.49%</b>

2.7 At the end of May 2012, interest received was 23% more than budgeted and shows a positive result across all three funds. This was mainly due to higher than planned balances when creating the budget as we had a higher level of

capital programme slippage from 2011/12, obtaining better than projected rates from our investments, and the change in allocation of funds between TUK, Investec and in-house.

- 2.8 A number of banks have been downgraded over the past 3 months which has seen our investment advisors recommend a shorter investment duration than previously recommended. All investments were placed in accordance with our strategy.
- 2.9 The Council will continue to closely monitor the impact of the uncertainty in the markets and ensure security of funds and compliance with strategy.
- 2.10 The Counterparties that we have invested with and compliance monitoring is included in Appendix 1.
- 2.11 The annual report for the year ended 31 March 2012 will be presented at the next meeting for onward reporting to Council in accordance with best practice.

### **Update on Iceland Funds**

- 2.12 On 1 April 2011 the Council was successful in the Icelandic Court in securing preferential creditor status and in the subsequent appeal against this decision to the Icelandic Supreme Court.
- 2.13 The Council has received 81% of the principal in cash from Glitnir and the remaining 19% of the principal and accrued interest is currently in an Icelandic account in Icelandic kroner (ISK) The ISK is held in escrow but has not been "released" to creditors. Approval for that step is still awaited from the Central Bank of Iceland and we continue to work with LGA and Bevan Brittan on this issue.
- 2.14 Interest is accruing on the ISK monies in escrow at 3.4% and is shown in the Council's balance sheet. In preparing the financial statements for 2011/12 the write off taken in the 2010/11 accounts has been reversed.
- 2.15 Further updates on the Icelandic funds held in escrow will be reported to the Accounts, Audit and Risk Committee as part of the regular treasury updates.

### **Implications**

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<b>Financial:</b>	There are no financial implications arising directly from any outcome of this report. Comments checked by Karen Muir, Corporate System Accountant 01295 221559.
<b>Legal:</b>	Presentation of this report is in line with the CIPFA Code of Practice. Comments checked by Kevin Lane, Head of Law and Governance – Planning and Litigation, 01295 221687.
<b>Risk Management:</b>	It is essential that this report is considered by the

Executive as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided.

Comments checked by Karen Muir, Corporate System Accountant, 01295 221559.

### **Wards Affected**

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All wards are affected.

### **Document Information**

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<b>Appendix No</b>	<b>Title</b>
Appendix 1a and b	Deposits by Counterparty – <b>RESTRICTED</b>
<b>Background Papers</b>	
2012/13 Strategy Budget Monitoring Reports CIPFA Treasury Management Code of Practice Sector Templates	
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