

Cherwell District Council

Accounts, Audit and Risk Committee

22 January 2014

Updated Treasury Management Strategy 2014-15

Report of Interim Head of Finance and Procurement

This report is public

Purpose of report

To receive an updated Treasury Management Strategy for 2014-15 and note the actions and proposals in respect of the funds held by fund managers Investec.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the updated Treasury Strategy for 2014-15.
- 1.2 To note the action and proposals in respect of funds held with Fund Managers Investec.

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 Capita Asset Services (formerly known as Sector) as its Treasury Management advisor in January 2013.
- 2.3 An initial draft copy of the Treasury Strategy for 2014-15 was put before this committee on 4 December 2013. Prior to this meeting a training session had been conducted for members by our appointed treasury advisors Capita with the purpose

of informing members of key aspects of the Strategy and their role in formulating said Strategy. An updated draft Strategy is contained in Appendix 1.

3.0 Report Details

2013/14 Performance and funds held with Investec.

- 3.1 As part of the December report members were asked to note the treasury performance as at quarter 2 for both the amount managed by fund managers Investec (£11.8m) and the amount managed in house (£57m).
- 3.2 Whilst members were satisfied with the returns achieved from the inhouse investments there was concern 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.
- 3.3 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.
- 3.4 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 31 March 2014.
- 3.5 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.
- 3.6 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.

Treasury Strategy 2014-15 – Return of Funds from Investec

- 3.7 The return of the funds from the certificates of deposits managed by Investec will add approximately an additional £10m to the inhouse funds, taking it up to the region of £67m.
- 3.8 In light of this, a further review of the draft 2014-15 Treasury Strategy has been undertaken to ensure that it offers the flexibility to incorporate the additional funds.
- 3.9 It is proposed that in order to maximise returns we undertake the following:-
 - establish a facility with King and Shaxon to enable them to purchase certificates of deposit on our behalf and
 - open additional accounts with other approved banking institutions.
- 3.10 The existing strategy permits the purchase of certificates of deposit. Additionally it permits the opening additional accounts with other approved banking institutions.

This in turn will ensure that investments within banking groups are limited to our approved £15m limit.

- 3.11 Officers will continue to utilise Money Market Funds to a limit of £10m per fund as an alternative mechanism for the short term deposit of cash where rates offered are favourable and the fund falls within approved creditworthiness limits.
- 3.12 However as an additional check we will periodically review the investments of these Money Market Funds to ensure that the overall limit of £15m per banking group is not breached.
- 3.11 Therefore, in respect of the funds returned from Investec there are no required changes to the proposed Treasury Strategy 2014-15. (Appendix 1)

Treasury Strategy 2014-15 – Borrowing

- 3.12 A key addition to the Treasury Strategy 2014-15 is a section on borrowing. This was a lengthy section in the draft strategy prepared for the December meeting. However having discussed this further with our Treasury advisors, the relevant principal to be incorporated into the 2104-15 Strategy is the ability to borrow. Greater detail on borrowing will follow in future Strategies if and when the council enters into debt.
- 3.13 In the Treasury Strategy 2014-15 (Appendix 1) the section on borrowing has therefore been updated accordingly.

4.0 Conclusion and Reasons for Recommendations

- 4.1 The updated strategy for 2014-15 (Appendix 1) is based upon the views of the Council's Treasury Management Team. This is informed by market forecasts provided by the Council's treasury advisor Capita Asset Services (previously Sector).
- 4.2 In consultation with Capita and with full reference to the CIPFA Code of Practice, the Council has reviewed its risk appetite and associated priorities in relation to security, liquidity and yield in respect of returns from various financial instruments.
- 4.3 The draft strategy meets the requirements included within the CLG's Guidance on Local Government Investments.

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.

7.0 Implications

Financial and Resource Implications

- 7.1 The return of funds from Investec will reduce fund managements costs by approximately £18,000 / annum.

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

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8.0 Decision Information

Wards Affected

All wards are affected

Links to Corporate Plan and Policy Framework

All Corporate Plan Themes

Lead Councillor

Councillor Ken Atack

Lead Member for Financial Management

Document Information

Appendix No	Title
Appendix 1	Treasury Management Strategy 2014-15
Background Papers	
CIPFA Treasury Management Code of Practice Sector Templates	
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