

Cherwell District Council

Accounts, Audit and Risk Committee

22 January 2014

Q3 Treasury Management Report

Report of Interim Head of Finance and Procurement

This report is public

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2013-14 for Quarter 3 as required by the Treasury Management Code of Practice.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of the Quarter 3 (Q3) Treasury Management Report

2.0 Introduction

- 2.1 As part of the investment strategy and governance arrangements this committee considers the investment performance to date and compliance with counterparties being used.
- 2.2 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 annual strategy for Cherwell District Council was approved at full Council on 25 February 2013. The Council re-appointed Sector (now known as Capita Asset Services) as its Treasury Management advisor in January 2013.
- 2.3 The highest standard of stewardship of public funds remains of the utmost importance to the Council. This report details the Council's management of investments and treasury management activities during the first six months of 2013-14.

3.0 Report Details

2013-14 Performance

- 3.1 As at the end of December the Council had £11.8m invested with fund manager Investec. In addition it has £57.4m managed in-house (including Eco Town funds of £13.5m) which fluctuates during the year. The Council regularly reviews of 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.

Appendix 1 details the split of inhouse funds per category and banking group.

Update on Cherwell's Treasury Performance

- 3.2 The Treasury Management Strategy for 2013-14, which includes the Annual Investment Strategy, was approved by the Council on 25 February 2013. It sets out the Council's investment priorities as being:
- Security of Capital; Liquidity; and Yield
- 3.3 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. However, the Council also seeks out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions. The Council uses Capita's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Capita (this applies in particular to nationalised and semi nationalised UK banks).
- 3.4 Investment rates available in the market have continued at historically low levels. The average level of funds available for investment purposes up to December 2013 was £60.6m. 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.
- 3.5 It is worth noting that the revenue budget for 2013-14 has been prepared utilising only £150,000 of investment income; however, total Investment income within 2013-14 is budgeted as £550,000. The balance above the £150,000 budget will be used to replenish reserves after transferring interest received in respect of Eco Town funds to the Eco Town reserve.

Investment performance for quarter ended 31 December 2013 was:

Fund	Average funds invested up to 31 December 2013	Interest Budget at 31 December 2013	Actual Interest at 31 December 2013	Variance	Rate of return %
Investec	£11,840,069	£43,125	£(4,813)	£(47,938)	-0.04%
In House	£60,663,123	£369,775	£415,731	£45,956	0.93%
Total	£72,503,192	£412,900	£ 410,918	£ (1,982)	

- 3.7 At this point in the year we are currently projecting to be on target. The variance shown above for inhouse investments has arisen through the timing of interest received.
- 3.8 There has been ongoing concern by both members and officers that the performance of the funds managed by Investec was not satisfactory. Members asked officers to review the situation and propose a course of action.
- 3.9 Therefore having taken advice from the treasury advisors Capita and reviewing both the current and projected performance of Investec a decision has been made to recall the funds managed by Investec.
- 3.10 The holding with Investec comprises a combination of different financial instruments – Certificates of Deposit and UK Gilts. The certificates of deposits have relatively short maturity dates and to maximise returns from these we will let them reach their full maturity date and then have the funds returned. This will be achieved in full by 31March 2014.
- 3.11 The UK Gilt holding of approx. £1.7m has a maturity date of 2018. To sell it now would realise a loss for the council due to the current market valuation. We are therefore transferring custodianship of these gilts to King and Shaxon (Specialist Investment Firm) where they will remain until either maturity or market conditions improve.
- 3.12 The added advantage of bringing these funds back in house is that the council will make savings in Fund Management Fees of approximately £18,000 / annum.

Icelandic Investments

- 3.13 There is currently no further update in respect of funds remaining within Iceland. As reported previously, out of the £6.5m original capital investment £5.7m has been returned to the Council. The remaining capital balance of £729,000 along with associated interest relating to the investment is still held within Iceland and is accruing interest on an annual basis.
- 3.14 Officers continue to work with the LGA and Bevan Brittan on the potential for transfer to the UK.

4.0 Conclusion and Reasons for Recommendations

- 4.1 This report details the Treasury Performance for the Council for the nine months ended 31 December 2013

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

- 6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information on the performance reported.

7.0 Implications

Financial and Resource Implications

- 7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by:

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Legal Implications

- 7.2 Presentation of this report is in line with the CIPFA Code of Practice.

Comments checked by:

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Risk Management Implications

- 7.3 It is essential that this report is considered by AARC as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided

Comments checked by:

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8.0 Decision Information

Wards Affected

All wards are affected

Links to Corporate Plan and Policy Framework

Links to all elements of Corporate Plan

Lead Councillor

None

Document Information

Appendix No	Title
Appendix 1	Schedule of Inhouse investments.
Background Papers	
CIPFA Treasury Management Code of Practice Capita Templates	
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