

# **Cherwell District Council**

## **Accounts, Audit and Risk Committee**

**21 January 2015**

<p><b>Q3 Treasury Management Report and Draft Treasury Management Strategy 2015-16</b></p>
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### **Report of the 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 2014-15 for Quarter 3 ending 31 December 2014 as required by the Treasury Management Code of Practice.

To submit the draft Treasury Management Strategy Statement for 2015-16.

#### **1.0 Recommendations**

The meeting is recommended:

- 1.1 To note the contents of the Quarter 3 (Q3) Treasury Report
- 1.2 To note and comment on the draft Treasury Management Strategy 2015-16.

#### **2.0 Introduction**

- 2.1 As part of our investment strategy and governance arrangements this committee considers the investment performance to date and our compliance with counterparties being used.
- 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. An updated Strategy for Cherwell District Council was approved at a Special Council meeting on 7 July 2014.
- 2.3 The Council re-appointed Sector Treasury Services Limited (now Capita Treasury Solutions Limited and branded as Capita Asset Services – Treasury Solutions) as

its Treasury Management advisor in January 2013. 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 9 months of 2014-15 to 31 December 2014.

## **3.0 Report Details**

### **2014-15 Performance**

- 3.1 As at the end of December the Council had £59.523m managed in-house (including Eco Town funds but excluding the outstanding Icelandic deposit) 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**

- 3.2 An updated Treasury Management Strategy for 2014-15, which includes the Annual Investment Strategy, was approved at Special Council on 7 July 2014. 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 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).

- 3.3 During the quarter ended 31st December, Capita Asset Services highlighted: -

- The plunge in the price of oil has been the major surprise of the last three months. This will reduce inflation and stimulate the economies of oil importing countries.
- The political risks around the UK general election in May 2015 have increased with the likely result now being very hard to predict.
- Greece: the anti EU and anti-austerity party Syriza is likely to be the strongest party in the January 25 general election. However, the Eurozone has put in place sufficient firewalls that a Greek exit would have little direct impact on the rest of the EZ and the euro. The indirect effect is more problematic to quantify as such an election result would be likely to strengthen support for anti EU and anti-austerity political parties in the EU countries.
- UK GDP growth forecasts have recently been more subdued although growth will still remain strong, but not as strong as previously expected.

- 3.4 Investment rates available in the market have been broadly stable during the quarter and have continued at historically low. The annualised average level of funds available for investment purposes up to December 2014 was £58.368m. 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 2014-15 has been prepared utilising £49,190 of investment income. However, total investment income received in year for 2014-15 is expected to be £320,000 (members took the decision in previous years to move away from reliance on investment income to help balance the budget). The balance above the £49,190 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 2014 (Quarter 3) was:**

<b>Fund</b>	<b>Funds invested as at 31 December 2014</b>	<b>Interest Expected (Q3)</b>	<b>Actual Interest Received (Q3)</b>	<b>Variance</b>	<b>Rate of return %</b>
In House	£59,523,000*	£240,000	£275,767	£35,767	0.64**
<b>Total</b>	<b>£59,523,000</b>	<b>£240,000</b>	<b>£275,767</b>	<b>£35,767</b>	

\* Excludes Glitnir Bank outstanding investment

\*\* Rate of Return is shown on annualised basis.

- 3.6 Appendix 1 shows the counterparties that the Council has investments with at 31 December 2014.

**Draft Treasury Management Strategy Statement 2015-16**

- 3.7 The proposed draft strategy for 2015-16 (Appendix 1) has been updated following the informal treasury management training provided by the Council's treasury advisor, Capita Asset Services in December. It is based upon the views of the Council's Treasury Management Team and has been informed by Capita Asset Services market forecasts.
- 3.8 In consultation with Capita Asset Services 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.
- 3.9 The draft strategy meets the requirements included within the CLG's Guidance on local government investments.

**Icelandic Investments**

- 3.10 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 £729,669 along with associated interest relating to the investment is still held within Iceland and is accruing interest on an annual basis.

## **4.0 Conclusion and Reasons for Recommendations**

- 4.1 This report details the Treasury Performance for the Council for the quarter ended 31 December 2014.

## **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

All corporate plan themes.

### Lead Councillor

None

### Document Information

Appendix No	Title
Appendix 1	Treasury Investments Q2
Appendix 2	Treasury Management Strategy 2015-16
Background Papers	
None	
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