

Executive

2011/12 Treasury Management Strategy and Treasury Management Practices

7 March 2011

Report of Head of Finance

PURPOSE OF REPORT

This report sets out the strategy and policy framework for treasury operations for 2011/12 and outlines the Treasury Management Practices for 2011/12.

It fulfils two key requirements of the Local Government Act 2003:-

- approval of the Treasury Management Policy in accordance with the CIPFA Code of Practice on Treasury Management; and
- approval of the Investment Strategy in accordance with the CLG investment guidance.

This report is public

Recommendations

The Executive is recommended:

- (1) To recommend to Council approval of the Treasury Management Policy and Investment Strategy 2011/12

Executive Summary

- 1.1 The purpose of this document is to outline the Treasury Management Strategy for the financial year 2011/12.
- 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.
- 1.3 The strategy meets the requirements included within the DCLG's Guidance on Local Government Investments. It also includes the option of appointing external Fund Managers for at least a proportion of the portfolio, should the Council determine their use at any time during the year.
- 1.4 The proposed strategy for 2011/12 in respect of the following aspects of the

treasury management function 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, Sector.

- 1.5 In consultation with Sector 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.
- 1.6 The strategy detailed in Appendix 1 covers:
 - Treasury limits in force which limit the treasury risk and activities of the Council
 - Prospects for interest rates
 - The borrowing strategy
 - Prudential Indicators;
 - The current treasury position;
 - The investment strategy.
 - Creditworthiness policy;
 - Policy on use of external service providers;
- 1.7 The Treasury Management Practices that the Council is operating to are detailed in Appendix 2.
- 1.8 The highest standard of stewardship of public funds remains of the utmost importance to the Council. This document sets out the Council's priorities and policies for making, and managing investments made by the Council in the course of undertaking treasury management activities during the 2011/12 financial year.

Background Information

2010/11 Performance

- 2.1 The Council has £22.5m and £20m respectively invested with fund managers Tradition UK and Investec. In addition it has around £25m managed in-house (including Eco Town funds of £9.2m) which fluctuates during the year. The recent value for money review recommended a review of each of these operations 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. This review is ongoing and the outcome will be presented in the 2010/11 annual report but is expected to deliver further efficiency savings.
- 2.2 The 2010/11 interest projections as at January 31 2011 show an expected investment income of £1.15m which is on track to budget and all investments are compliant with the strategy.
- 2.3 The 2010/11 Annual Report on Treasury Management will be presented to the Executive in June 2011 along with the Revenue and Capital Outturn reports. This report will give full information on the performance of the Council's fund managers and in-house operation.

Icelandic Deposits Update

- 2.4 Cherwell District Council is one of 123 local authorities that have been affected by the collapse of Icelandic banking institutions. The Council currently has a total of £6.5 million in short term investments (i.e. those with maturity periods of up to one year) with one of the affected banks Glitnir.

We are currently in a legal process to ensure 100% of the deposits are returned. At present the debt is categorised as an unsecured claim which might only return 29% of the principle. We are challenging that these deposits should be priority claims and be repaid at 100% of principle.

Local authorities' objections will now be considered under the processes followed under Icelandic insolvency law, and written submissions were filed in September 2010. Glitnir test cases, including ours, are scheduled to be heard in court from 14 to 17 March 2011.

Regardless of the outcome of this first court hearing we anticipate that an appeal will be lodged (either by local authorities should we lose, or by other creditors should we win) and therefore the final outcome will not be clear until later this year.

- 2.5 It is too early to pre-judge the outcome of the trial and we cannot speculate on any other action we or the other parties might take but we will continue to provide regular updates on the recovery process.
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Key Issues for Consideration/Reasons for Decision and Options

3.1 The following options have been identified. The approach in the recommendations is believed to be the best way forward

Option One To review draft strategy and consider proposals arising.

Option Two To approve or reject the recommendations above or request that Officers provide additional information.

Consultations

Corporate Management Team February 2011

Accounts, Audit and Risk Committee : Qtrly reviews in 2010 and to be reviewed on 14 March 2011

Council's Treasury Management advisers - Advice and guidance has been sought from Sector

Implications

Financial: The strategy proposed in this report, together with the interest rates forecast, is in line with the assumptions made when the 2011/12 budget was prepared. The costs of treasury operations, debt management, expenses and investment income are included in the 2011/12 budget.
Comments checked by Eric Meadows, Service Accountant, 01295 221552.

Legal: There is a requirement for the Council to fulfil two key requirements of the Local Government Act 2003:-

- approval of the Treasury Management Policy in accordance with the CIPFA Code of Practice on Treasury Management; and
- Approval of the Investment Strategy in accordance with the DCLG investment guidance.

Comments checked by Liz Howlett, Head of Legal and Democratic Services, 01295 221686.

Risk Management: a) Risk of capital loss – the prime objective of treasury management activities is to ensure the security of the amounts invested. This is managed by using a counterparty list which only includes organisations having a suitable credit rating and which has a maximum amount that can be invested with each organisation at any one time.
b) Liquidity – investments are linked to known future cash flows to ensure sufficient funds are available as and when they are required.
c) Interest Receivable – this is regularly monitored against budget and reported through the Performance management Framework.
Comments checked by Karen Muir, Corporate System Accountant, 01295 221559.

Wards Affected

All

Corporate Plan Themes

An Accessible and Value for Money Council

Executive Portfolio

Councillor James Macnamara
Portfolio Holder for Resources and Communication

Document Information –

Appendix No	Title
Appendix 1	Treasury Management Strategy – to follow
Appendix 2	Treasury Management Practices – to follow
Background Papers	
Sector TMSS template Local Government Act 2003 CIPFA's revised Prudential Code for Capital Finance in Local Authorities (2009) CIPFA's revised Treasury Management Code of Practice (2009) Prudential Indicator working files Capital Programme 2011-2014 Medium Term Financial Strategy 2011/12 Budget Booklet	
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