

Accounts, Audit and Risk Committee

Treasury Management Annual Report 2011/12

19 September 2012

Report of Head of Finance and Procurement

PURPOSE OF REPORT

To receive information on treasury management performance and compliance with treasury management policy during 2011/12 as required by the Treasury Management Code of Practice.

This report is public

Recommendations

The Committee is recommended:

- (1) To note the performance of the Council's Fund Managers during 2011/12

Executive Summary

- 1.1 The annual report is a requirement of the Council's reporting procedures. It covers the treasury activity during 2011/12 and the actual performance against Prudential Indicators for 2011/12.
- 1.2 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. During 2011/12 the reporting requirements were that members receive an annual treasury strategy in advance of the year, a mid year treasury report and an annual report describing the activity compared to the strategy. The Accounts, Audit and Risk Committee has been nominated to scrutinise the treasury activity of the Council and they receive regular reports on compliance with strategy and a comprehensive overview of investments made.
- 1.3 The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

Background Information

- 2.1 Councils invest money from the sale of assets and invest Government revenue grant paid to councils in regular intervals, before they have to spend it. This is with the aim of earning interest to support services and keep council tax down. All investments are placed to ensure security of investments firstly, followed by liquidity and the final consideration is yield.
- 2.2 Cherwell District Council sold its housing stock on 29th March 2004 and this generated a substantial capital receipt. It is the Council's capital receipts and useable reserves that are being invested. As the Council continues to invest in infrastructure throughout the district these balances will reduce.

Annual Treasury Performance 2011/12

- 2.3 The actual return on investments for 2011/12 was £1.230m compared with a budget of £0.723m a positive variance of £0.507m. However approximately £216k of the interest received is in respect of the investment of Eco Town funds and this has been allocated back to the Eco Town funding pot.

The budget was based on an average investment balance of £68m and an interest rate of 1.06%. The actual average balance was £72.56m which attracted an average return of 1.70%.

The financial year 2011/12 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk.

Our Treasury Management Annual Report can be seen in Appendix 1. During 2011/12 the Council complied with all of its legislative and regulatory requirements.

Iceland Investments

The Council was one of over 100 local authorities that were affected by the collapse of Icelandic banking institutions. The Council held a total of £6.5 million in 3 investments with Glitnir.

The Icelandic Government stated its intention to honour all its commitments as a result of their banks being placed into receivership. The U.K. Government has been working with the Icelandic Government to help bring this about. At the current time, Cherwell District Council has received repayment of £5.7m of the initial capital investment of £6.5m with the balance of £729k remaining frozen in a deposit account earning interest. We continue to have discussions with the LGA and Bevan Brittan on the potential for transfer to the UK.

Investment performance for period up to 31st August 2012:

Fund	Amount at 31st August 2012	Interest Budget	Actual Interest	Variance	Rate of return %
TUK	£10,500,000	£56,586	£78,844	£22,258	1.90%
Investec	£11,742,224	£35,937	£54,159	£18,222	1.20%
In House	£62,555,835	£271,458	£319,660	£48,201	1.38%
Total	£84,798,059	£363,982	£452,664	£88,682	1.40%

At the end of August 2012, interest received was 24% more than budgeted and shows a positive result across all three funds. This was mainly due to higher than planned balances when creating the budget as we had a higher level of capital programme slippage from 2011/12, obtaining better than projected rates from our investments, and the change in allocation of funds between TUK, Investec and in-house.

Key Issues for Consideration/Reasons for Decision and Options

3.1 This report illustrates the Council's Treasury performance for 2011/12 against budget and includes the Annual Treasury Report 2011/12.

The following options have been identified.

- Option One** To review current performance levels and consider any actions arising.
- Option Two** To approve or reject the recommendations above or request that Officers provide additional information.

Consultations

The investment strategy has been subject to regular review with members through the Accounts , Audit and Risk Committee and quarterly budget monitoring to the Executive.

Implications

- Financial:** Comments checked by Karen Curtin, Head of Finance & Procurement
- Legal:** Presentation of this report is in line with the CIPFA Code of Practice.
Comments checked by Kevin Lane, Head of Law and Governance 01295 221686
- Risk Management:** It is essential that this report is considered by the Executive as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided.

Comments checked by Karen Curtin, Head of Finance & Procurement

Wards Affected

All

Corporate Plan Themes

An accessible, value for money Cherwell

Executive Portfolio

Councillor Ken Atack
Lead Member for Financial Management

Document Information

Appendix No	Title
Appendix 1	Treasury Management Annual Report 2011/12
Appendix 2 / 3	August Investment Reports - EXEMPT
Background Papers	
CIPFA Treasury Management Code of Practice 2011/12 Treasury Strategy 2011/12 Budget Monitoring Reports	
Report Author	Karen Muir, Technical and Project Accountant
Contact Information	01295 221559 Karen.muir@Cherwell-dc.gov.uk