

Cherwell District Council

Accounts, Audit and Risk Committee

24 June 2015

Q4 Treasury Management Report

Report of the Head of Finance and Procurement

This report is public
Appendix 1 is exempt from publication by virtue of paragraph 3 of Schedule 12A of
Local Government Act 1972

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy for 2014-15 for Quarter 4 ending 31 March 2015 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 4 (Q4) Treasury Report

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 for financial year 2014/15.

3.0 Report Details

2014-15 Performance

- 3.1 As at the end of March the Council had £50.583m 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 March, Capita Asset Services highlighted: -
- The volatility 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.
 - UK GDP growth forecasts have recently been more subdued although growth will still remain, 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 levels as a result of the ultra-low Bank Rate and other extraordinary measures such as the Funding for Lending Scheme. The annualised average level of funds available for investment purposes up to March 2015 was £48.970m. 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.

Investment performance for quarter ended 31 March 2015 was:

Fund	Funds invested at 31st March 2015 £	Interest Budget £	Actual Interest £	Variance £	Rate of return %
In House	49,853,000*	320,000	399,641	79,641	0.65**
Total	49,853,000	320,000	399,641	79,641	

* Excludes Glitnir Bank outstanding investment

** Rate of Return is shown on annualised basis.

3.6 The outturn reflects that the budget target has been exceeded. before any transfers to other accounts. The variance shown above for in-house investments has arisen through the timing of actual interest due and received.

3.7 Appendix 1 shows the counterparties that the Council has investments with at 31 March 2015.

Icelandic Investments

3.8 In October 2008, the Icelandic bank, Glitnir Banki hf, collapsed. The Council had £6.5m on deposit with the bank. Following the grant of priority status to UK local authorities by the Icelandic Supreme Court in October 2011, the Glitnir winding up board made a first and final distribution to the in a basket of currencies in March 2012 totalling £5.7m. At the time of distribution, it was not clear under Icelandic law the applicable exchange rate to be used when calculating the basket of currencies. Consequently the winding up board reserved its rights in this regard. Following clarification by the Icelandic Supreme Court, in April 2014 the winding up board made claims for repayment of part of the funds paid in March 2012. The claims were settled in March 2015 with the Council making a repayment of £80,177.38.

3.9 The remaining capital balance of £729,669 along with associated interest relating to the investment is still held within Iceland in Icelandic Krona (ISK) and is accruing interest on an annual basis. The carrying value of the investment in GBP including accrued interest at 31 March 2015 was £1.468m. The carrying value at 31 March 2014 was £1.536m. The reduction in value of £68K is represented by a combination of interest earned and a loss due to the foreign exchange rate conversion from ISK to GBP.

4.0 Conclusion and Reasons for Recommendations

4.1 This report details the Treasury Performance for the Council for the quarter ended 31 March 2015

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:

Legal Implications

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

Comments checked by:

Kevin Lane, Head of Law & Governance 0300 0030107

Kevin.Lane@cherwellandsouthnorthants.gov.uk

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:

Denise Taylor, Corporate Accountant, 01295 221982

Denise.Taylor@cherwellandsouthnorthants.gov.uk

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 Advisor Q4 Report – Inhouse EXEMPT
Background Papers	
None	
Report Author	Kamal Mehta, Interim Technical and Project Accountant
Contact Information	kamal.mehta@cherwellandsouthnorthants.gov.uk 01295 221559